

Pension Board

Date: Thursday, 8th December, 2022

Time: 10.00am

Venue: Council Chamber - Guildhall, Bath

Board Members: Nick Weaver (Chair), Helen Ball (Member Representative), Steve Harman (Employer Representative), David Yorath (Member Representative), Tony Whitlock (Employer Representative), Stuart Anstead (Employer Representative) and Alison Wyatt (Member Representative)

Chief Executive and other appropriate officers
Press and public



Mark Durnford

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NOTES:

1. **Inspection of Papers:** Papers are available for inspection as follows:

Council's website: <https://democracy.bathnes.gov.uk/ieDocHome.aspx?bcr=1>

2. **Details of decisions taken at this meeting** can be found in the minutes which will be circulated with the agenda for the next meeting. In the meantime, details can be obtained by contacting as above.

3. Recording at Meetings:-

The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control. Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators. We request that those filming/recording meetings avoid filming public seating areas, children, vulnerable people etc; however, the Council cannot guarantee this will happen.

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4. Public Speaking at Meetings

The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group.

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Further details of the scheme can be found at:

<https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=12942>

5. Emergency Evacuation Procedure

When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are signposted. Arrangements are in place for the safe evacuation of disabled people.

6. Supplementary information for meetings

Additional information and Protocols and procedures relating to meetings

<https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=13505>

Pension Board - Thursday, 8th December, 2022
at 10.00am in the Council Chamber - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

The Chair will draw attention to the emergency evacuation procedure as set out under Note 5.

2. APOLOGIES FOR ABSENCE

3. DECLARATIONS OF INTEREST

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

5. ITEMS FROM THE PUBLIC

6. ITEMS FROM MEMBERS

7. MINUTES OF PREVIOUS MEETING: 4TH OCTOBER 2022 (Pages 7 - 16)

8. EXTERNAL AUDIT - UPDATE (Pages 17 - 46)

The purpose of this report is to update the Pension Board on the draft audit findings of the External Auditor.

9. BRUNEL UPDATE

The Board will receive a presentation on this item.

10. SUMMARY OF LIQUIDITY PROFILE

The Board will receive a presentation on this item.

11. ANNUAL REPORT & SUMMARY OF ACCOUNTS

The Board will receive a presentation on this item.

12. INTERNAL AUDIT UPDATE (Pages 47 - 74)

The purpose of this report is to provide an update on Internal Audit activity since the last report to the Pension Board on 21st September 2021.

13. INTERNAL AUDIT APF CYBER ESSENTIALS REVIEW (Pages 75 - 98)

14. BREACHES REPORT (Pages 99 - 112)

The purpose of this report is to update the Pension Board on the Fund's Breaches Policy, procedure for recording & reporting breaches, training carried out for Teams and breaches recorded in the last year.

15. STATUTORY REPORTING AND YEAR END (Pages 113 - 118)

The purpose of this report is to inform the Pension Board of the actions undertaken by the Fund Administration in completion of the 2021/2022 employer year end data exercise and other statutory annual requirements.

16. UPDATE ON LEGISLATION (Pages 119 - 122)

The purpose of this report is to update the Pension Fund Board on the latest position concerning the Local Government Pension Scheme [LGPS] and any proposed regulatory matters that could affect scheme administration.

17. RISK MANAGEMENT UPDATE - RISK REGISTER (Pages 123 - 128)

The purpose of this report is to update the Pension Board with the new risk management policy and new look risk register.

18. PENSION BOARD WORKPLAN & TRAINING PLAN

The Board will receive a verbal update on this item.

The Committee Administrator for this meeting is Mark Durnford who can be contacted on 01225 394458.

BATH AND NORTH EAST SOMERSET

PENSION BOARD

Tuesday, 4th October, 2022

Present:- Nick Weaver (Chair), Helen Ball, Steve Harman, Tony Whitlock and Alison Wyatt

Also in attendance: Jeff Wring (Director - One West), Liz Woodyard (Group Manager for Funding, Investment & Risk), Geoff Cleak (Pensions Manager), Anna Capp (Member Services Manager), Carolyn Morgan (Governance and Risk Advisor) and Charlotte Curtis (Governance & Risk Officer)

14 EMERGENCY EVACUATION PROCEDURE

The Chair welcomed everyone to the meeting and asked the Democratic Services Officer to read out the Emergency Evacuation Procedure.

15 APOLOGIES FOR ABSENCE

Stuart Anstead had sent his apologies to the Board.

16 DECLARATIONS OF INTEREST

There were none.

17 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

18 ITEMS FROM THE PUBLIC

There were none.

19 ITEMS FROM MEMBERS

There were none.

20 MINUTES OF PREVIOUS MEETING: 9TH JUNE 2022

The Board approved the minutes of the previous meeting and they were duly signed by the Chair.

21 BRUNEL UPDATE (VERBAL)

The Group Manager for Funding, Investment & Risk addressed the Board. She informed them that there had been a significant level of activity following the announcement of the mini budget by the Government and that the markets were already sensitive prior to the announcement.

She explained that the Bank of England have now taken measures to attempt to stabilise the markets and will at this point offer temporary support until 14th October.

She stated that to limit the impact of further collateral calls on the Fund's LDI portfolio following the spike in yields the decision had been made by FRMG on the Monday (26th Sept) to suspend further trading.

She said that Bond Yields started to rise around three to four weeks ago and at that time a decision was taken lock some in. She added that since the announcement of the mini budget more have been locked in.

She stated that the markets were now beginning to rally with sterling starting to strengthen.

She said that the portfolio overall remains in a good position and it has shown how important it is for the portfolio to be diverse. She added that there has been no change to the Strategic Asset Allocation.

The Chair asked if she could outline the responsibilities of the Committee and Brunel regarding the Strategic Asset Allocation.

The Group Manager for Funding, Investment & Risk replied that the Strategic Asset Allocation is set by the Committee every three years. She said that Brunel are then informed that, for example, the Fund wants to have 40% in equities to be split across a range of portfolios for investment.

She added that the LDI portfolio is managed by BlackRock through a bespoke strategy for the Fund and that this is supported through the FRMG (Funding & Risk Management Group) which comprises of officers and advisers from Mercer. She said that the FRMG meet at least once a month and had met on 26th Sept to take appropriate actions.

She explained that the Committee had recently approved the Taskforce on Climate-related Financial Disclosures (TCFD) report and that the Fund is due to respond on this matter to the DLUHC in due course.

Steve Harman asked how our Fund's approach differs from others within Brunel.

The Group Manager for Funding, Investment & Risk replied that on the whole they were probably quite similar, but said that Avon has the least exposure to equity and was the most diversified. She added that she felt in time that it was likely that asset allocations will converge as they seek similar opportunities to invest in. She said that Avon has a high level of risk management in place.

She stated that Brunel are working on improvements to the Fund's reporting processes and also that the Climate Stocktake was ongoing, with a new Climate Change Policy expected in January 2023.

Tony Whitlock asked if recent events have had an impact on the employer funding position.

The Group Manager for Funding, Investment & Risk replied that it had not had any at this stage, but that it continues to be monitored.

The Chair thanked her for the update on behalf of the Board.

22 FUNDING STRATEGY STATEMENT 2022

The Group Manager for Funding, Investment & Risk introduced the report to the Board. She explained that the Committee had approved the Funding Strategy Statement (FSS) at its meeting on 23rd September and that the Board is asked to review it for compliance with the LGPS Regulations 2013 and CIPFA guidance.

The Chair asked if a number of interested parties involved with the Fund had responded to the consultation.

The Group Manager for Funding, Investment & Risk replied that more Academies had responded than in previous years alongside 2 Unitary Authorities and a number of colleges. She added that conversations regarding the FSS had also been held prior to the consultation.

The Chair asked if the Actuary was minded to reduce the prudence of his assumptions based on feedback from the employers.

The Group Manager for Funding, Investment & Risk replied that he wasn't and that they did challenge him throughout the process. She said that most employers will see a reduction in contributions. She added that if stagflation was prolonged it could see a negative value at the next valuation. She said that if inflation persists it could affect public sector funding significantly.

She informed the Board that they expect to receive the first results of the Actuary's report by the end of October / early November and that the process will conclude finally in March 2023.

The Board **RESOLVED** to approve the Funding Strategy Statement 2022 and determined that it was compliant with LGPS Regulations 2013 and CIPFA guidance.

23 ADMIN STRATEGY UPDATE

The Pensions Manager and the Governance & Risk Advisor addressed the Board and gave them a presentation regarding the APF Administration Strategy & New Operating Model. A copy of the presentation will be attached as an online appendix to these minutes and a summary is set out below.

New Admin Strategy 2022

- New strategy introduced to Pension Board March 22
- Included in service plan taken to Committee in March 22
- Part of concept is to maximise digital services and achieve greater focus on workloads
- Create new posts & career grades

Operating Model Concept and High Level Structure Chart

The new Digital Services Team will support end to end processes - Two thirds of employers are now submitting online returns or IConnect extracts.

This will enable officers within the Member Services team to focus on specific critical cases (eg retirements/deaths/transfers).

Officers are working with consultants currently to develop the new posts. Discussions will take place in the future with the Human Resources team with regard to the grading of the new posts.

The aim is to deliver the project over three phases and conclude by April 2023. Where possible certain elements will be put in place ahead of this date.

Project Plan – Phase 1

- Set up temporary Member Contact Team (June 2022)
 - 2 members of staff to triage emails and encourage use of My Pension Online
- Review functionality of My Pension Online (October 2022)
 - Explore the use of a portal
 - New starters to receive activation key to My Pension Online as standard
- Analysis of workload & resources (June 2022)

Project Plan – Phase 2

- Expand Customer Contact Team (December 2022)
 - Team Leader has been appointed on a secondment basis.
 - 2 members of staff to move across in October, making 5 in total
- Iconnect Project
 - Rollout of document portal to all existing employers (December 2022)
 - Rollout of Iconnect to non IC employers (April 2023)
- Set up Iconnect Processing Team
 - Aim is to process cases to end status eg deferred, refund, aggregation (January 2023)
 - Use of bulk processes where possible (January 2023)

Project Plan – Phase 3

- Consultation & Implementation of new operating model
 - Review, write and approve new Job Descriptions (December 2022)
 - Consultation Exercise with staff (begin in January 2023)
 - Review all processes and workflows across Teams (April 2023)
 - Update Administration Strategy (April 2023)

The Pensions Manager stated that alongside this project, officers are still trying to manage business as usual. He added that it had been good to receive external support for this work and that he was hopeful that career pathways with differing grade levels could be set within certain posts.

Steve Harman asked if training would be provided to existing staff to ensure that they have the technical expertise to carry out their roles.

The Governance & Risk Advisor replied that it would be and is within the project plan. She added that officers were working with Heywood to have training in place for new officers to understand the range of functionality within My Pension Online.

Alison Wyatt asked if there was a structured appraisal system in place for staff.

The Governance & Risk Advisor replied that annual reviews are held as well as 1-2-1 meetings on a monthly basis where performance and personal objectives are discussed.

Alison Wyatt asked if there was a particular profile of the employers who were not engaged with the Iconnect system.

The Pensions Manager replied that in general these were employers that only have a handful of members such as Town / Parish Councils, admitted bodies and some small colleges.

Alison Wyatt asked if officers were able support those employers to come online.

The Pensions Manager replied that training and support is available to onboard employers. He added though that it was important to the Fund to receive this information digitally and therefore fines would be issued to employers if necessary.

The Governance & Risk Advisor said that there is a dedicated Iconnect Team in place and acknowledged that some employers might not have enough resources in place. She added that if employers change their payroll provider, this can be a factor.

The Chair commented that the process does rely on employers giving data in good time. He asked how assertive can the service be with employers to make sure we receive the information on time.

The Member Services Manager replied that engagement with employers does take place. She added that when employers do change payroll providers they do not always consider how that will impact on the pensions process.

The Governance & Risk Advisor said that they have historically provided guidance to employers on this matter. She added that changes in personnel within an employer can also be a factor.

Alison Wyatt asked what happens if an employer decides to take payroll responsibilities in house.

The Governance & Risk Advisor replied that they have the same obligation to provide the data.

The Chair asked if the data received is measured for accuracy.

The Governance & Risk Advisor replied that a monthly verification process takes place.

Helen Ball commented that it appeared to be a large group of small organisations that are causing an awful lot of work for the officers. She asked if there were any measures that could be taken to remove them from the scheme.

The Governance & Risk Advisor replied that they could not be removed as if they are scheduled or admitted body employers they have a right to be part of the scheme.

Tony Whitlock asked how many members were currently actively using My Pension Online.

The Pensions Manager replied that he believed that this was around 30% of members.

The Governance & Risk Advisor added that as part of the new process all new members will be set up with a My Pension Online account.

