The Annual Audit Letter for Somerset County Council and Pension Fund

Year ended 31 March 2019

August 2019
Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Executive Summary</td>
<td>3</td>
</tr>
<tr>
<td>2. Audit of the Financial Statements</td>
<td>5</td>
</tr>
<tr>
<td>3. Value for Money conclusion</td>
<td>11</td>
</tr>
</tbody>
</table>

Appendices

A  Reports issued and fees

Your key Grant Thornton team members are:

Peter Barber  
Key Audit Partner  
T: 0117 305 7897  
E: peter.a.barber@uk.gt.com

David Johnson  
Engagement Manager  
T: 0117 305 7727  
E: david.a.johnson@uk.gt.com

Aditi Chandramouli  
In charge Accountant  
T: 0117 305 7643  
E: aditi.Chandramouli@uk.gt.com
Executive Summary

Purpose
Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Somerset County Council (the Council) and the Pension Fund for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – ‘Auditor Reporting’. We reported the detailed findings from our audit work to the Council’s Audit Committee as those charged with governance in our Audit Findings Report on 30 July 2019.

Respective responsibilities
We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

• give an opinion on the Council and Pension Fund’s financial statements (section two)
• assess the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three). As at the time of issuing this letter our work in this area for 2018/19 remains outstanding.

In our audit of the Council and Pension Fund’s financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality
We determined materiality for the audit of the Council's financial statements to be £14.3 million, which is 1.75% of the Council’s gross revenue expenditure.

We determined materiality for the audit of the Pension Fund’s financial statements to be £21.8 million, which is 1% of the total net assets.

Financial Statements opinion
We gave an unqualified opinion on the Council’s and Pension Fund’s financial statements on 31 July 2019.

Whole of Government Accounts (WGA)
We are currently undertaking our work on the Council’s consolidation return following guidance issued by the NAO. The deadline for completion of this work is the 13 September 2019.
Executive Summary

**Value for Money arrangements**

In order to arrive at the appropriate VFM conclusion for 2018/19 we are seeking more assurances over the embeddedness of the arrangements in respect of sustainable resource deployment. This necessitates further work around the robustness of the Council’s MTFP and in particular the deliverability of the Children Services and Adults Services budgets through to 2021/22.

As a result of this proposed additional work we were unable to conclude our VFM conclusion by 31 July 2019. Our auditor’s expert are aiming to complete this work by the end of August 2019 and we proposed to use their findings to inform our final VFM conclusion for 2018/19 that will be reported to the Audit Committee at their September 2019 meeting.

**Use of statutory powers and Certificate**

We have not exercised any of our additional statutory powers or duties. We are unable to certify the closure of the 2018/19 audit of Somerset County Council in the audit opinion due to the following:

- Outstanding VFM work in respect of demand lead budgets yet to be concluded (work due to complete by September 2019)
- Whole of Government Accounts statement (deadline 13 September 2019)
- Opinion on the consistency of the pension fund financial statements with the Pension Fund Annual Report (deadline 1 December 2019)
Audit of the Financial Statements

Our audit approach

Materiality
In our audit of the Council and Pension Fund financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council financial statements to be £14.3 million and determined materiality for the audit of the Pension Fund financial statements to be £21.8 million.

We also set a lower level of specific materiality for senior officer remuneration at the Council of £0.02 million due to the sensitive nature of these.

We set a lower threshold of £0.713 million for the Council and £1.090 million for the Pension Fund, above which we reported errors to the Audit Committee, as Those Charged with Governance, in our Audit Findings Reports.

The scope of our audit
Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and the annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and Pension Fund.

We carried out our audits in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our audit approach was based on a thorough understanding of the Council and Pension Fund business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.
## Significant Audit Risks
These are the significant risks which had the greatest impact on our overall strategy for auditing the Council and where we focused more of our work.

