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This Audit Findings 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. Its contents have been discussed with management and will be presented to the Audit Committee on 28 September 2023.

Name: Julie Masci  
For Grant Thornton UK LLP  
Date: 13 September 2023

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 2023 for the attention of those charged with governance.

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## Financial Statements

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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 transactions of the Pension Fund during the year ended 31 March 2023 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund 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 remotely during July-September. Our findings are summarised on pages 5 to 18. We have not identified any adjustments to the financial statements that have resulted in an adjustment to the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

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

- completion of our outstanding testing of journal entries, contributions, and benefits;
- completion of work by our IT auditors over the Council and Fund's IT general controls (including those relating to Altair);
- completion of final quality review by the engagement manager and key audit partner and any points arising from this;
- review of the Annual Report;
- receipt of management representation letter (see separate committee item); and
- review of the final set of financial statements.

Our anticipated opinion on the financial statements will be unmodified.

While our work on the Pension Fund financial statements is complete, we will be unable to issue our final audit opinion on the Pension Fund financial statements until the audit of the Administering Authority is complete.

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 2023. 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.

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# 1. Headlines

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## National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see [About time? \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/about-time/)

We would like to thank everyone at the Pension Fund for their support in working with us constructively not to fall behind, enabling us to complete our substantive work in the expected timeframe.

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## Local context - triennial valuation

Triennial valuations for local government pension funds have been published. These valuations, which are as at 31 March 2022, provide updated information regarding the funding position of the Pension Fund and set employer contribution rates for the period 2023/24 – 2025/26. For the Pension Fund, the valuation was undertaken by Barnett Waddingham and showed that the funding level had increased to 95%. The results of the latest triennial valuation are reflected in the Net Asset Statement and note 14.

We have performed testing of the completeness and accuracy of triennial valuation source data. This was to support our work providing assurances to auditors of employer bodies. As part of this work, we tested a sample of member data and found the source data to be complete and accurate. This additional testing is only required after each triennial review, rather than annually. See Appendix E for the impact of this work on our 2022/23 audit fee.

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# 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 and will be presented to the Audit Committee on 28 September 2023.

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.

For Somerset Pension Fund, the Audit Committee fulfil the role of those charged with governance. In addition, the Pensions Committee also considers the draft financial statements and is part of the overall member oversight process.

## 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;
- 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 29 June 2023, except to amend the detail of the fees for audit and non-audit services as detailed on page 24.

## 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 (see separate committee item). This draft opinion will be finalised following the completion of 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 disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan on 29 June 2023.

We set out in this table our determination of materiality for the Pension Fund.

### Pension Fund Amount (£000s) Qualitative factors considered

Materiality for the financial statements	41,200	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	28,800	Set at 70% of materiality.
Trivial matters	2,200	Set at 5% of materiality.
Materiality for fund account	12,200	Capped at 10% of the headline 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
Management override of controls	<p>We have:</p> <ul style="list-style-type: none"><li>• evaluated the design and implementation of management controls over journals</li><li>• analysed the journals listing and determined the criteria for selecting high risk unusual journals</li><li>• identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration</li><li>• gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness</li><li>• evaluated the rationale for any changes in accounting policies, estimates, or significant unusual transactions.</li></ul> <p>There were no significant changes to accounting policies in the year. We are still finalising our testing of responses to our journals selection and so we cannot conclude on this significant risk.</p>
The revenue cycle includes fraudulent transactions (rebutted)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we determined in our Audit Plan that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"><li>• there is little incentive to manipulate revenue recognition;</li><li>• opportunities to manipulate revenue recognition are very limited; and</li><li>• the culture and ethical frameworks of local authorities, including Somerset Pension Fund mean that all forms of fraud are seen as unacceptable.</li></ul> <p>We have not changed our risk assessment in this regard.</p>
The expenditure cycle includes fraudulent transactions (rebutted)	<p>Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:</p> <p>"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.</p> <p>In our Audit Plan, we rebutted this presumed risk for Somerset Pension Fund because:</p> <ul style="list-style-type: none"><li>• expenditure is well controlled and the Fund has a strong control environment; and</li><li>• the Fund has clear and transparent reporting of its financial plans and financial position to those charged with governance.</li></ul> <p>We have not changed our risk assessment in this regard.</p>

# 2. Financial Statements: Significant risks

## Risks identified in our Audit Plan

## Commentary

### Valuation of Level 3 investments

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

By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions

Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.

Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2023.

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

We have:

- evaluated management's processes for valuing Level 3 investments;
- reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met;
- independently requested year-end confirmations from investment managers and custodians;
- for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2023 with reference to known movements in the intervening period; and
- in the absence of available audited accounts, evaluated the competence, capabilities and objectivity of the valuation expert; and
- where necessary, reviewed investment manager service auditor report on design effectiveness of internal controls.

We have completed our testing of level 3 investments with no issues arising.



## 2. Financial Statements: Significant risks

### Risks identified in our Audit Plan

### Commentary

#### 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 until 31 March 2023 then by Somerset Council from 1 April 2023. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£3,058 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.

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Fund's liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the valuation;
- assessed the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability;
- tested the consistency of the disclosures in the notes to the core financial statements with the actuarial report from the actuary; and
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

Our work on this balance is complete and there are no issues to be reported to the Audit Committee.

# 2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £101.010m	<p>The Pension Fund has level 3 investments that in total are valued on the Net Assets Statement as at 31 March 2023 at £101.010m. All of this balance is made up of private equity funds.</p> <p>The level 3 investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. The basis of valuation for each category of level 3 investments is set out in note 31 to the financial statements. The overall value of level 3 investments has increased by £15.224m in 2022/23 (PY: £85.786m).</p>	<p>We have reviewed the level 3 investments disclosed in the statement of accounts and have reviewed the assumptions used by fund managers against third party information and data.</p> <p>We have concluded that level 3 investments included in the statement of accounts have been appropriately calculated and are consistent with other sources of evidence.</p> <p>Our findings in relation to the testing of level 3 investments identified small estimation differences. The total aggregate difference identified for level 3 investments was a potential understatement of the estimates by £1.017m, a trivial difference not requiring further reporting.</p> <p>There were no differences identified which were individually greater than our trivial threshold.</p> <p>The valuations have been provided by the fund managers and we have assessed these as management's experts, including review of control reports. We have assessed the competency of the experts and concluded that they have the appropriate expertise to provide valuations.</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
Level 2 Investments – £2,601.057m	<p>The Pension Fund has level 2 investments that in total are valued on the Net Assets Statement as at 31 March 2023 at £2,601.057m. The total of this balance is made up of derivative contracts, pooled investment vehicles, and pooled property investments.</p> <p>The level 2 investments are largely market traded and have been agreed to market data. The basis for each category of level 2 investments is set out in Note 26 to the financial statements. The overall value of level 2 investments has decreased by £19.075m in 2022/23 (PY: £2,620.132m).</p>	<p>We have reviewed the level 2 investments disclosed in the statement of accounts and have gained independent confirmation of unit prices through third party information such as via the stock exchange. Some valuations have been provided by Fund Managers and we have assessed these as management's experts, including review of control reports. We have assessed the competency of the experts and concluded that they have the appropriate expertise to provide valuations.</p> <p>Our findings in relation to the testing of level 2 investments identified some estimation differences. The total aggregate difference identified for level 2 investments was a £968k understatement, a trivial difference not requiring further reporting.</p> <p>We have concluded that level 2 investments included in the statement of accounts have been appropriately calculated and are consistent with other sources of evidence.</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
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# 2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Actuarial present value of promised retirement benefits - £3,057.553m	<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 2022. 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 £1,815.207m net actuarial gain during 2022-23, reducing the actuarial present value of the promised retirement benefits to £3,057.553m and the net liabilities at the end of the year to £252.154m.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>assessed management's expert</li> <li>assessed the actuary's approach taken and deemed it reasonable</li> <li>used PwC as auditor's expert to assess actuary and assumptions made by actuary (see table below)</li> <li>confirmed the completeness and accuracy of the underlying information used to determine the estimate</li> <li>confirmed the reasonableness of the decrease in the liability estimate</li> <li>confirmed the adequacy of the disclosure of the estimate in the financial statements</li> </ul> <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>4.8%</td> <td>4.8% - 4.85%</td> <td>● Light Purple</td> </tr> <tr> <td>Pension increase rate</td> <td>2.85%</td> <td>2.65% - 2.95%</td> <td>● Light Purple</td> </tr> <tr> <td>Salary growth</td> <td>3.85%</td> <td>3.1% - 4.75%</td> <td>● Light Purple</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>22.7 / 21.4</td> <td>20.9 – 23.4 / 19.5 – 22.1</td> <td>● Light Purple</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>24.7 / 23.3</td> <td>24.3 – 25.9 / 22.9 – 24.5</td> <td>● Light Purple</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	4.8%	4.8% - 4.85%	● Light Purple	Pension increase rate	2.85%	2.65% - 2.95%	● Light Purple	Salary growth	3.85%	3.1% - 4.75%	● Light Purple	Life expectancy – Males currently aged 45 / 65	22.7 / 21.4	20.9 – 23.4 / 19.5 – 22.1	● Light Purple	Life expectancy – Females currently aged 45 / 65	24.7 / 23.3	24.3 – 25.9 / 22.9 – 24.5	● Light Purple	
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## Assessment