The Chair thanked both officers for their presentation on behalf of the Board.

24 PENSION FUND ADMINISTRATION

The Pensions Manager introduced the report to the Board.

He informed them that officers had this week returned to the Keynsham Civic Centre following its refurbishment with 46 workstations available for them to use. He said that the intention is that staff will come into the office for a minimum of two days a week or pro-rata if part-time.

He stated that the Fund continues to operate below its desired target of >90% for most case types and the case-by-case breakdown demonstrates an overall general maintenance from the previous quarter. He added that generally, however, KPI benchmarking performance has declined over the past year.

He said recruitment and retention remain a key factor impacting business operations. Employer Services currently have 5 FTE vacancies and Member Services team have 4 FTE vacancies, in addition the Technical & Compliance Manager post has now been re-advertised. He added that the administration is also carrying three maternity absences across the service.

He explained to mitigate operational workload some project work had already been outsourced, in particular; the GMP reconciliation project and the address tracing project. He added that consultancy engagement had now been procured to provide ongoing support with the McCloud remedy and the Annual Allowance tax charges review project.

He stated that 98% of Annual Benefit Statements have now been issued and that as part of the digital transformation project 11,384 statements were published digitally to members signed up with access to My Pension Online.

He informed the Board that 100% of Employer year end returns had now been received and the team have completed all required checks and validations before submitting to the scheme actuary.

He said that data for the 2 Unitary Authorities had now been received in relation to McCloud, but that there are still a number other employers who have not supplied their data and officers continue to chase. He added that we will now be part of a working group with the LGA and other admin authorities to tackle common issues regarding employers that are unable to return data.

He explained that the Address Tracing project had now concluded and that there Business as Usual processes in place to manage the ongoing tracing of new “Gone Away” members. He said that this will be supported by the new Digital Strategy that is being rolled out by the fund over the next 12 months.

He commented that gathering the benchmarking data can take a considerable amount of officer time and that they were in the process of testing new software (Insights) that would provide real-time information with results expected to feed in by the end of the financial year.

The Chair said that he also felt it was good to see the CIPFA standard reports.

The Pensions Manager said that Insights will report on both CIPFA standards and local SLAs.

The Pension Board **RESOLVED** to note the Fund performance for the three months to 30th June 2022.

25 CIPFA REPORTING

The Pensions Manager addressed the Board and gave them a presentation regarding CIPFA Benchmarking. A copy of the presentation will be attached as an online appendix to these minutes and a summary is set out below.

He said that the Fund has taken part in CIPFA’s benchmarking gathering exercise for over 15 years. He explained that when they began more than 90% of Funds took part, but now only approximately 20 had.

He stated that the cost of participating in the exercise was around £2,700 (supplier £1k / APF resource £1.7k) plus officer time – approximately 74hrs across the admin team.

He explained that the report was quite difficult to interrogate and to extract data from. He informed the Board that the Fund (£19.62) was only just above the average admin cost per member when compared with our nearest neighbours by size (£19.36) and well below the national average (£31.90).

He said that the Fund's Performance KPIs were comparable in general apart from transfers.

He informed the Board that the majority of staff had been Fund members for either 1-5 years (42.69%) or more than 15 years (33.21%). He added that the highest proportion staff within the Fund earned between £20 - £25k (35%).

He asked the Board to consider whether the Fund should take part in future exercises, given that it is resource demanding, the consistency of the way the data is provided and the level of accessibility of the results data from CIPFA.

He added that even though data from 2020/21 was submitted last September no results were given until May 2022.

The Chair said that he was slightly disappointed that not as many Funds were now taking part.

Alison Wyatt questioned whether it was worth the officer time and stress to take part in future exercises.

The Pensions Manager said that officers will monitor what effect Insights has on this process.

The Chair asked if whether it was felt that CIPFA were engaged enough currently in this process.

The Group Manager for Funding, Investment & Risk said that maybe their role was slightly less prominent because of the Scheme Advisory Board. She added that pooling might also affect their involvement.

The Director – One West stated that his view was that benchmarking was a critical tool and valuable process that needs to be continued in some form. He said that opportunities within Brunel could be explored from those funds that are pooled together.

The Chair thanked the Pensions Manager for his presentation on behalf of the Board.

26 RISK REGISTER UPDATE

The Governance & Risk Advisor introduced the item to the Board. She stated that the purpose of the report was to update them with the latest risk register as at September 2022. She added that officers were in the process of streamlining the register and that the intention was that the new version would be published within the December 2022 agenda.

Alison Wyatt referred to Risk R01 - Disaster Recovery & Business Continuity and asked when the Board would receive the report on Cyber Security and Business Continuity as it had been scheduled for earlier in the year.

The Governance & Risk Advisor replied that further internal work had been required and that a review within the Council was ongoing.

The Director, One West added that the report should form part of the agenda for the December 2022 meeting.

Steve Harman commented that he welcomed the decision to streamline the register as it would be more meaningful in his view to discuss the risks that are judged to be red.

The Board **RESOLVED** to note the report.

27 PENSION BOARD'S ANNUAL REPORT

The Governance & Risk Advisor introduced the report to the Board. She informed them that the Pension Board reports annually to Council on the work it has undertaken in the previous twelve months. She added that the report will be taken to Council on 17th November 2022 along with the Pension Committee's annual report to Council.

Steve Harman commented that the content of the report was good, but felt that some work could be done with regard to the layout to make it slightly easier to read / engaging.

The Group Manager for Funding, Investment & Risk replied that in previous years they had spent a lot longer on producing a report that was probably more interesting and that maybe some middle ground could be found for next year's version.

The Director, One West asked for the training costs for the Board on page 103 of the agenda pack to be checked as he felt that they were likely to be higher than the £195 stated.

The Governance & Risk Advisor replied that she would check these figures prior to the report being submitted to Council.

The Board **RESOLVED** to approve the report.

28 PENSION BOARD WORKPLAN & TRAINING PLAN

The Governance & Risk Advisor introduced the report to the Board. She highlighted Appendix 2 of the report and reminded members of the need for them to complete the training modules from the Hymans Learning Academy.

She stated that in order to ensure all members have the correct access to Modern Gov and the library, the APF Communications Team have been contacting members to provide the relevant support & training required.

She asked for Board Members to inform officers if they have any specific training needs or feel that they would benefit from having a workshop on a particular subject area.

The Board **RESOLVED** to:

- i) Note the workplan & training plan for 2022/23
- ii) Note the dates for future meetings.

The meeting ended at 4.30 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

Bath & North East Somerset Council		
MEETING:	LOCAL PENSION BOARD - AVON PENSION FUND	
MEETING DATE:	8 December 2022	AGENDA ITEM NUMBER
TITLE:	External Audit - Update	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 - Draft Audit Findings Report – Avon Pension Fund		

1. THE ISSUE

- 1.1. The purpose of this report is to update the Pension Board on the draft audit findings of the External Auditor

2. RECOMMENDATION

- 2.1. That the Board notes the report.

3. FINANCIAL IMPLICATIONS

- 3.1. There are no direct implications related to the Pension Board in connection with this report.

4. REPORT

- 4.1. Appendix 1 details the draft report on the External Auditor's work and findings from the audit of the Pension Fund Accounts. The findings report was also considered by the Corporate Audit Committee of B&NES at its last meeting on the 23rd of November.
- 4.2. The External Auditor will provide a full briefing at the meeting.

5. RISK MANAGEMENT

- 5.1. The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition, it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

6. EQUALITIES

6.1. A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

7. CLIMATE CHANGE

7.1. The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Paris Aligned Global Equities Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

8. CONSULTATION

1.1 Reports and its contents have been consulted with the Head of Pensions and Director – One West representing the administering authority.

Contact person	Carolyn Morgan - Governance & Risk Advisor – 01225 395240
Background papers	
Please contact the report author if you need to access this report in an alternative format	

The Audit Findings for Avon Pension Fund

Year ended 31 March 2022

Avon Pension Fund

29 November 2022

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Section

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2. Financial statements
3. Independence and ethics

Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees

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

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Avon Pension Fund (‘the Pension Fund’) and the preparation of the Pension Fund's financial statements for the year ended 31 March 2022 for those charged with governance.

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Financial Statements	
<p>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:</p> <ul style="list-style-type: none">the Pension Fund’s financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; andhave 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.	<p>We commenced our post-statements audit in June and as at November 2022 our audit is substantially complete. This year we adopted a hybrid approach involving a combination of on-site and remote working. Our findings are summarised on pages 6 to 14.</p> <p>We have identified no material errors or adjustments to the financial statements and there are no matters arising to date that would require modification of our audit opinion. We have recommended a number of other adjustments to improve the presentation of the financial statements. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year’s audit are detailed in Appendix B.</p> <p>The draft financial statements were presented for audit in accordance with the agreed timetable. Whilst in the main, good quality working papers were provided to support entries, we did encounter issues that resulted in additional, unplanned audit work.</p> <p>This additional work reflects the continuous raising of the bar and us as auditors providing greater challenge to the Pension Fund especially in the areas subject to greatest estimation and uncertainty. This additional time has resulted in a proposed further increase in audit fees for 2021/22 as set out in Appendix D.</p> <p>Subject to a small number of audit procedures being completed, we anticipate issuing an unqualified audit opinion following the completion of the Bath and North East Somerset Council audit.</p> <p>We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified.</p>

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 prior to presentation to the Corporate Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to a small number of outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the completion of the Bath and North East Somerset Council audit.

These outstanding items include:

- receipt of management representation letter; and
- review of the Annual report
- review of the final set of financial statements
- Completion of the 2021/22 Bath and North East Somerset 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. As part of our audit procedures, we identified several issues in relation to the reconciliation of several populations, discussions about prior period adjustments and difficulty obtaining IT evidence.

This resulted in us having to carry out additional audit procedures, as summarised on page 26 to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements.

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.

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

Pension Fund Amount (£) Qualitative factors considered

Materiality for the financial statements	59,000,000	We considered the proportion of net assets to the Fund to be an appropriate benchmark for the financial year. In the prior year we used the same benchmark. Our materiality equates to approximately 1% of your net assets for the year ended 31 March 2022.
Performance materiality	44,250,000	We have determined this using 75% of materiality. This is considered an appropriate benchmark as we have not identified a history of significant deficiencies in the control environment or a large number of significant misstatements in prior year audits. In addition, the management and finance team remain stable.
Trivial matters	2,950,000	This is based on 5% of materiality, which we consider to be an appropriate threshold to use in terms of our reporting to the Corporate Audit Committee as 'Those Charged with Governance'.



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

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. The Fund faces external scrutiny of its stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.

We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined 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; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our testing of estimates, judgements and journals has not identified any evidence of management override of controls. We have raised one control recommendation in Appendix A relating to our journals work.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Improper revenue recognition (rebutted)

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

We rebutted this risk in our Audit Plan. We have reconsidered this as part of our audit work on the financial statements and have not changed our assessment and therefore we confirm that we do not consider this to be a significant risk for Avon Pension Fund.

Our audit work has not identified any issues in respect of improper revenue recognition.

Valuation of Level 3 investments

The Fund revalues its investments on an annual basis 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 (£1,312 million) and the sensitivity of this estimate to changes in key assumptions

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

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

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

We have:

- evaluated management's processes for valuing Level 3 investments
- reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met
- independently requested year-end confirmations from investment managers and custodians
- for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2021 with reference to known movements in the intervening period
- in the absence of available audited accounts, we have evaluated the competence, capabilities and objectivity of the valuation expert
- tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register
- where available reviewed investment manager service auditor report on design effectiveness of internal controls.

Our audit work has not identified any significant issues in relation to the risk identified.

As highlighted above, our audit focuses on looking at external confirmations from both investments managers and the custodian, and as a result there will always be differences in when information is received compared to the information available when management are estimating the values for the accounts. This year, two individual differences identified were above our trivial threshold and these are detailed on page 10. The total aggregate difference identified for Level 3 investments was £8.6m.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Expenditure recorded includes fraudulent transactions (rebutted)

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

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

We rebutted this risk in our Audit Plan. We have reconsidered this as part of our audit work on the financial statements and have not changed our assessment and therefore we confirm that we do not consider this to be a significant risk for Avon Pension Fund.

Our audit work has not identified any issues in respect of improper expenditure recognition.