<table>
<thead>
<tr>
<th>Risks identified in our audit plan</th>
<th>How we responded to the risk</th>
<th>Findings and conclusions</th>
</tr>
</thead>
</table>
| **Valuation of property, plant and equipment** | We:  
• evaluated management’s processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work  
• evaluated the competence, capabilities and objectivity of the valuation expert  
• discussed with the valuer to confirm the basis on which the valuation was carried out  
• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding  
• tested revaluations made during the year to see if they had been input correctly into the Council’s asset register  
• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. | Our audit work identified one issue regarding the downward revaluation of schools land that was not subject to a formal valuation in year. This application of an average reduction to schools land not subject to a formal valuation in the year, was in our view, not an appropriate basis for revaluing these assets as the reduction did not consider the specific factors of each asset individually in arriving at the appropriate carrying value.  
Based on our own application of relevant indices to the population, we were satisfied that this did not give rise to a material difference based on our different estimation techniques.  
With the exception of the issue above, we did not identified any further issues in relation to property, plant and equipment. |
| **Management override of internal controls** | We  
• evaluated the design effectiveness of management controls over journals  
• analysed the journals listing and determine the criteria for selecting high risk unusual journals  
• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration  
• gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence  
• evaluated the rationale for any changes in accounting policies, estimates and significant unusual transactions | Our work did not identified any issues in respect of management override of controls to bring to your attention. |
## Significant Audit Risks - continued
These are the risks which had the greatest impact on our overall strategy for auditing the Council and where we focused more of our work.

<table>
<thead>
<tr>
<th>Risks identified in our audit plan</th>
<th>How we responded to the risk</th>
<th>Findings and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Valuation of pension net liability</strong></td>
<td>We:</td>
<td>The Court of Appeal has ruled in its McCloud judgement that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy. In light of this decision the Council requested from their actuary a full detailed ISA 19 report to include an assessment of the impact of the McCloud liability. This identified an additional liability at the 31 March 2019 of £13.168 million in relation to the McCloud adjustment on the Local Government Pension Scheme. The Council has adjusted for this in the final accounts. Our work did not identify any issues in respect of the pension net liability.</td>
</tr>
</tbody>
</table>

The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate 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 Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing the additional procedures suggested within the report; and
- obtained assurances from the auditor of Somerset Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.
Audit of the Financial Statements (Pension Fund)

**Significant Audit Risks**
These are the risks which had the greatest impact on our overall strategy for auditing the Pension Fund and where we focused more of our work.

<table>
<thead>
<tr>
<th>Risks identified in our audit plan</th>
<th>How we responded to the risk</th>
<th>Findings and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Valuation of level 3 investments</strong></td>
<td>We:</td>
<td>Our audit work did not identify any issues in respect of the valuation of these investments</td>
</tr>
<tr>
<td>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. We identified the valuation of level 3 investments as a risk requiring special audit consideration</td>
<td>• gained an understanding of the Fund’s process for valuing level 3 investments and evaluate the design of the associated controls; • reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; • considered the competence, expertise and objectivity of any management experts used; • reviewed the qualifications of the expert to value Level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached; and • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2019 with reference to known movements in the intervening period.</td>
<td></td>
</tr>
<tr>
<td><strong>Management override of controls</strong></td>
<td>We:</td>
<td>Our audit work did not identify any issues in respect of management override of controls.</td>
</tr>
<tr>
<td>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.</td>
<td>• evaluate the design effectiveness of management controls over journals • Analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested high risk journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions</td>
<td></td>
</tr>
</tbody>
</table>
## Audit of the Financial Statements (Pension Fund)

### Significant Audit Risks
These are the risks which had the greatest impact on our overall strategy for auditing the Pension Fund and where we focused more of our work.