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- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# 2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas. For further detail of the IT audit scope and findings please see separate 'IT Audit Findings' report which will be provided to management on completion.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
			Security management	Technology acquisition, development and maintenance	Technology infrastructure		
SAP	Roll forward ITGC assessment (design effectiveness only)	TBC	TBC	TBC	TBC	Management override of controls	n/a
Altair	ITGC assessment (design and implementation effectiveness only)	TBC	TBC	TBC	TBC	Contributions and benefits payments Member data	n/a

## Assessment

- Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- Not in scope for testing

## 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
<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit procedures.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	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.
<b>Written representations</b>	A letter of representation has been requested from the Pension Fund , which is included in the Audit Committee papers.
<b>Audit evidence and explanations</b>	All information and explanations requested from management was provided.
<b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to bankers, custodians, and fund managers. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation, except for 3 for which we have performed alternative procedures.
<b>Accounting practices</b>	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.



# 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.</p> <p>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"> <li>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</li> <li>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.</li> </ul> <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"> <li>the nature of the Pension Fund and the environment in which it operates</li> <li>the Pension Fund's financial reporting framework</li> <li>the Pension Fund's system of internal control for identifying events or conditions relevant to going concern</li> <li>management's going concern assessment.</li> </ul> <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"> <li>a material uncertainty related to going concern has not been identified</li> <li>management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

## 2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	<p>The Pension Fund is administered by Somerset County Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements. We are required to read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority. We have not yet completed this work and will report on this alongside the findings in relation to the Council's audit.</p>
Matters on which we report by exception	<p>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 2023 and we have therefore not given this separate opinion at this time. We are unable to certify completion of the audit of the administering authority until this work has been completed.</p> <p>We are required to report if we have applied any of our statutory powers or duties as outlined in the Code. We have nothing to report on these matters.</p>



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# 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 and consider that an objective reasonable and informed third party would take the same view. 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 E.

## 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 [Grant Thornton International Transparency report 2023](#).

## 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. No non-audit services were identified. Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards.