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £1,312m	The Pension Fund has investments in pooled property funds, pooled infrastructure funds, a long term investment and hedge funds that in total are valued on the balance sheet as at 31 March 2022 at £1,312m. These investments are not traded on an open exchange/market and the valuation of the investments is highly subjective due to a lack of observable inputs. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts. The fund are also supported by investment advisors who are independent from the fund managers who can advice on the performance of this type of investments. The performance of these investments are scrutinised by the pension fund investment board. The value of the investment has increased by £158m in year, and level 3 investments and now account for 22.5% of the fund.	<p>As outlined in our testing of the valuation of level 3 investments we have;</p> <ul style="list-style-type: none"> - Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate, - Considered the valuation techniques used against industry practice, and - Reviewed the adequacy of disclosures of estimate in the financial statements. <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 overstatement of the estimates by £8.6m.</p> <p>Two differences identified were individually greater than our trivial threshold:</p> <ul style="list-style-type: none"> • A difference of £3.4m in the Brunel Secured Income Standard Life Fund when compared to the latest available audited accounts of the fund; and • A difference of £6.7m in the Brunel Secured Income Greencoat Fund when compared to the latest available audited accounts of the fund 	Blue

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £4,217m	The Pension Fund investments in level 2 on the balance sheet as at 31 March 2022 total £4,217m. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts. The fund are also supported by investment advisors who are independent from the fund managers who can advise on the performance of this type of investments. The performance of these investments are scrutinised by the pension fund investment board. The value of the investments has increased by £297m compared to the prior year.	<p>Similar to our approach for level 3 investments, we have;</p> <ul style="list-style-type: none"> - Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate, - Considered the valuation techniques used against industry practice, and - Reviewed the adequacy of disclosures of estimate in the financial statements. <p>Our findings in relation to the testing of Level 2 investments identified some estimation differences. Most of the individual differences identified were not above our trivial threshold. The total aggregate difference identified for Level 2 investments was a potential understatement of the estimates by £9.3m.</p> <p>Only one difference identified was greater than our trivial threshold:</p> <ul style="list-style-type: none"> - A difference of £7m in the Brunel Global Sustainable Mutual Fund when compared to the latest available audited accounts of the fund. 	Blue

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

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Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Valuation of Pension Fund Liability	The fund has elected to take 'option B' from IAS 26 when considering the actuarial present value of promised retirement benefits, and as such presents this as a note to the accounts. Management have obtained this information from the actuary for the fund. The actuary has been provided with all of the necessary information using the annual returns required, which results in the actuary producing the valuation and required reporting paragraphs. The principal assumptions used by the actuary are in respect of mortality (longevity at 65 for current and future pensioners) and financial assumptions: rate of CPI inflation, rate of increase in salaries, rate of increase in pensions and rate for discounting scheme liabilities. The Council's Pension & Investments Manager communicates with the externally appointed actuary throughout the year and the year-end report is considered by management prior to inclusion in the financial statements.	<p>We have;</p> <p>Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate,</p> <p>Considered the data upon which the valuation has been based</p> <p>Considered the reasonableness of the assumptions used, and</p> <p>Reviewed the adequacy of disclosures of estimate in the financial statements.</p>	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.
Measurement of Financial Instruments	The Fund values its financial instruments at fair value, as informed by the advice of external and independent Management advisors and Investment Fund Managers. Fair values are estimated by calculating the present value of cash flows that take place over the remaining term of the instruments, as provided by management experts. Management consider the exposure of each of its categories of financial instruments to credit, liquidity and market risks. Risks to accounting estimates used in our measurement of financial instruments are managed through our Pensions Investment Strategy Statement and the Funds overall risk management procedures which focus on the unpredictability of financial markets to minimise potential adverse effects on the resources available to fund sources.	<p>We have;</p> <p>Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate,</p> <p>Considered the valuation techniques used against industry practice, and</p> <p>Reviewed the adequacy of disclosures of estimate in the financial statements.</p>	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

Assessment

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

2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary
<p>The draft financial statements were presented for audit in accordance with the agreed timetable. Whilst in the main, good quality working papers were provided to support entries, we did encounter issues that resulted in additional, unplanned audit work.</p> <p>This additional work reflects the continuous raising of the bar and us as auditors providing greater challenge to the Pension Fund especially in the areas subject to greatest estimation and uncertainty. This additional time has resulted in a proposed further increase in audit fees for 2021/22 as set out in Appendix D.</p>	<p>Additional work was required due to the following issues:</p> <ul style="list-style-type: none"> - The Purchases and Sales populations did not reconcile to the draft financial statements - We encountered reconciliation issues with the Benefits population provided to us, which resulted in delays in being able to select our sample of benefits paid. - We identified two potential prior period errors that we discussed with the financial statements team and our financial reporting colleagues in order to determine whether prior period adjustments were required. Neither error impacted the primary statements. One presentational error was adjusted and the other was not material. - We experienced difficulties obtaining IT audit evidence, which required additional time input to resolve. - The derivatives population did not easily reconcile to the draft financial statements, and we identified some adjustments that were required to the disclosure.

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.

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Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Corporate Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation will be requested from the Pension Fund.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all of the fund managers that work with the Fund and all banking institutions that management. This permission was granted and the requests were sent, of these requests all were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided. We experienced a number of difficulties in obtaining a population for purchases and sales testing. We also identified a few differences in reconciliations between notes 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).

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Issue	Commentary
Going concern	<p data-bbox="871 464 2051 603">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 data-bbox="871 619 2013 671">Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul data-bbox="871 687 2074 927" style="list-style-type: none"> • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. <p data-bbox="871 943 2040 1082">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 data-bbox="871 1098 2029 1241" style="list-style-type: none"> • the nature of the Pension Fund and the environment in which it operates • the Pension Fund's financial reporting framework • the Pension Fund's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. <p data-bbox="871 1257 2051 1279">On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul data-bbox="871 1295 2051 1385" style="list-style-type: none"> • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	Our review of the Pension Fund Annual Report is underway, but has not yet been completed.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report at the same time as our audit opinion.

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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. 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 D

Transparency

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

3. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Audit of Brunel Pension Partnership Limited (BPP)	40,000	None	<p>We do not consider the audit of BPP as a threat to our independence as Avon Pension fund cannot exercise control over BPP.</p> <p>The audit of BPP is carried out by a specialist team, authorised by the Financial Standards Authority.</p> <p>The fee of £40,000 is not significant compared to the audit fees of the ten participating pension funds.</p> <p>Please note this fee is not included in the financial statement of Avon Pension Fund as is payable by BPP.</p>
Non-audit Related			
Provision of IAS 19 Assurances to Scheme Employer auditors	12,000 (Estimated)	<p>Self review</p> <p>Management</p> <p>Self interest</p>	<p>This is not considered a significant threat as we are not reviewing any information that we have prepared. As this is an audit related service, it is acceptable for the audit team to carry out this work. In addition, we have not prepared the financial information on which our assurances will be used by the requested auditors to form an opinion on as part of their opinion on the financial statements of the admitted body.</p> <p>This is not considered a significant threat as the scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. We will not be making any recommendations as part of this work.</p> <p>This is not considered a significant threat as the fee is recurring but not significant to the audit of the financial statements; further, it is fixed based on the number of admitted bodies.</p>

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Corporate Audit Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified [X] recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2022/23 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Page 35	<p>As part of our risk assessment procedures around Journals, we identified that the fund were reviewing all journals at year end rather than throughout the year.</p> <p>We also identified that user reviews are scheduled to take place quarterly. Both findings leave the fund open to significant time passing before issues are identified.</p>	<p>We recommend that journal reviews are undertaken monthly rather than at year end and that reviews of user listings are undertaken monthly rather than quarterly.</p> <p>Management response</p> <p>Agreed - journal reviews and user reviews will be undertaken monthly instead.</p> <p>Journal reviews are not the only way that issues are identified, though. Budget monitoring, contributions monitoring, bank reconciliations and reporting to the Actuary will often pick up issues more promptly.</p> <p>User reviews are not the only check on user access. The B&NES Financial Systems Team have processes around starters and leaver access.</p>
	<p>Our reconciliation of the current year comparative figures to last year's Avon pension Fund Annual Report identified two immaterial differences in the figures published to those included in the 2021-22 draft financial statements. We identified that the fund had included the correct figures in the B&NES Signed accounts for 2020-21, but that the Pension Fund Annual Report had not been updated.</p>	<p>We recommend that further checks are performed prior to publication of final audited statements to ensure that all audit adjustments have been reflected. It is the audited body's responsibility to publish the appropriate statements. Through our financial statements review where prior year comparator figures are referenced through to published prior year statements, there were some inconsistencies within the Related Parties and Financial Instruments notes. These figures had been updated in the BANES accounts, however the final published APF annual report still displayed 20/21 draft figures.</p> <p>Management response</p> <p>Agreed - the post audit adjustments should have been reflected in the Annual Report. Further checks will be implemented to ensure that this doesn't happen in the future.</p>

Controls

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

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	Our journals testing identified one off ledger adjustment. While this year the adjustment is trivial in value, there is a risk that off ledger adjustments are incorrectly processed or accidentally excluded.	<p>We recommend that this adjustment is moved onto the ledger in the future.</p> <p>Management response</p> <p>Agreed - for completeness this adjustment will be posted to the ledger in 22/23.</p> <p>The adjustment relates to tax on lifetime allowances. When a member takes their benefits, if the capital value of those benefits is more than the lifetime allowance, tax has to be paid on the excess. APF offer to pay the tax upfront and are reimbursed from pension deductions over time (creating a long term debtor in the Accounts). The current lifetime allowance is £1,073,100, so this affects very few members when they retire.</p>
Page 36	Our contributions testing identified that one Pension Fund officer altered the benefits reconciliation to reflect a value different to one of the admitted bodies LGPS 50 forms. The amendment was made to reflect the fact that the admitted body was suggesting their return was incorrect.	<p>We recommend that where errors are identified in LGPS 50's their either new ones are submitted by the admitted body, or that these are explained as reconciling items and that the reconciliations are not amended.</p> <p>We also recommend the fund implements a form of exception report which identifies when members contributions are out of line with the matrix.</p> <p>Management response</p> <p>Agreed – a reconciling item should have been added instead for this. To put this into context, the value of the adjustment was relatively small, £1,279.44 (monthly contributions of £9m). Also, it is not possible to change the original LGPS50 form, this was an amendment to a csv download file, used in the contributions reconciliation.</p>
	We identified that management are not reporting their derivative assets and liabilities gross, but are accounting for them net.	<p>While the difference is not material in the current period, we recommend that management reports gross assets and liabilities moving forward.</p> <p>Management response</p> <p>Agreed - derivative assets will be reported gross from 22/23 onwards.</p>
	We identified that management are not updating cyber security policies	<p>While the policies are readily accessible by staff, we recommend that they are updated on a regular basis to ensure they remain relevant.</p> <p>Management response</p> <p>Agreed. This is something we are aware of and we are taking active steps to address this at the moment. For instance, the council is implementing a cyber resilience roadmap, is engaging with an external partner to deliver a cyber response plan, is updating its intranet pages on cyber security and has started an internal policy working group who are currently reviewing all IT policies.</p>

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Page 37	<p>Inadequate oversight around generic user in Agresso application</p> <p>During the audit, we obtained and inspected the evidence relating to the administration of generic accounts with privileged access within the Agresso application and observed that the access to a generic account [Administrator] is shared between the multiple administrators from Finance systems department. The Council has no controls in place to monitor the appropriateness of the activities performed by the account.</p> <p>Risk:</p> <p>The use of generic or shared accounts with high-level privileges increases the risk of unauthorised or inappropriate changes to the application or database. Where unauthorised activities are performed, they will not be traceable to an individual.</p> <p>Also, without appropriate audit logging and monitoring, unauthorised activities may not be detected in a timely manner, can go unnoticed, and evidence of whether the attack led to a breach can be inconclusive.</p>	<p>It is recommended that:</p> <ul style="list-style-type: none"> Where possible, generic accounts should be removed, and individuals should have their own uniquely identifiable user accounts created to ensure accountability for actions performed. Alternately, the Council should implement suitable controls to limit access and monitor the usage of these accounts (i.e. through increased use of password vault tools / logging and periodic monitoring of the activities performed). Where monitoring is undertaken this should be formally documented and recorded. <p>Management response</p> <p>The admin user ID is assigned to overnight processes and automated processes. Individuals with systems access have their own systems admin access that they use, they have no need to log in as the admin user and this is actively discouraged. In addition amendment logging is activated which gives an audit trail of actions the individual has performed on the database.</p>
	<p>Lack of controls over granting new user access within Altair application</p> <p>Altair</p> <p>For a sample user, we noted that the new user access to be mirrored with appropriate user was not mentioned clearly in the new user creation form to verify appropriateness of roles granted against roles approved and had incorrect permissions to be granted within Altair. This lack of information made it difficult to verify whether the permissions requested versus the permissions granted were aligned, or whether the permissions requested were appropriate for the user's role.</p> <p>Risk</p> <p>User access may not be appropriately aligned to job role requirements which may lead to inappropriate access within the application or underlying data.</p>	<p>It is recommended that the Council ensure that all requests for user permissions are specifically defined in the new user creation form in order to provide a suitable audit trail.</p> <p>Management response</p> <p>The front-end user would have little knowledge of the back-office roles. The roles would be assigned by systems admin based on the requested team and job title on the request form. A new user request form is in development that will ensure the requester has sufficient knowledge of the roles the new user will be assigned to.</p>