<table>
<thead>
<tr>
<th>Risks identified in our audit plan</th>
<th>How we responded to the risk</th>
<th>Findings and conclusions</th>
</tr>
</thead>
</table>
| Actuarial Present Value of Promised Retirement Benefits Actuary Data | We:  
• 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 Authority’s pension fund valuation;  
• assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;  
• tested the consistency of the liability disclosed in the core financial statements with the actuarial report from the actuary;  
• undertook 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. | As with the Council (page 7) the Pension Fund was affected by the McCloud ruling regarding age discrimination. The impact was a £30.295 million, material adjustment to the actuarial present value of promised retirement benefits disclosed in the net asset statement within the financial statements. The Pension Fund has adjusted for this in the final accounts. Our audit work did not identify any issues in respect of the Actuarial Present Value of Promised Retirement Benefits. |
Audit of the Financial Statements

Audit opinion
We gave an unqualified opinion on the Council and Pension Fund’s financial statements on 31 July 2019.

Preparation of the financial statements
The Council and Pension Fund presented us with draft financial statements in accordance with the national deadline. All information and explanations requested from management were provided.

Issues arising from the audit of the financial statements
We reported the key issues from our audits to the Audit Committee on 30 July 2019.

Annual Governance Statement and Narrative Report
We are required to review the Council’s Annual Governance Statement and Narrative Report. It published them on its website in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council and Pension Fund.

Whole of Government Accounts (WGA)
We are currently undertaking our work on the WGA submission, the deadline for this is the 13 September 2019.

Other statutory powers
We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, or to apply to the Court for a declaration that an item of account is contrary to law.

We have not exercised any of our additional statutory powers or duties.

Certificate of closure of the audit
We are unable to certify the closure of the 2018/19 audit of Somerset County Council in the audit opinion due to the following:

• Outstanding VFM work in respect of demand lead budgets yet to be concluded (work due to complete by September 2019)
• Whole of Government Accounts statement (deadline 13 September 2019)
• Opinion on the consistency of the pension fund financial statements with the Pension Fund Annual Report (deadline 1 December 2019)
Value for Money conclusion (Council only)

Background
We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate: In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings
Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The one risk we identified and the work we performed to date are set out overleaf.

Overall Value for Money conclusion
As noted earlier in this report, in order to arrive at the appropriate VFM conclusion for 2018/19 we are seeking more assurances over the embeddedness of the arrangements in respect of sustainable resource deployment. This necessitates further work around the robustness of the Council’s MTFP and in particular the deliverability of the Children Services and Adults Services budgets through to 2021/22.

As a result of this proposed additional work we were unable to conclude our VFM conclusion by 31 July 2019. Our auditor’s expert are aiming to complete this work by the end of August 2019 and we proposed to use their findings to inform our final VFM conclusion for 2018/19 that will be reported to the Audit Committee at their September 2019 meeting.
Value for Money

VFM work undertaken during the year

Given the qualified ‘adverse’ value for money conclusion last year we have committed significant time and resource to engaging with the Council at all levels to gain a full understanding of the changes being implemented to address our concerns. During the audit year we have provided regular challenge and feedback to the senior leadership within the Council on progress against our 7 recommendations arising from our review last year. We have also provided regular feedback to the Audit Committee as Those Charged with Governance via our progress reports.

Our work has focused on, but has not been limited to assessing:

- How budget setting, monitoring and outturn reports facilitate challenge of and delivery against budget;
- Whether budget setting is sufficiently robust to set a realistic and achievable budget based on the requirements of demand led services and with regard to prior year performance and outturn;
- The consistency between the original revenue budget and in-year financial monitoring including clear reporting on the delivery of savings that facilitate challenge and corrective action where overspends are identified;
- The robustness of challenge to in-year financial monitoring reports and action taken in response to in-year overspends and ensuring these are appropriately evidenced;
- The adequacy of year end financial reporting to members to include greater analysis of areas such as use of reserves or grants and application and achievement of transformational projects through the use of capital flexibilities;
- The compliance with the Capital flexibilities guidelines requiring all identified projects to be included in the budget process and approved prior to the financial year along with achievement against prior year projects;
- The adequacy of the annual Section 25 assessment by the Director of Finance with regard to the adequacy of both general fund and earmarked reserves including any proposed actions to strengthen these going forward; and
- The consideration of the appropriateness of holding negative earmarked reserves.