# 3. Independence and ethics

As part of our assessment of our independence we note the following matters:

<b>Matter</b>	<b>Conclusion</b>
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Pension Fund that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Pension Fund held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Pension Fund as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Pension Fund
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Pension Fund's board, senior management or staff.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

# Appendices

- A. Communication of audit matters to those charged with governance
- B. Action plan – Audit of Financial Statements
- C. Follow up of prior year recommendations
- D. Audit Adjustments
- E. Fees and non-audit services
- F. Auditing developments

# A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
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 including significant risks	•	
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	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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

This document, the Audit Findings, outlines those key issues, findings 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

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

## Distribution of this Audit Findings Report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.



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## B. Action Plan – Audit of Financial Statements

We have not identified any recommendations for the Pension Fund as a result of issues identified during the course of our audit, though we identify two prior year recommendations on page 24 on which we have not yet concluded. We will provide an update to the Audit Committee when our IT Audit work has been completed and our previous recommendations followed up.

### Controls

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

# C. Follow up of prior year recommendations

We identified the following issues in the audit of Somerset Pension Fund's 2021/22 financial statements, which resulted in 2 recommendations being reported in our 2021/22 Audit Findings Report. We have followed up on the implementation of our recommendations and note 2 are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	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. 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.	The IT audit is still ongoing at the time of drafting our findings report for the Pension Fund, and so we have not been able to conclude on whether these actions are completed. These will be more fully reviewed during the audit of Somerset County Council.
TBC	A number of deficiencies in relation to IT general controls have been identified. These represent weaknesses in the control environment which should be rectified. The Council and Pension Fund should seek to remedy the controls weaknesses identified by our IT audit team.	The IT audit is still ongoing at the time of drafting our findings report for the Pension Fund, and so we have not been able to conclude on whether these actions are completed. These will be more fully reviewed during the audit of Somerset County Council.

## Assessment

- ✓ Action completed
- X Not yet addressed

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# D. 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 adjusted misstatements impacting the Fund Account or Net Assets statement.

## Impact of unadjusted misstatements

There were no adjusted misstatements impacting the Fund Account or Net Assets statement.

## Impact of prior year unadjusted misstatements

There were two unadjusted misstatements identified in the 2021/22 Audit Findings Report, for a net impact of £15,400k understatement of investment assets. There is considered to be no impact on the 2022/23 Fund Account or Net Assets Statement resulting from this, as the estimated asset valuations are updated at each accounting date.

## 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/issue/Omission	Adjusted?
The audit fees note disclosed in note 9 have been updated to reflect the fee for IAS 19 assurances being reclassified as an audit rather than non-audit service.	✓
A number of minor disclosure updates have been recommended to add clarity to the accounts. Management have agreed to make all such updates where requested.	✓

## E. Fees and non-audit services

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

Audit fees	Estimated fee
Scale fee per PSAA for 2022-23	20,871
ISA 540	3,500
ISA 315	3,000
Additional journals testing	2,000
Enhanced audit procedures for investments	2,500
Enhanced audit procedures for review of triennial valuation data	5,000
IAS 19 assurance letters for Admitted Bodies*	12,600
<b>Estimated fee</b>	<b>49,471</b>

\*Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances to auditors of local government and NHS bodies should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards. Provision of IAS 19 assurances to auditors of any other type of entity remains non-Code work.

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

# F. Auditing developments

## Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

**This impacts audits of financial statement for periods commencing on or after 15 December 2021.**

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: <ul style="list-style-type: none"> <li>the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures</li> <li>the identification and extent of work effort needed for indirect and direct controls in the system of internal control</li> <li>the controls for which design and implementation needs to be assess and how that impacts sampling</li> <li>the considerations for using automated tools and techniques.</li> </ul>
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> <li>increased emphasis on the exercise of professional judgement and professional scepticism</li> <li>an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence</li> <li>increased guidance on management and auditor bias</li> <li>additional focus on the authenticity of information used as audit evidence</li> <li>a focus on response to inquiries that appear implausible</li> </ul>
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. <ul style="list-style-type: none"> <li>Consideration is also being given to the potential impacts on confidentiality and independence.</li> </ul>
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> <li>clarification of the requirements relating to understanding fraud risk factors</li> <li>additional communications with management or those charged with governance</li> </ul>
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.



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