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Page 38	<p>Lack of controls over user access amendments within Altair and Agresso application</p> <p>Altair: For a sample user, we noted that the existing user access request via email does not define the specific access rights that should be assigned to the user. This lack of information made it difficult to verify the appropriateness of user's access to the new access role.</p> <p>Agresso: For a sample user, we noted that the existing user access new request was not approved by appropriate Line manager as described in the Agresso user form. However, we noted that the existing user access request was approved by an appropriate user from the Budget team and access was provided by Financial Systems Team.</p> <p>Additionally, it was noted that there was system limitation to obtain the access modification date from the Agresso system which made it difficult to identify the date when the access was modified within the system to verify that the access was granted in the Agresso system after the access requested was approved.</p> <p>Risk</p> <p>User access may not be appropriately aligned to job role requirements and may lead to inappropriate access being gained to the application and/or inappropriate changes being made to underlying data.</p>	<p>It is recommended that the Council should develop formal user access management procedures to ensure activities are consistently performed, logged and monitored.</p> <p>Where user access is modified, Council should proactively review existing user access prior to additional access rights being granted. This should ensure only access required for the user's new role remains assigned and that no segregation of duty threats are created.</p> <p>It is also recommended that Council ensure that all requests for user permissions are specifically defined in the user amendment form in order to provide a suitable audit trail.</p> <p>Management response</p> <p>In Altair a new user form will be adapted to revise the process and further define access rights that should be assigned to the user.</p> <p>In Agresso it is noted that on this one occasion the line managers approval was not sought. Staff will be reminded of this within the financial systems team and budget reporting team.</p> <p>The access modification date is available within Agresso, but you would need access to amendment logging and the knowledge of how to interrogate the database to retrieve this information. It is available and can be reported on, but non privileged users can't see this.</p>
	<p>Lack of review of security/audit logs in Agresso</p> <p>It was noted that whilst security/audit logs are enabled in Agresso, they are not proactively monitored or reviewed.</p> <p>Risks</p> <p>Without formal and routine reviews of security event logs, inappropriate and anomalous activity may not be detected and resolved in a timely manner.</p>	<p>It is recommended that security/audit event logs are reviewed on a regular basis for example daily or weekly, ideally by an IT security personnel/team who are independent of those administering Agresso. Any issues identified within these logs should be investigated and mitigating controls implemented to reduce the risk of reoccurrence.</p> <p>Management response</p> <p>Key alerts are already set up on Agresso and are called intel agents and are ran automatically for things such as amendments to Bank accounts, pay runs. Which are reviewed externally. These intel agents will be reviewed.</p>

B. Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Pension Fund's 2020/21 financial statements, which resulted in one recommendation being reported in our 2020/21 Audit findings report. We are pleased to report that management have implemented all of our recommendations.

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Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	At the time of concluding our audit of the Fund for 2019-20, we were alerted to a breach of the Fund's requirement to submit pension savings statements. Whilst this was not reported in 2019-20, we recommended that management ensure there were no further breaches through late submissions of statements. We confirmed at the time that there were no breaches during 2020-21.	We followed up on the previous breaches and identified that there have been no significant breaches identified in 2021/22.

- Assessment**
- ✓ Action completed
 - x Not yet addressed

C. 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 above trivial for the year ending 31 March 2022.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
General amendments to presentation, grammar, rounding and typographical errors were made in various areas of the accounts.	We brought these to the attention of management, who adjusted most of these errors.	✓
Our testing of Note 9 identified that Cash Deposits Purchases at Cost, Sales Proceeds and Change in Market Value were calculated using the 20/21 purchases and sales report not 21/22. The values were adjusted by the following amounts: Purchases at Cost: £286,461k Sales Proceeds: £249,288k Change in Market Value -£37,173	We recommended that management adjust for the error, which they did.	✓

C. Audit Adjustments

Misclassification and disclosure changes continued

Disclosure omission	Auditor recommendations	Adjusted?
<p>Note 9 disclosure was updated for the property pooled investments disclosure as the draft disclosure did not include the Unitised Insurance Policies.</p> <p>The values were adjusted by the following amounts:</p> <p>Purchases at Cost: £575,000k</p> <p>Sales Proceeds: £574,903k</p>	We recommended that the note was updated and management appropriately adjusted for the omission.	✓
<p>In the Fund's draft financial statements, Note 25 incorrectly included Aramark Limited - South Gloucestershire and Stroud College as an employer however they are no longer an admitted body of the fund.</p>	This was included as the fund were not notified of their leaving until after the accounts were produced. We recommended the note was updated and management	✓
<p>Our testing of the draft Derivatives Note (Note 10) identified the following errors:</p> <p>Transposition errors between currency bought and currency sold for those Instruments with a settlement date of 6-12 months.</p> <p>Misclassification of some investments as having a settlement date of within one month of year end, when in fact they had a settlement date of 28/04/23, which is >1 year.</p>	Client agreed this was a mistake and amended the disclosure. The net value of derivatives was unchanged. The note was adjusted to remove £77m bought, £101m sold and £257k net gain out of the GBP to USD less than one month line to create a new line in the table.	✓
<p>Our contributions testing identified some reconciliation differences between monthly i-connect payroll listings and transaction listing for employee contributions. The total difference was £3.5m.</p>	The differences have not been adjusted for as their cause is unknown.	✓
<p>The sensitivity of assets valued at Level 3 which was disclosed in the draft version of Note 24 included incorrect calculations. The 'Property' and 'Fund of Hedge Funds' 10% value on increase and 10% value on decrease were incorrectly stated.</p>	We recommended that these were adjusted and management processed the amendment.	✓
<p>In the draft version of Note 24, we identified that the pooled investments title had slipped below the Equities line.</p>	We recommended that this was adjusted for clarity of disclosure, and management processed the amendment.	✓

C. Audit Adjustments



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Impact of estimation differences

The table below provides details of estimation differences identified during the 2020/21 audit which have not been adjusted within the final set of financial statements.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Testing of Level 2 investments identified a potential understatement of the estimate	9,289	9,289	9,289	Amount is not an error, but estimation difference
Testing of Level 3 investments identified a potential overstatement of the estimate	-8,640	-8,640	-8,640	Amount is not an error, but estimation difference
Overall impact	£649	£649	£649	

Impact of prior year unadjusted misstatements

There were no unadjusted misstatements in the prior period.

D. Fees

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

Audit fees	Proposed fee	Final fee
Pension Fund Audit Scale Fee	22,180	22,180
Additional Fees previously raised*	19,475	19,475
Additional Fees:		
Reconciliation issues: benefits, Purchases & Sales		5,000
Prior period Adjustment discussions		2,500
Difficulty obtaining IT evidence		1,000
Derivatives		3,500
Total audit fees (excluding VAT)	£41,655	£53,655

*Additional fees previously raised relate to those included in the prior period and are as a result of increased requirements of the regulator, new ISAs and new audit approaches.

Non-audit fees for other services	Proposed fee	Final fee
IAS 19 work	7,000	12,000
Total non-audit fees (excluding VAT)	£7,000	£12,000

Reconciliation of Audit Fees to Financial Statements

The Fund disclosed Audit Fees relating to 2021/22 of £41,655 in it's statements (included within the Audit Fee note as part of External and internal Audit costs).

Our proposed fees for 2021/22 are £53,655.

The difference of £12,000 relates to the proposed additional fees included in this report.

The Fund disclosed Audit Related Fees for 2021/22 of £7,000 in it's statements.

Our proposed fees for 2021/22 are £12,000

The difference of £5,000 relates to the proposed additional fees included in this report.

The proposed fees for our IAS 19 letters of assurance to admitted body auditors has increased by £5,000 since planning. This reflects the additional work undertaken this year to enable us as the Pension Fund auditor to respond to the increased number of areas for assurance sought by the admitted body auditors. We anticipate these higher fees to continue going forward.

Bath & North East Somerset Council			
MEETING:	Pension Board – Avon Pension Fund		
MEETING DATE:	8 th December 2022	AGENDA ITEM NUMBER	
TITLE:	Internal Audit Update		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report:			
Appendix 1 – Pensions Payroll			
Appendix 2 – COP14, Maintaining Contributions & Member Information			

1 THE ISSUE

- 1.1 The purpose of this report is to provide an update on Internal Audit activity since the last report to the Pension Board on 21st September 2021.
- 1.2 The report and its appendices are important for the Board to consider in the context of their understanding of the performance and management of the fund.

2 RECOMMENDATIONS

- 2.1 The Pension Board is asked to note the report and outcomes of the Internal Audit work carried out on the Avon Pension Fund.

3 THE REPORT

2021-22 & 2022-23 Internal Audit Work

- 3.1 Internal Audit provides independent assurance that the Avon Pension Fund's (APF) risk management, governance and internal control processes are operating effectively. To do this, we schedule an annual programme of internal audits of APF governance and operations. The areas we review are identified from our annual internal audit planning process used to assess risks to the Pension Fund.

- 3.2 Since the last Internal Audit update report presented to the Pension Board on 21st September 2021, we have issued three reports (two of the reports are attached as appendices to this report).

Audit	Assurance Opinion	Appendix
1. Pensions Payroll	Substantial	1
2. COP14, Maintaining Contributions & Member Information	Substantial	2
3. APF Cyber Essentials	N/A – Briefing Paper	

- 3.3 In terms of the two 'Assurance Reports' (Pensions Payroll & COP14) there weren't any significant weaknesses reported and a 'Substantial Assurance' rating was assigned. Internal Audit have also issued a 'Briefing Paper' on Cyber Essentials which is scheme providing a baseline level of cyber security controls and measures.
- 3.4 Based on the Pension Fund reliance on IT systems and data, cyber security is a significant risk and it is important that the Pension Board are provided with assurance that the risks are being managed and a robust control framework is in place. The APF Cyber Essentials briefing paper will be a separate item on this Pension Board's meeting agenda.

4 STATUTORY CONSIDERATIONS

- 4.1 There are no specific statutory considerations related to this report. Accounts & Audit Regulations set out the expectations of provision of an Internal Audit service. This is supported by S151 of the Local Government Act and CIPFA Codes of Practice and the IIA professional standards for delivery of an adequate Internal Audit Service.

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

- 5.1 There are no direct resource implications relevant to this report.

6 RISK MANAGEMENT

- 6.1 A proportionate risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision-making risk management guidance. Significant risks to the Pension Fund arising from an ineffective Internal Audit Service include lack of internal control, failures of governance and weak risk management. Specific risks include supplementary External Audit Fees and undetected fraud. Internal Audit provides assurance and assists the Pension Fund in identifying risks, improvement areas and recommending good practice.
- 6.2 The Pension Fund has specific responsibility for ensuring the Pension Fund's Risk Management and Financial Governance framework is robust and effective.

7 EQUALITIES

7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

8 CLIMATE CHANGE

8.1 There are no direct climate change implications related to this report.

9 OTHER OPTIONS CONSIDERED

9.1 No other options to consider related to this report.

10 CONSULTATIONS

10.1 The Council's Section 151 Officer has had the opportunity to input to this report and has cleared it for publication.

Contact person	Andy Cox (01225 477316) / Tariq Rahman (01225 477256)
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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Internal Audit Report
Confidential

Avon Pension Fund (APF)
Pensions Payroll

September 2021

Executive Summary

Audit Opinion:

Assurance Rating	Opinion
Level 5 - Full Assurance	The systems of internal control are excellent with a number of strengths, no weaknesses have been identified and full assurance can be provided over all the areas detailed in the Assurance Summary.
Level 4 - Substantial Assurance	The systems of internal control are good with a number of strengths evident and substantial assurance can be provided as detailed within the Assurance Summary.
Level 3 - Reasonable Assurance	The systems of internal control are satisfactory and reasonable assurance can be provided. However, there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan.
Level 2 - Limited Assurance	The systems of internal control are weak and only limited assurance can be provided over the areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the levels of risk exposure.
Level 1 - No Assurance	The systems of internal control are poor, no assurance can be provided and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure.

Assurance Summary:

Assessment	Key Control Objectives
Good	Management reporting is relevant, accurate and timely.
Good	Statutory returns are compiled accurately and submitted by deadline dates.
Good	Payments are accurate, timely and only made to eligible recipients.
Good	Payments and related information are accurate and sent to external organisations on a timely basis.
Good	Payroll reconciliations are undertaken regularly with the main financial system.
Good	System access is appropriately restricted.