Improvements in arrangements

Since our report in July 2018 we have seen improvements in the Council’s arrangements to deliver sustainable resource deployment. Specifically:

- Improved in year reporting of performance against the budget, facilitating understanding and challenge where appropriate to delivering the budget (better narrative including more explanation of variations, details on the use of capital flexibilities and descriptions of corrective action to be taken)
- Recognition that the original 2018/19 budget was not fit for purpose and required rebasing to combat forecast overspend in Children Services part way through the financial year (clear evidence of the Council grasping the challenge and recognising the need to make the difficult decisions to bring the budget back in line resulting in an additional £15.9m of funding going into Children Services mid-year)
- Taking the difficult decision to introduce further savings in year (MTFP2) to ensure delivery against budget
- Improved identification, monitoring and delivery of budget and both savings plans (MTFP1+2) including clear evidence of timely challenge to variances and holding budget holders to account
- Clearer communication of delivery in year within the 2018/19 outturn report to Cabinet in June including where savings have been made, revenue savings note, greater detail on capital flexibilities etc.
- More robust approach to setting a realistic and achievable budget for 2019/20 including appropriate consideration of the latest outturn projections in 2018/19. The budget includes all expected known pressures such as realistic allowances for pay awards that were absent from previous budgets
- Greater focus on the basis of the MTFP with further contributions to reserves being set-aside and clearer identification of savings to address budget gaps
Our VFM conclusion covers the whole of 2018/19 and we note that at the start of the 2018/19 year it was the poor budget setting process that resulted in the need for reactive emergency measures to identify and deliver further savings to balance the budget.

Clearly for a number of the weaknesses identified in arrangements in our report in July 2018 could not have been fully addressed in the intervening 10 months and the Council will only be able demonstrate improvements against all areas over an extended period of time.

Our commentary against the recommendations made last year highlight progress but also further scope to strengthen arrangements going forward.

Internal Audit in their Healthy Organisation Report of January 2019 also identified within its financial management section, which was given an ‘amber’ rating areas of improvement over the last 12 months but also recognised further areas for attention.

The Corporate Peer Challenge: Follow up Visit of April 2019 commented on the Council’s positive response to it’s financial challenges indicating it has faced these with ‘vigor’, also noting the marked improvement in its financial position. The report went on to highlight that in their view, the future demand and growth forecasts into the medium term seemed relatively modest.

In our view, the improvement in the total level of general fund and earmarked reserves has only gone so far in restoring the balance sheet to a position that provides resilience into the medium term. The low level of earmarked reserves compared with peers still provides limited capacity to absorb any unexpected future financial pressures (see table on next page) and this remains an area of concern.

However, the biggest continued concern we have as your auditors remains the ability of the Council to balance its books into the medium term. Our high level analysis of the budget allocations to both Children Services and Adults Services across the MTFP indicates low levels of growth over the next 3 years in both areas and reflects the impact of increased debt charges (principal and interest) restricting the ability of the Council to increase budgets in line with historic annual increases in spend.

Within the earmarked reserves total of £26.5 million at 31March 2019 is £10.2 million of negative earmarked reserves, a reduction from £19.5 million in the previous year. The largest of these is the Dedicated Schools Grant (DSG) with a cumulative deficit of £6.7 million, up from £3.9 million in the previous year. Despite the Council having submitted the required DSG Three-year Deficit Recovery Plan to the Department for Education (on 28 June 2019) that sets out the plans to recover this deficit, the increasing deficit against this reserve remains a concern and places further pressure on the already depleted financial position of the Council.

<table>
<thead>
<tr>
<th></th>
<th>31.3.18 £000’s</th>
<th>31.3.19 £000’s</th>
<th>Movement £000’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund (excluding schools)</td>
<td>20,929</td>
<td>17,689</td>
<td>-3,240</td>
</tr>
<tr>
<td>Earmarked reserves</td>
<td>2,820</td>
<td>26,494</td>
<td>23,674</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>23,749</strong></td>
<td><strong>44,183</strong></td>
<td><strong>20,434</strong></td>
</tr>
</tbody>
</table>

Our preliminary findings cover the whole of 2018/19 and we note that at the start of the 2018/19 year it was the poor budget setting process that resulted in the need for reactive emergency measures to identify and deliver further savings to balance the budget.