Detailed Report

Opinion

Internal Audit has undertaken a review of the controls over the Avon Pension Fund (APF) Pensions Payroll. The framework of internal controls has been assessed and given an assurance rating of “**Substantial Assurance**”. A total of five audit recommendations are detailed in the Action Plan.

Scope and Objectives

The scope and objectives of our audit were set out in the Audit Brief and a summary of our opinion against each of the specific areas reviewed has been detailed in the Assurance Summary section above.

Context & Audit Comment

B&NES Council administers the Avon Pension Fund on behalf of approximately 464 employing bodies mostly situated in the former Avon County Council area. The four unitary councils account for circa. 50% of the contributing members. The total number of scheme members as at 31 March 2021 was 125,322, of whom 31% were contributors, 28% were pensioners, 34% deferred pensioners & 7% undecided leavers.

There are 89 Councils which administer the Local Government Pension Scheme (LGPS) in the United Kingdom and the Avon Pension Fund is one of the larger funds, with circa £4.5bn value.

The Local Government Pension Scheme (LGPS) is a statutory scheme, with all benefits guaranteed. The LGPS provides pensions based on final salary for service until 31 March 2014 and on Career Average Revalued Earnings (CARE) for service accruing from 1 April 2014.

The B&NES Member Services and Pensions Payroll teams are responsible for the enrolment, calculation, payment, financial reconciliations, and overall management of pension salaries to retired members of the Avon Pension Fund (APF).

The APF Pensions Payroll service has seven payroll interfaces that are reconciled into the main Payroll system and these are:

- 901 – Officers (main run)
- 903 - Fire Brigade
- 999 – Fire, other schemes
- 904 - Manuals
- 975 - Teachers
- 977 - Teachers
- 976 - Crombie

Payroll reconciliations are completed on a weekly and monthly basis, with separate weekly and monthly control accounts carried out to verify the financial totals. The audit review covered all seven payroll interfaces, payroll reconciliations and all major functions of the Pensions Payroll process.

Overall, the control framework in place and operating for the management of the Pensions Payroll was found to be effective. Good practice was apparent in several areas reviewed and these are detailed in the section below.

We identified the following strengths:

- There are good checks and measures in place over missed pay runs and overpayments. These include: clear timelines for processing, review and sign off on all calculations and an error report triggered by missed BACS pay runs. To date, this error report has not been required as no pay runs have missed deadline.
- Payments to members are consistently accurate and occur within the allocated timeframe for both ad-hoc payments and the monthly Pensions Payroll.
- Monthly and annual returns to HMRC are checked by a senior accountant and independently verified before the payment is made.
- For April 2020 to date (August 2021), all parameter data and tax rates have been updated correctly. Controls for this area include an independent check before senior authorisation for all updates.
- The National Fraud Initiative data, alongside internal reporting, is regularly reviewed and to date no fraudulent activity has been identified.
- For the financial year 2020/21, imbalances and exceptions on monthly payroll BACS runs and all rejected payments have been investigated and resolved in full. For the financial year 2021/22 to date, 90% of these have been investigated and resolved. The remainder (10%) are more recent and are awaiting responses from members.
- New retirees are added to the payroll system accurately and in a timely manner. All new retiree pension details are checked and then independently authorised by a senior officer before pension scheme payments start.
- A new retiree's identity is verified before pensions scheme payments begin.
- Payroll reconciliations are undertaken completely, accurately and on a timely basis, in line with all associated documented procedures.
- There is a separation of duties in place between making BACS payments and processing payroll amendments.
- The Pensions Payroll system is known as Altair and it holds a full audit trail of all member details and records.
- When amendments are made to member records, two pension staff are involved in the process (one staff to action the amendment and another to check that member details have been amended accurately).
- System access to Altair is properly authorised for all users and access is appropriate for officer roles and responsibilities.
- All payroll system users have unique usernames, log in details and passwords.
- Altair payroll system access levels are reviewed routinely, with any anomalies investigated and resolved. The Altair users' list is up to date with no duplications and all users have a unique Journal Reference, unique Email and a National Insurance number recorded.
- The National Insurance number of each user is utilised by Altair as a safety measure to ensure that pension staff cannot edit their own details on the payroll system.

We identified the following weaknesses

- Comprehensive Policies and Procedures for Pensions Payroll are in place, but these have not been reviewed and updated on a regular basis, some documents have not been reviewed since 2014.
- Monthly exception reports do not include a check of multiple payments to the same bank account, instances of which may be an indicator of error (duplicate payments or potentially fraudulent activity).
- The monthly and year-end payroll reconciliation adopted procedures do not require formal check and approval by a qualified senior officer.
- The Pension Fund relies on the gov.uk “Tell us Once Service” and the biennial National Fraud Initiative to identify non-declared deceased pensioners. There is a requirement to notify the Pension Fund of the death of a member but for a number of reasons the death may not be reported.
- Altair does not force a two person check on member detail amendments. It is recognised that a two-person manual check is currently a process conducted by the two members of the team, but this is an unrealistic task when staff are not office based.

Audit & Risk Personnel

Auditor: Alec Austin

Audit Manager, IT and Finance: Tariq Rahman

Head of Audit: Andy Cox

Acknowledgements

Sincere thanks to Sally Brewer, Anna Capp, Matt Williams, David Richards, Hannah Dawson, Vicky Brasier and Marc Goodman for all their help and assistance throughout the Audit Review.

Internal Audit Report – APF – Pensions Payroll – 21-027B

Action Plan

MEDIUM RISK EXPOSURE				
	Weakness Found	Implication of Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
M1	Policies & Procedures Comprehensive Policies and Procedures for Pensions Payroll are in use by staff, but these are not reviewed and updated on a regular basis.	Policies & procedures used to guide / train staff are out of date and actions / checks etc are not carried out or not carried out in line with 'best practice'.	Senior APF Officers should ensure that policies & procedures are: - reviewed on an annual basis to ensure that the information contained within is accurate, relevant, and importantly up to date. - version controlled to record document updates e.g. date of review.	Agreed Implementation Date: 1 st Feb 2022. Responsible Officer: Member Services Manager, Anna Capp.
Page 54 M2	Member Detail Amendments As home working becomes the new normal, the current manual two person check on member amendments is not feasible since staff are not office based to receive, review and sign documentation.	Inadequate audit trail.	Altair system parameters should be investigated to determine whether workflows can be created that would force two persons to be involved in the member detail amendment process - one system user to action the amendment and another user to check and authorise that member details have been amended accurately.	Agreed Implementation Date: 1 st April 2022 Responsible Officer: Pensions Payroll Team Leader, Sally Brewer.
M3	Payroll Exception Reporting Exception reports are generated for all pay runs to identify issues which could result in payments being processed in error. However, checks to detect multiple payments to the same bank account are not carried out as part of the suite of exception reports.	The APF may incur a financial loss.	The Pensions Payroll Team Leader should investigate whether it is possible to generate an exception report or carry out a basic data analytics routine to identify multiple payments in a single payment period to the same bank account. If it is possible, these checks should be carried out with the same frequency as the other existing exception reports.	Agreed Implementation Date: 1 st Feb 2022. Responsible Officer: Member Services Manager, Anna Capp. Comments: Request to be made to software provider, Heywood, to ascertain if functionality for reporting is possible.

Action Plan

LOW RISK EXPOSURE				
	Weakness Found	Implication of Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
L1 Page 55	Payroll Reconciliation Authorisation The monthly and year-end payroll reconciliations adopted procedures do not require formal check and approval by a qualified senior officer.	Financial statements could be mis-stated if accounting errors are not identified and corrected.	The Pensions Finance and Systems Manager should review and approve the payroll reconciliation figures before the amounts are reconciled in Agresso and a record of these checks should be retained.	Agreed Implementation Date: 1 st October 2021. Responsible Officer: Finance & Systems Manager (Pensions), David Richards. Comments: Each reconciliation is given its own URN within Agresso once reconciled. A screen shot of the reconciled items will be saved and filed with authorisation
L2	Deceased Pensioners The Pension Fund relies on the gov.uk "Tell Us Once" service and the biennial National Fraud Initiative to identify non-declared deceased pensioners. There is a requirement to notify the Pension Fund of the death of a member but for a number of reasons the death may not be reported.	APF may incur a financial loss and recovery action, following identification of overpayments, will incur costs to the Pension Fund.	The Pensions Payroll Team Leader should investigate potential data sources that could be combined with data analytical tools to ascertain the deceased status of pensioners. On an annual basis, the Pensions Payroll Team Leader should contact retirees over a specified age (determined by the APF) and confirm that they are still eligible for a pension. Where no response is received, and DWP and/or	Agreed Implementation Date: 1 st Feb 2022. Responsible Officer: Member Services Manager, Anna Capp. Comments: A contract is in place for mortality checking, but the current Council IT infrastructure does not support the application.

Internal Audit Report – APF – Pensions Payroll – 21-027B

			Tell Us Once hold no up to date records, consideration should be given to suspending the account pending further investigation.
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**Internal Audit Report
Confidential**

**Avon Pension Fund – Pensions
Governance Code of Practice
(COP14) – Maintaining
Contributions and Member
Information**

July 2022

Executive Summary

Audit Opinion:

Assurance Rating	Opinion
Level 5 - Full Assurance	The systems of internal control are excellent with a number of strengths, no weaknesses have been identified and full assurance can be provided over all the areas detailed in the Assurance Summary.
Level 4 - Substantial Assurance	The systems of internal control are good with a number of strengths evident and substantial assurance can be provided as detailed within the Assurance Summary.
Level 3 - Reasonable Assurance	The systems of internal control are satisfactory and reasonable assurance can be provided. However, there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan.
Level 2 - Limited Assurance	The systems of internal control are weak and only limited assurance can be provided over the areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the levels of risk exposure.
Level 1 - No Assurance	The systems of internal control are poor, no assurance can be provided and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure.

Assurance Summary:

Assessment	Key Control Objectives
Satisfactory	1. Records are complete and accurate, and managed in-line with regulatory requirements.
Good	2. Payments of contributions are effectively monitored to identify late or failed payments, in a timely manner.
Excellent	3. Late payments are properly assessed and reported to the regulator, where appropriate.
Excellent	4. Timely and complete benefit statements are provided to members.
Excellent	5. Comprehensive information is made available to members and other relevant persons, and compliant with regulatory requirements.

Detailed Report

Opinion

Internal Audit has undertaken a review of the risks and controls related to Avon Pension Fund – Pensions Governance Code of Practice (COP14) – Maintaining Contributions and Member Information and assessed the framework of internal control at Level 4 – Substantial Assurance. A total of 6 audit recommendations are detailed in the Action Plan.

Scope and Objectives

The scope and objectives of our audit work were set out in the Audit Brief and a summary of our opinion against each of the specific areas reviewed has been detailed in the Assurance Summary section above.

Context & Audit Comment

The Public Services Pensions Act 2013 (the 2013 Act) is the primary legislation introduced by the government to provide greater transparency, simplicity and certainty around Public Sector Pensions. The 2013 Act introduced new governance arrangements for public sector service pension schemes. Regulatory oversight is provided by The Pensions Regulator (TPR). The 2013 Act permits TPR to issue Codes of Practice (COP) in relation to public service pension schemes.

Through the Codes of Practice, TPR gives practical guidance to scheme managers on how to comply with the legal requirements of pensions regulation. As of May 2022, there are 15 COPs that provide guidance over a wide range of topics, including breach reporting, trustee knowledge and governance and administration. TPR has issued a draft new Single Code of Practice, which sets out proposed new governance standards for pensions schemes and will be a consolidation of 10 out of the 15 existing COPs, as well as a significant update and extension of the existing codes. The Single Code of Practice is expected to come into force by the summer of 2022.

The current COP14 is particularly directed at scheme managers and the members of pension boards of public service pension schemes and connected schemes. Scheme managers must comply with various legal requirements relating to the governance, management administration of public service pension schemes. Pension boards must also comply with certain legal requirements, including assisting scheme managers in relation to securing compliance with scheme regulations and other legislation relating to the governance and administration of the scheme, any requirements of the regulator and with any other matters specified in scheme regulations.

The Avon Pension Fund (APF) administers the Local Government Pension Scheme (LGPS) for over 440 employers and over 120,000 members in the former Avon area. Employers include local unitary councils, universities, academies, town and parish councils, housing associations and charities. The fund is administered by Bath & North East Somerset (B&NES) Council, who are legally responsible for the fund. The Council delegates its responsibility for administering the fund to the Avon Pension Fund Committee, which is its formal decision-making body.

The current audit has been conducted as part of the 2021/22 Internal Audit Plan. The audit scope has focused on the Administration aspects of the COP14, particularly: maintaining contributions and providing information to members. The audit scope did not extend to any other elements of the COP14.

This audit was last conducted in the 2018/19 Internal Audit Plan, where the Audit Opinion was also “Level 4 – Substantial Assurance”. Of the five risks that were reviewed as part of the audit scope, four have either received the same assessment or improved. Controls to ensure that payments of contributions are effectively monitored to identify late, or failed payments have deteriorated from the previous “Excellent” rating but remain assessed as “Good”.

The APF’s controls around providing information to members, such as Annual Benefit Statements (ABS) and ad-hoc requests, such as Subject Access Requests (SARs), remain robust. Information is provided to members in a timely manner and there are adequate controls in place to ensure completeness and quality. It was also observed that on the isolated occasions when the deadline for a SARs was missed, there was timely remediation through staff training and procedure updates. Additionally, whilst the controls to monitor for late or failed payments could be further improved, the APF continues to proactively monitor and take action with employers. Consequently, there have been no reportable breaches to TPR.

In respect of payment monitoring, it was observed that improvements have been made to the payment monitoring spreadsheets, since the previous audit. No concerns were noted with the completeness of the spreadsheet or follow-up actions taken by the team. However, payment monitoring can be further improved through introducing appropriate End-User Computing controls, such as password protection and cell lockdown for key formula.

The APF continues with its programme to migrate employers to using i-Connect for submission of pensions contribution data. At present, around 60% of employers have been migrated to i-Connect, accounting for approximately 80-85% of the total membership base. The APF anticipates that all employers will use i-Connect for data submission by the end of 2023. Controls around i-Connect monitoring have improved since the previous audit, notably that automated tolerance

Internal Audit Report – Avon Pension Fund – COP14 Maintaining Contributions & Member Information – 21-024B

checks have been introduced. The tolerance checks prompt the Employer Services team to query data outside of the defined tolerance bands directly with the employer. However, further improvements are required to ensure that adequate records of any follow-up enquiries and the outcomes are retained for accountability purposes.

The audit also identified that the APF is currently unable to recertify user access to Globalscape, which is used by the APF to securely transfer data between the APF and employers. Whilst it is noted that Globalscape is an application used across the Council and managed by the Council's IT Services on behalf of the APF, the absence of any recertification process may mean that any incorrect access may not be identified and remediated in a timely manner and increase the risk of personal data breaches.

We identified the following strengths:

- The APF has in place a Pension Administration Strategy and a Personal Data Retention Policy, which covers its records retention and personal data protection practices, in-line with COP14 requirements.
- Automated tolerance checks are in place to identify any material variances in data from the previous month's submission, and act as a prompt for Employer Services to query discrepancies with employers in a timely manner.
- Employer Services maintains an accurate record of employers' authorised contacts, from whom they are permitted to accept instruction. Authorised contacts are notified to Employer Services via an LGPS53 or LGPS53A form, which is retained on the file of the employer.
- User access to Altair, i-Connect and ESS was found to be appropriately assigned to current staff members or the employers' authorised contacts, and commensurate with expected job roles. Altair, i-Connect and ESS are key systems used by the APF in administering pensions.
- The Avon Pension Fund (APF) Accounts team performs monthly monitoring to check that incoming contribution payments are accurate against the expected contributions to be paid and that payments are not late or missing.
- The Avon Pension Fund's late payment procedures are documented in the APF's Pension Administration Strategy Statement, which outlines the scenarios when financial penalties may be issued or reporting take place to the regulator. The Accounts team also has a procedure which gives them guidance on when to escalate missing payments to the Team Manager, for consideration for reporting to The Pensions Regulator.
- Reporting of late or failed payments to The Pensions Regulator takes place where documented materiality thresholds are breached. No cases were identified in testing which would warrant escalation.
- Annual benefit statements are issued annually to active and deferred members, in-line with statutory requirements.
- The production of Annual Benefit Statements for Active and Deferred members is governed by a robust Quality Assurance (QA) process to ensure that the Annual Benefit Statements are produced in-line with statutory requirements.
- The Avon Pension Fund's Communication Policy Statement complies with COP14 requirements and details who it will provide information to, what information will be provided, the frequency and how information will be

Internal Audit Report – Avon Pension Fund – COP14 Maintaining Contributions & Member Information – 21-024B

provided. In addition, there is clear communication to members regarding how they can change their communication preferences.

- The Governance & Risk Advisor monitors incoming Subject Access Requests (SARs) and Freedom of Information requests (FOIs) to ensure that the APF complies with regulatory timeframes to fulfil requests. Internal Audit verified that remedial actions have been taken on the isolated occasions where an error has occurred.
- The APF monitors regulatory and legal sources to ensure that key information is communicated to members and employers, in a timely manner. A log is maintained of all communications that take place via e-mails, newsletters and the APF's websites.

We identified the following weaknesses:

- The Personal Data Retention Policy has not been reviewed annually, in-line with the APF's stated review frequency. However, the review is already scheduled to take place in the 2022/23 financial year.
- Employer Services does not always retain adequate record of contribution data submission queries sent to employers, or that data submissions were received from an authorised contact at the employer or Payroll Provider.
- Employer Services does not always retain adequate evidence that Year End Declarations have been received from employers, to attest to the completeness and accuracy of their pensions' contribution data.
- The APF uses Globalscape for the secure transfer of files between themselves and external parties, such as employers. Whilst Globalscape is managed by B&NES Council's IT Services on behalf of the APF, nonetheless, Globalscape does not have a user access reporting facility and consequently, the APF is unable to gain assurance that user access is current and appropriate, on a periodic basis.
- There is no formal review and sign-off of the monthly payment monitoring process by the team manager, on a monthly basis. Consequently, errors may not be detected until the manager reviews as part of the quarterly updates to the Pension Board.
- The spreadsheet used to monitor for missing and late payments is not password-protected, and key formula used for look-ups and calculations are not locked to prevent accidental or deliberate changes.
- There is a lack of Key Performance Indicators (KPIs) to monitor compliance with SARs and FOIs reporting timescales.

Audit & Risk Personnel

Lead Auditor: Samantha Cheung

Acknowledgements:

Sincere thanks to Geoff Cleak, Claire Newbery, Anna Capp, David Richards, Jason Morel, Carolyn Morgan and all service staff for their help and assistance provided throughout the Audit review.

Internal Audit Report – Avon Pension Fund – COP14 Maintaining Contributions & Member Information – 21-024B
Action Plan

MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
M1	<p><u>Payment Monitoring Enhancements</u></p> <p>There is a lack of formal manager review and sign-off by a team manager for the monthly incoming payment monitoring control. At present, the team manager only conducts a formal review as part of the quarterly reporting process to the Avon Pension Fund's (APF) Pension Board. Consequently, errors may not be detected for up to three months.</p> <p>In addition, the Moving Totals and Contributions spreadsheets are used to monitor for missing or late payments, but these are not password-protected. The Contributions spreadsheet is set to read-only by default. However, key formulae in the spreadsheets, which are used for look-ups and calculations are not locked to prevent accidental or deliberate changes. Further, Internal Audit review identified an error where a look-up formula appeared to apply</p>	<p>Inadequate monitoring for late or missing payments may result in the non-timely detection of employer failures, and lead to a delay in reporting to The Pensions Regulator.</p>	<p>The APF should enhance its payment monitoring procedures to include:</p> <ul style="list-style-type: none"> • Team Manager review and sign-off of the monthly monitoring; • Password controls over the monitoring spreadsheets, with passwords changed on a regular basis and only shared with team members who require access. • Review of the key Excel formula used and introduction of cell protection to reduce risk of accidental or deliberate changes. 	<p>Agreed</p> <p>Responsible Officer: Finance & Systems Manager (Pensions), David Richards</p> <p>Implementation Date: 31st August 2022</p>

	<p>incorrect Multi-Academy Trust (MAT) or Group Codes, although this error did not have a material impact on the accuracy of the payment monitoring.</p> <p>Internal Audit sample testing of the payment monitoring controls did not detect any other errors.</p>		
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MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
M2	<p><u>Employer Data Submissions Monitoring</u></p> <p>Although it is the employers' responsibility to ensure that data submitted to the Avon Pension Fund (APF) is complete, accurate and timely, the APF Employer Services team monitors data submissions to support employers with early detection of errors. However, evidence that queries have been raised with the employers' is not always retained. Consequently, it may not be possible to determine accountability in the event of a complaint.</p> <p>From a random sample of 19 employer data submissions, the following was noted:</p> <ul style="list-style-type: none"> For 10 cases, insufficient evidence was retained to demonstrate that Employer Services had followed-up tolerance breach queries or missing data submissions with the employer in a timely 	<p>Member data errors may not be identified and remediated in a timely manner.</p>	<p>APF Employer Services should review and enhance its procedures so that there is:</p> <ul style="list-style-type: none"> Adequate records to demonstrate that queries were followed-up with the employer, including who they contacted (e-mail / telephone), when contact took place, the outcome and any follow-up actions that need to take place; and Verification that manual data submissions are received from authorised employer contacts. 	<p>Agreed</p> <p>Responsible Officer: Employer Services Manager,</p> <p>Implementation Date: 31st March 2023</p> <p>Management Comment:</p> <p><i>In certain circumstances data has been verified via a phone call or email and subsequently not fully evidenced against the data submission.</i></p> <p><i>APF are going through a period of change and data validation & monitoring processes will be reviewed, confirmed and documented as part of the Digital Services team set up.</i></p>

	<ul style="list-style-type: none">• In 2 cases, where member data was submitted manually, it was not possible to confirm that the employers' data submission was received from an authorised employer contact.			
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Internal Audit Report – Avon Pension Fund – COP14 Maintaining Contributions & Member Information – 21-024B

MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
M3	<p><u>Globalscape User Recertification</u></p> <p>User access reports cannot be extracted from Globalscape. These reports support key controls such as periodic user access recertification, which enable the organisation to identify and remediate cases of users with inappropriate access or who have left.</p> <p>Globalscape is an application used by the Council to facilitate secure transfer of files between Council service areas and external parties. The Avon Pension Fund (APF) is one of the service areas that utilises Globalscape to enable employers to securely transfer pension data.</p> <p>Users are set-up with access to specified folders for each employer. However, the absence of user access reports may result in the APF being unable to verify that access is restricted to the appropriate folders.</p>	<p>Personal and confidential data may not be adequately restricted to authorised individuals, resulting in a data breach.</p>	<p>The APF should escalate to IT Services the need to conduct a risk assessment for Globalscape. The risk assessment should seek to determine if user access reporting can or should be implemented to facilitate periodic user access recertification, and document any mitigating controls in place to reduce risk.</p>	<p>Agreed</p> <p>Responsible Officer: Financial Systems Manager, John Hewlett and Employer Services Manager, Yolanda Dean</p> <p>Implementation Date: 31st March 2023 (subject to collaborative support from B&NES IT)</p> <p>Management Comment:</p> <p>APF Management have raised the recommendation with B&NES IT.</p> <p>APF Action</p> <p>Review current i-Connect employer portal and explore what alternative options there might be.</p> <p>Review authorised contacts and will liaise with B&NES IT to consider other options available to</p>

	<p>In partial mitigation, the APF Pensions Data Quality Team and the authorised employer contacts receive an automatically generated notification from Globalscape, when a file is uploaded or downloaded. The notification includes the name of the person performing the file transfer, the name of the file and the folder that the file is being transferred in / out of. The mailbox is monitored daily, and e-mail notifications are retained on the S Drive. In the event that an unauthorised person accesses a file, the APF retains records to determine accountability and when such an event occurred.</p>			<p>reconcile authorised users.</p> <p>IT Management Comment:</p> <p><i>B&NES IT do not have the Globalscape Reporting Tool as it's an additional cost for the software. Attempts to extract the user access reporting data internally have been unsuccessful. The service support company would require development costs to produce a basic script to enable information to be gathered.</i></p> <p><i>Audit have previously agreed with B&NES IT that the current process which provides users with email alerts was sufficient.</i></p> <p>IT Audit Comment:</p> <p>The IT landscape has changed considerably in the last 2-3 years, particularly with increased remote and hybrid working amongst Council staff. Changing technologies and external threats, such as zero-day cyber security</p>
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				risks, will have an impact on the effectiveness of existing mitigating controls for Globalscape. Consequently, as per the above action, APF should review the internal controls for Globalscape to determine whether the residual risk remains within risk appetite and look at alternative options.
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Internal Audit Report – Avon Pension Fund – COP14 Maintaining Contributions & Member Information – 21-024B

MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
M4	<p><u>Year End Declaration</u></p> <p>Employers are required to complete a Year End Declaration on an annual basis to attest that their payroll and member data is complete and accurate.</p> <p>In 2 out of a random sample of 10 employers, no evidence was provided that Employer Services had received the Year End Declaration from the employer in a timely manner.</p> <p>Per the Avon Pension Fund's Pensions Administration Strategy Statement 2019 (the Strategy), fines may be issued to employers when there is late or inaccurate submission of data or late payment of contributions. Additional charges extend to late return of data at year end, excessive queries or data submitted in the wrong format. Currently, employers are not penalised for non-return of the Year End Declaration.</p>	<p>Member data may not be complete and accurate, leading to errors in the Annual Benefit Statement and potential regulatory sanction.</p>	<p>The APF should review and enhance procedures so that:</p> <ul style="list-style-type: none"> Follow-up queries relating to missing or late submission of year end data is retained for accountability purposes (including any decisions regarding penalty payments). <p>Alongside its planned review of the Pensions Administration Strategy Statement (the Strategy), which will be applied from the 2023/24 financial year, the APF should ensure that:</p> <ul style="list-style-type: none"> Employers are reminded of their data submission responsibilities; Employers are fully aware of the penalties for late submission and procedures that are in place for collection of charges (where the concerns are deemed a material breach); and The Strategy is clear on employers' responsibilities and deadlines for the Year End process, including the Year End Declaration. 	<p>Agreed</p> <p>Responsible Officer: Employer Services Manager, Claire Newbery</p> <p>Implementation Date: 31st March 2023</p> <p>Management Comment:</p> <p><i>As per APF PAS, employers are not fined for the non-receipt of a declaration. This will be reviewed as part of the Admin Strategy review in 22/23</i></p> <p><i>In addition, a process will be reviewed and implemented for the non-receipt of a declaration that does not have a detrimental effect on the members ability to receive an annual benefit statement.</i></p>

Internal Audit Report – Avon Pension Fund – COP14 Maintaining Contributions & Member Information – 21-024B

LOW RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
L1	<p><u>Personal Data Retention Policy</u></p> <p>The Personal Data Retention Policy has not been reviewed annually, in-line with the Avon Pension Fund's stated review frequency. The most recent update took place in November 2020.</p> <p>Testing of Subject Access Requests (SARs) did not identify any material issues. Whilst 2 cases out of a sample of 20 SARs and Freedom of Information Requests (FOIs) were identified where a response was not provided for a SAR within the 30 days stipulated by the GDPR, evidence was provided that training was subsequently provided to staff to address these issues.</p>	<p>The Personal Data Retention Policy may not adequately reflect material changes to data protection regulations including, but not limited to, the General Data Protection Regulation (GDPR).</p>	<p>The Personal Data Retention Policy should be reviewed to ensure that it remains fit-for-purpose and aligned to the GDPR. It is acknowledged that the review is part of the planned 2022/23 work schedule for the Governance & Risk Advisor.</p> <p>Following the review, training should be provided to APF team members who may be affected by material changes to the Policy.</p>	<p>Agreed</p> <p>Responsible Officer: Governance & Risk Advisor, Carolyn Morgan</p> <p>Implementation Date: 31st March 2023</p> <p><i>A review will be started over the coming months with the assistance of the Governance & Risk Officer, who has just started in her role.</i></p>

Internal Audit Report – Avon Pension Fund – COP14 Maintaining Contributions & Member Information – 21-024B

LOW RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
L2	<p><u>Subject Access Request & Freedom of Information Request Key Performance Indicators</u></p> <p>The APF does not have Key Performance Indicators (KPIs) in place to monitor compliance with regulatory timeframes to fulfil Subject Access Requests (SARs) and Freedom of Information requests (FOIs).</p> <p>Under the GDPR, organisations are required to respond to a SARs within one calendar month. The Freedom of Information Act (FOIA) requires public authorities to respond to requests promptly, and by the twentieth working day following the date of receipt of the request.</p>	<p>A lack of KPIs may result in trends in resourcing issues or training pertaining to GDPR or FOIA going undetected. As a result, statutory obligations may not be met.</p>	<p>As planned by the Governance & Risk Advisor, data protection processes and training should be reviewed and refreshed, where necessary.</p> <p>The Governance & Risk Advisor should liaise with Information Governance (Data Protection) to ensure appropriate KPIs are in place to enable APF Management to monitor compliance with statutory data protection obligations.</p>	<p>Agreed</p> <p>Responsible Officer: Governance & Risk Advisor, Carolyn Morgan</p> <p>Implementation Date: 31st March 2023</p> <p>Management Comment: <i>A formal review of KPIs is due to be undertaken as part of the Scheme Advisory Board's (SAB) Good Governance Review. SARs & FOIs will be considered as part of that review.</i></p>

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-1119067

Meeting / Decision: Avon Pension Fund – Pension Board

Date: 8th December 2022

Author: Andy Cox / Tariq Rahman

Report Title: Internal Audit APF Cyber Essentials Review

List of attachments to this report:

Exempt Appendix 1 – APF Cyber Essentials

The exempt appendix contains exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption:

3. *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the exempt appendix be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Pension Board wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item

believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

The exempt appendix contains information relating to cyber security that if disclosed into the public domain could prejudice the security of Council IT systems. Although the Council aims to be transparent and accountable to the public, we must ensure that we do not provide information which if disclosed into the public domain, could prejudice IT security. The Council operates the majority of its services with a high dependency on its ICT infrastructure. Many services operate almost exclusively via information on databases, and most officers use electronic systems in daily working. Any interruption of these systems, even for short period of maintenance, has considerable implications for the operational activity of services across the authority.

It is also important that the Pension Board should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that information regarding the report has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Bath & North East Somerset Council		
MEETING:	LOCAL PENSION BOARD - AVON PENSION FUND	
MEETING DATE:	8 December 2022	AGENDA ITEM NUMBER 7
TITLE:	Breaches Report	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 - Summary of Breaches Log Appendix 2 - Breaches Policy		

1. THE ISSUE

- 1.1. The purpose of this report is to update the Pension Board on the Fund's Breaches Policy, procedure for recording & reporting breaches, training carried out for Teams and breaches recorded in the last year.

2. RECOMMENDATION

- 2.1. That the Board notes the report.

3. FINANCIAL IMPLICATIONS

- 3.1. There are no direct implications related to the Pension Board in connection with this report.

4. REPORT

4.1. REGULATORY BREACHES

- 4.2. The introduction of the Pensions Act 2013 extended the powers of the Pensions Regulator (TPR) to public sector schemes from 1 April 2014. The Pension Regulator introduced the Code of Practice 14 for the administration of public sector schemes in 2015. This, amongst other things, addressed the issue of Regulatory Breaches and reporting requirements.
- 4.3. Regulatory breaches are breaches of the regulations or standards as set out in the Administration Strategy and if Material need to be reported to TPR as set out in the Breaches Policy (Appendix 2).
- 4.4. In addition to the requirement to report Material breaches to TPR, the Pensions Manager will formally report all breaches to the Avon Pension Fund Committee and the Pension Board on a quarterly basis, notifying the chairs of both of any significant issues as appropriate
- 4.5. In deciding whether a breach is likely to be of material significance to the Pensions Regulator, the following should be considered:

- cause of the breach;
- effect of the breach;
- reaction to the breach; and
- the wider implications of the breach

4.6. Breaches recorded by the Fund broadly fall into the following categories:

- Employer fines due to late or incorrect year end returns
- Employer fines for disproportionate work
- Employer late payments of contributions
- APF failing to meet statutory requirements eg not issuing ABSs on time
- Non-payment of refunds within 5 years*

4.7. Breaches are recorded on the breaches log and referred to the Pensions Manager if considered material. If Material TPR's online portal is used to report the breach.

4.8. Outcomes and improvements from breaches are agreed and implemented accordingly with employers or officers as appropriate.

4.9. A summary of regulatory breaches recorded for the period October 2021 to September 2022 can be found in Appendix 1. There were no material breaches recorded in this period.

4.10. 5 Year Refund Cases*

The 2013 LGPS regulations require schemes to pay a refund of contributions within 5 years. Failure to complete payment is classified as a regulatory breach and is required to be reported to the pensions committee and local pension board. The National Technical Group has previously made a recommendation to the Scheme Advisory Board (SAB) to remove the requirements to pay a refund of contributions within five years under the 2013 regulations. The SAB have agreed to proceed with this regulatory change and are in the process of making recommendations to DLUHC.

5. DATA PROTECTION BREACHES

5.1. The General Data Protection Regulations (GDPR) came into force with effect from 25th May 2018 under the Data Protection Act 2018 and replaced the earlier Data Protection Act of 1998.

5.2. A personal data breach means a breach of security leading to the accidental or unlawful destruction, loss, alteration, unauthorised disclosure of, or access to, personal data. This includes breaches that are the result of both accidental and deliberate causes.

5.3. A notifiable breach must be reported to the Information Commissioner's Office (ICO) within 72 hours after becoming aware of it. If it takes longer than this, reasons for the delay must be provided.

5.4. All breaches must be reported to Banes Data Protection Officer (DPO) within 24 hours of the incident using the incident reporting template. The DPO will advise if the incident meets the criteria for reporting to the ICO and also makes recommendations on future preventative actions.

5.5. A summary of data breaches reported to Banes DPO between November 2021 and September 2022 can be found in Appendix 1. No incidents were reported to the ICO during this period.

5.6. Procedures are in place for staff to follow and regular training takes place to ensure that everyone has a full understanding of data protection and the reporting procedure for breaches. Recent staff training has included:

- GDPR E-Learning Induction & refresher courses
- Cyber Security E-Learning
- Data Protection Induction Session including homeworking tips
- Data Breaches – case studies
- How to recognise a data breach, Subject Access Request & Freedom of Information Request

5.7. A GDPR project plan has been in place since 2018 in order to ensure compliance with the new regulations. Work is ongoing as updates are required.

6. RISK MANAGEMENT

6.1. The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition, it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

7. EQUALITIES

7.1. A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

8. CLIMATE CHANGE

8.1. The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Paris Aligned Global Equities Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

9. CONSULTATION

9.1 Reports and its contents have been consulted with the Head of Pensions and Director – One West representing the administering authority.

Contact person	Carolyn Morgan - Governance & Risk Advisor – 01225 395240
Background papers	
Please contact the report author if you need to access this report in an alternative format	

Breaches Log - 2021 / 2022

Appendix 1

Type of Breach	Number of Incidents	Summary of breach	Detail	Outcomes & Improvements
Regulatory Breaches Oct 21 to Sept 22				
Employer Late Payers	27	Late or non payment of contributions	13 employers have been late for more than 2 consecutive months. All but one has been resolved.	Support / training for employers
Employer Year End Data	Tba	Late or incorrect data submitted	Employers Relations Team working through late returns to decide if any fines will be issued	TBA
5 Year Refund Breaches	435	Unable to pay refund within 5 year deadline	This was due either to no response from members or being unable to trace members	Member tracing continues
Other Breaches	1	Disclosure	Pensions savings statement not issued to member by deadline. Process to update annual allowance page on system was not carried out correctly when member left scheme.	Reminder of process provided
Data Breaches Oct 21 to Sept 22				
Reported to Information Governance	13	3 x email breach 2 x incorrect member record update 1 x member record not updated 7 x enveloping error	Personal data sent by email in error 1 Address/1 email updated on incorrect record Post sent to member's old address Letter or form enclosed with incorrect member's letter	Training and support to team members provided Printing & enveloping process changed
Reported to ICO	0			

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Avon Pension Fund Breaches Procedure

November 2022

1. Procedure for the review and reporting of Regulatory Breaches

The introduction of the Pensions Act 2013 extended the powers of the Pensions Regulator to public sector schemes from 1 April 2014. The Pension Regulator introduced Code of Practice 14 for the administration of public sector schemes in 2014. This, amongst other things, addressed the issue of Regulatory Breaches and reporting requirements.

This document deals with the process of identifying, recording and determining if breaches of pension regulations should be reported to the Pension's Regulator.

2. The Duty to report – legal requirement

The duty to report breaches is contained within the Pensions Act 2004 section 70. Within this Act certain people have a legal duty to report breaches to the Pensions Regulator where they believe that:

- a legal duty relevant to the administration of the scheme hasn't been or isn't being complied with: this could relate for instance to keeping records, internal controls, calculating benefits and, for funded schemes, includes investment governance and administration matters
- the failure to comply is likely to be of 'material significance' to the regulator in the exercise of its functions.

The people with a legal duty to report are

- pension board members
- any other person involved in the administration of the scheme (which includes Committee members)
- employers
- professional advisers including auditors, actuaries, legal advisers and fund managers
- any other person involved in advising the scheme manager in relation to the scheme

The duty to report overrides other obligations, such as confidentiality, except where legal professional privilege applies. Failure to report a breach without reasonable excuse, can lead to civil penalties.