Clearly for a number of the weaknesses identified in arrangements in our report in July 2018 could not have been fully addressed in the intervening 10 months and the Council will only be able demonstrate improvements against all areas over an extended period of time.

Our commentary against the recommendations made last year highlight progress but also further scope to strengthen arrangements going forward.
Value for Money

VFM work undertaken during the year (continued)

Level of Reserves - Comparison across County Councils

Source: individual councils’ unaudited financial statements for 2018/19 from individual council websites
Please note: these figures do reflect inconsistent treatment of any DSG deficit treatment at individual councils
Completion of the VFM audit

In order to arrive at the appropriate VFM conclusion for 2018/19 we are now seeking more assurances over the embeddedness of the improvement arrangements. We recognise the good progress that has been made over the last 10 months but also note that reserves and balances, despite the increases in year, provide limited resilience should significant overspends emerge in the future.

This risk of future overspends, in our experience, is a particular risk at county councils given their limited ability to raise additional income but also given that a significant and generally increasing percentage of their total spend is take up funding social care which continues to be under increasing pressure due to demand and unit cost increases.

We therefore want to, before issuing our VFM conclusion for 2018/19, gain more confidence over the robustness of the Council’s MTFP and in particular the deliverability of the Children Services and Adults Services budgets through to 2021/22.

We have therefore asked our social care colleagues from our Public Sector Advisory team to act as an ‘auditor’s expert’ and provide us with their assessment of the robustness and realism of the Children’s and Adult Social Care annual budgets within the Council’s MTFP. The review is to include consideration of the robustness of savings plans.

As a result of this proposed additional work we are unable to conclude our VFM conclusion by 31 July 2019. Our auditors expert are aiming to complete this work by the end of August 2019 and we proposed to use their findings to inform our final VFM conclusion for 2018/19 that will be reported to the Audit Committee at their September 2019 meeting.

Statutory Recommendation

Our report last year also highlighted the possibility of issuing a statutory recommendation should the Council not have changed and implemented improvements in arrangements over the last 10 months and performance not improved. We are pleased to report that the improvements seen since July 2018 now mean that the risk of us having to issue such a recommendation has reduced significantly.
A. Fees - Council

We confirm below our final proposed fees charged for the audit and provision of non-audit services. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment.

Estimated additional Audit Fees

<table>
<thead>
<tr>
<th>Area of work</th>
<th>Timing</th>
<th>Comment</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessing the impact of the McCloud Ruling</td>
<td>June – July 2019</td>
<td>The Government’s transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government’s application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statement along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.</td>
<td>3,000</td>
</tr>
<tr>
<td>Pensions – IAS 19</td>
<td>June-July 2019</td>
<td>The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.</td>
<td>3,000</td>
</tr>
<tr>
<td>PPE Valuation – work of experts</td>
<td>June-July 2019</td>
<td>As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.</td>
<td>3,000</td>
</tr>
<tr>
<td>VFM conclusion</td>
<td>Sept 2018-July 2019</td>
<td>Additional scrutiny of VFM financial resilience arrangements during the 2018/19 audit cycle including monthly meetings with the Director of Finance</td>
<td>10,800</td>
</tr>
<tr>
<td></td>
<td>August 2019</td>
<td></td>
<td>tbc</td>
</tr>
</tbody>
</table>

Total Audit Fees

<table>
<thead>
<tr>
<th>Audit fee</th>
<th>Actual 2017/18 fee £</th>
<th>Planned 2018/19 fee £</th>
<th>Final 2018/19 fee £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council Audit</td>
<td>99,873</td>
<td>76,902</td>
<td>76,902</td>
</tr>
<tr>
<td>Additional Audit Fee (see above)</td>
<td>11,336</td>
<td>TBC</td>
<td>TBC</td>
</tr>
<tr>
<td>Total audit fees (excl VAT)</td>
<td>111,209</td>
<td>TBC</td>
<td>TBC</td>
</tr>
</tbody>
</table>

Non Audit Fees

<table>
<thead>
<tr>
<th>Fees for other services</th>
<th>Fees £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit related services:</td>
<td></td>
</tr>
<tr>
<td>Certification Audit (Teachers’ Pensions and School-Centred Initiated Teacher Training claims)</td>
<td>7,950</td>
</tr>
<tr>
<td>Total fees for other services</td>
<td>7,950</td>
</tr>
</tbody>
</table>
A. Fees – Pension Fund

We confirm below our final proposed fees charged for the audit.

**Planned Audit Fees**

Our Audit Plan included a PSAA published scale fee for 2018/19 of £18,371. Our audit approach, including the risk assessment, continues as the year progresses and fees are reviewed and updated as necessary as our work progresses.

**Update to our risk assessment – additional work in respect of the audit code**

The table below sets out the additional work which we have undertaken to complete the audit, along with the impact on the audit fee where possible. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment. Note as these fees have not been finalised at this stage they are not included within the audit fee disclosure within the statement of accounts.

**Additional Audit Fees**

<table>
<thead>
<tr>
<th>Area of work</th>
<th>Timing</th>
<th>Comment</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessing the impact of the McCloud ruling</td>
<td>June-July 2019</td>
<td>The Government’s transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government’s application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statements along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.</td>
<td>1500</td>
</tr>
</tbody>
</table>

**Total Audit Fees**

<table>
<thead>
<tr>
<th></th>
<th>Actual 2017/18 fee £</th>
<th>Proposed 2018/19 fee £</th>
<th>Final 2018/19 fee £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension Fund Audit</td>
<td>23,859</td>
<td>18,371</td>
<td>18,371</td>
</tr>
<tr>
<td>Additional Audit Fees (see above)</td>
<td></td>
<td></td>
<td>1,500</td>
</tr>
</tbody>
</table>

| Total audit fees (excluding VAT)  | 23,859              | 18,371                 | 19,871              |
A. Audit Related Services Fees – Pension Fund

In addition to the audit fees we set out below our final proposed fees for audit related services provided during the course of our audit. Note as these fees have not been finalised at this stage they are not included within the audit fee disclosure within the statement of accounts.

<table>
<thead>
<tr>
<th>Audit related</th>
<th>£</th>
<th>Description</th>
</tr>
</thead>
</table>
| IAS 19 assurance letters to other auditors         | £7,000 | The Financial Reporting Council has highlighted that the quality and scope of work by audit firms in respect of IAS 19 assurance letters needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year. Historically the cost of this work has been absorbed within the audit fee of the administering and admitted bodies. Given the lower fees we are now recovering the cost of this extra work through an additional invoice to Somerset Pension Fund. It will be for the Pension Fund to determine any appropriate recharges. For 2018/19 IAS 19 letters of assurance were provided to the following admitted bodies of Somerset Pension Fund:  
  • Somerset County Council  
  • South Somerset District Council  
  • Mendip District Council  
  • Sedgemoor District Council  
  • Taunton Deane District Council  
  • West Somerset District Council  
  • Exmoor National Park  
  • Avon and Somerset Police and Crime Commissioner  
  Our estimate is that the fee for this will be £3,000 plus an additional £500 for each local government body which requests a letter of assurance. |
A. Reports issued

We confirm below our final reports issued

<table>
<thead>
<tr>
<th>Report</th>
<th>Date issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Plan (Council &amp; Pension Fund)</td>
<td>January 2019</td>
</tr>
<tr>
<td>Audit Findings Report (Council &amp; Pension Fund)</td>
<td>July 2019</td>
</tr>
<tr>
<td>Annual Audit Letter (Council &amp; Pension Fund)</td>
<td>August 2019</td>
</tr>
</tbody>
</table>