3. What is a breach of the law?

- A breach of the law is "an act of breaking or failing to observe a law, agreement, or code of conduct." In the context of the Local Government Pension Scheme (LGPS) it can encompass many aspects of the management and administration of the LGPS, including failure:

- to do anything required under the Regulations;
- to do anything required under overriding legislation, applicable statutory guidance or codes of practice;
- to maintain accurate records;
- to act on any fraudulent act or omission that is identified;
- to comply with policies and procedures (e.g. the Fund's statement of investment principles, funding strategy, discretionary policies, etc.);
- of an employer to pay over member and employer contributions on time;
- to pay member benefits either accurately or in a timely manner;
- to issue annual benefit statements on time or non-compliance with the Code.

For breaches to be reported to the Pensions Regulator they need to be of **material** significance and specifically would include;

- dishonesty
- poor governance or administration
- slow or inappropriate decision making practices
- incomplete or inaccurate advice, or
- acting (or failing to act) in deliberate contravention of the law
- pension board members not having the appropriate degree of knowledge and understanding, which may result in pension boards not fulfilling their roles, the scheme not being properly governed and administered and/or scheme managers breaching other legal requirements
- pension board members having a conflict of interest, which may result in them being prejudiced in the way that they carry out their role, ineffective governance and administration of the scheme and/or scheme managers breaching legal requirements
- adequate internal controls not being established and operated, which may lead to schemes not being run in accordance with their scheme regulations and other legal requirements, risks not being properly identified and manage and/or the right money not being paid to or by the scheme at the right time
- accurate information about benefits and scheme administration not being provided to scheme members and others, which may result in members not being able to effectively plan or make decisions about their retirement
- appropriate records not being maintained, which may result in member benefits being calculated incorrectly and / or not being paid to the right person at the right time
- pension board members misappropriating any assets of the scheme or being likely to do so, which may result in scheme assets not being safeguarded,
- where a breach has been identified and those involved do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence; are not pursuing corrective action to a proper conclusion, or fail to notify affected scheme members where it would have been appropriate to do so.

Breaches can therefore include failure to adhere to requirements set out by Administering Authority to support the maintenance of records requirements or policy or procedural requirements.

4. Material Significance

In deciding whether a breach is likely to be of material significance to the Pensions Regulator, the following should be considered:

- cause of the breach;
- effect of the breach;
- reaction to the breach; and
- the wider implications of the breach

When deciding whether to report, those responsible should consider these points together. Reporters should take into account expert or professional advice where appropriate, when deciding whether the breach is likely to be of material significance to the Regulator.

5. Recording of Breaches

The **Pensions Manager** is responsible for maintaining a record of all breaches including those which are not reported to the Regulator. The templates for recording breaches are attached as follows:

- Appendix 1: Breaches caused by employer
- Appendix 2: Breaches caused by APF as administrator
- Appendix 3: Material Breaches

Given the scope of potential breaches and the complexity of LGPS administration for Employers and the Administering Authority it is necessary to take a pragmatic approach to remediation of non- material breaches based on support, training and guidance together with remedies available to the Fund through its Administration Strategy.

6. Resolution of non- material Employer breaches

Many non-material breaches may be resolvable through a variety of mechanisms and where necessary the Fund will support employers to ensure they are fully aware of their responsibilities and have appropriate arrangements in place to comply with them. This may be achieved through training, the issue of guidance notes and or process review to ensure that best practice is implemented. All such arrangements will be implemented according to an agreed plan and timescale. The agreed support will be recorded against the breach and will be formally notified to the employer.

If the employer then fails to improve a formal notification will be issued with a fine for persistent breach and if that fails then consideration will be given to formally reporting the failing to the Pensions Regulator

7. Material Breaches by Employers

Where it is considered that there is a material breach by an employer then the Pensions Manager will produce a report for the Head of Pensions, who will consider the breach in line with the Code of Practice, investigate as necessary and obtain legal advice where required in determining the necessity to report. The Chairs of the

Pensions Committee and the Pensions Board will be provided with a copy of the report and notified of the action taken by the **Head of Pensions** within 10 days of receipt of the report.

Serious breaches identified such as fraud and misappropriation will be notified to the Regulator as soon as practicable and appropriate auditors/police authority for investigation. Arrangements will be made with the Regulator to support the determination of any action once the investigations have concluded.

8. Non Material Breaches by the Admin Authority

Such breaches will be recorded by the **Pensions Manager** and improvement actions agreed with the **Head of Pensions** for inclusion in ongoing Improvement plans, Services plans or Administration Strategy as appropriate.

9. Material Breaches by the Admin Authority

These breaches or suspected breaches will be reported to the **Service Director – One West and/or the Police** for formal investigation. The investigation will be carried out by internal audit section and/or the police as required and the Pensions Regulator notified as soon as practicable and in accordance with TPR guidance.

10. Reporting of Breaches

In addition to the requirement to report Material breaches to the Pensions Regulator, the Pensions Manager will formally report all breaches to the Avon Pension Fund Committee and the Pension Board on a quarterly basis, notifying the chairs of both of any significant issues as appropriate.

If at any time the Committee or the Board disagree with the actions taken by the Head of Pensions, then escalation will be to the Service Director – One West.

Full details of the Legal responsibilities and duties in respect of Breaches of the Law can be found in Code of Practice 14

<http://www.thepensionsregulator.gov.uk/codes/code-governance-administrationpublic-service-pension-schemes>

[illegible]

Appendix 2

APF BREACHES

[illegible]

Appendix 3

MATERIAL BREACHES

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Bath & North East Somerset Council		
MEETING:	LOCAL PENSION BOARD - AVON PENSION FUND	
MEETING DATE:	8 December 2022	AGENDA ITEM NUMBER 8
TITLE:	Statutory Reporting and Year End	
WARD:	ALL	
AN OPEN PUBLIC ITEM		

1. THE ISSUE

- 1.1. The purpose of this report is to inform the Pension Board of the actions undertaken by the Fund Administration in completion of the 2021/2022 employer year end data exercise and other statutory annual requirements.
- 1.2. The law requires schemes to disclose information about benefits and scheme administration to scheme members
- 1.3. The Fund has a legal statutory requirement to provide members with a benefit statement annually by 31st August.
- 1.4. Where applicable the Fund has a legal statutory requirement to issue a Pension Saving Statement (PSS) if a members' pensions savings exceed the standard annual tax year allowance.
- 1.5. The Fund has a legal statutory requirement to submit pension scheme reports and pay tax charges to HMRC

2. RECOMMENDATION

- 2.1. That the Board notes the report.

3. FINANCIAL IMPLICATIONS

- 3.1. There are no direct implications related to the Pension Board in connection with this report.

4. REPORT

- 4.1. The introduction of the Pensions Act 2013 extended the powers of the Pensions Regulator (TPR) to public sector schemes from 1 April 2014. The Pension Regulator introduced the Code of Practice 14 for the administration of public sector schemes in 2015. This, amongst other things, addressed the issue of annual benefit statements to members.

5. YEAR END EXERCISE

- 5.1. In preparation the Fund must undertake an annual exercise to reconcile member data supplied by employers at each 31st March year end. There are 454 active employers of which 272 provide member data digitally to the Fund on a monthly basis covering 86% of active scheme membership (35,139 members). The remaining employers continue to provide data annually.
- 5.2. For the purpose of data accuracy, the digital monthly employer returns undergo a reconciliation process on a continuous basis. Where the employer annually submits a data return it invariably will require further scrutiny and employer engagement to reconcile. The Fund is aiming to digitalise all employer returns as part of its published Administration Strategy.
- 5.3. To enable the Fund to scrutinise and reconcile member data all employers are requested to submit year end returns annually by 30th April with any subsequent follow up queries and amendments notified to the Fund by 30th June. Where there is a failure to provide timely or accurate information the Fund will review each affected employer in accordance with the criteria set out in the Administration Strategy with a view to potential penalty charges being applied.
- 5.4. With regard to potential employer penalty charges for 2022 the Fund identified the following:-
- 4 Late returns
 - 6 employers with data queries in excess of 10% of active membership
 - 2 employers for disproportionate work
 - potentially 22 for Data Improvement Plan (DIP) notices to be issued
 - No employers were identified as causing a materially significant breach to the TPR by the delay in providing information.
- 5.5. Administration Officers are currently undertaking a final review prior to issuing penalty notices. All fined employers will also receive a DIP in addition to any penalty charge with the option of receiving training in lieu of the charge if it is a first-time occurrence.

6. MEMBER COMMUNICATIONS – ANNUAL BENEFIT STATEMENTS

- 6.1. Officers completed work to reconcile data returns ahead of the statutory ABS exercise. Summarily, 93.53% of active member statements were issued ahead of the 31st August deadline. The table below details the statements sent -

Statement type and collation	Total Statements	Total mailing
Single Statements	28,686	28,686
Double Statements	4,366	2,183
Triple Statements*	1,083	361
Four Statements*	224	56
Five Statements*	70	14
Seven Statements*	7	1
PSOD Single Statements*	21	21
Overseas Statements	2	2

Totals	34,557	31,324
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6.2.A further 4,339 perspective statements were extracted due to the following:

Missing Address (093)
Casual Missing Hours/Earnings (2,425)
In-Progress Leaver (1,821)

6.3. Work is ongoing to obtain missing member CARE data and to trace any missing addresses

6.4. Subsequently, a further 291 active member statements were issued on 24th October as part of a supplementary ABS exercise.

6.5. Of the total active member statements produced a total of 11,384 (33%) were also made available digitally to members with an active My Pension Online (MPO) account. Members with an MPO account will no longer receive a paper statement in future years unless an option is received requesting this.

7. PENSIONS SAVINGS STATEMENTS

7.1. The Fund is required to issue a Pensions Saving Statement (PSS) if pensions savings in the APF exceed the standard annual allowance. The annual allowance is the maximum amount of pension saving that an individual can make each tax year that benefits from tax relief. The standard annual allowance is £40,000 for the 2021/2022 tax year. The statement includes information that members must consider in determining whether a tax charge is liable.

7.2. For the 21/22 tax year the Fund engaged with Hyman's Robertson to provide professional consultancy support, guidance and officer training.

7.3. Detailed analysis and work undertaken by officers to complete the annual process to assess member savings has been completed. The Fund issued 155 statements for LGPS members of which 41 were identified as having a tax charge. A total of 15 statements were issued in respect of members of the Firefighter's Pension Scheme, of which 3 were identified as having a tax charge.

7.4. All statements were issued ahead of the statutory deadline of 6th October.

7.5. It is anticipated that the number of members attracting a tax charge will increase further next year due to the impact of Pensions Increase (PI) on revalued CARE and the recent NJC pay award which in most cases will inflate the pensionable salary from November 2022 to March 2023. HMT Consideration is currently being given to amending the revaluation date to 6 April from 1 April to increasing number of members potentially subject to annual allowance charges.

8 Accounting for Tax – Event Reporting

8.1 As a pension scheme administrator of a registered pension scheme the Fund must send pension scheme reports and pay tax charges to HMRC.

8.2 Fund officers registered with HMRC have responsibility to submit Accounting for Tax (AFT) returns using the new Managing pensions scheme online service.

8.3 Payments made in respect of the previous 4 quarters are detailed below:-

01.10.2021 – 31.12.2021	£
1 x Annual Allowance Charge	15,180.00
1 x Lifetime Allowance Charge	26,065.00
150 x Short Service Refund Lump Sum Charge	19,099.00
01.01.2022 – 31.03.2022	
3 x Annual Allowance Charge	21,777.57
202 x Short Service Refund Lump Sum Charge	37,896.10
01.04.2022 – 30.06.2022	
1 x Annual Allowance Charge	12,653.00
1 x Lifetime Allowance Charge	58,044.47
396 x Short Service Refund Lump Sum Charge	45,839.31
1 x Special Lump Sum Death Benefit Charge	630.92
01.07.2022 – 30.09.2022	
2 x Annual Allowance Charge	39,947.38
2 x Lifetime Allowance Charge	69,648.31
164 x Short Service Refund Lump Sum Charge	22,701.75

9 The Pensions Regulator - ANNUAL SCHEME RETURN

9.1 Public service schemes have a legal obligation to supply the Pensions Regulator annually with certain information via a scheme return.

9.2 The information required includes scheme details, employer details and governance details. All information is completed and submitted to TPR via the online exchange service.

9.3 The annual scheme return notice for 2021/2022 was received from TPR on 23rd November with a request to complete by 2nd January 2023.

9.4 Officers are currently working through the return and a copy will be included at the next Pension Board meeting.

10 RISK MANAGEMENT

10.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition, it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

11 EQUALITIES

11.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

12**CLIMATE CHANGE**

12.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Paris Aligned Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

13**CONSULTATION**

1.1 Reports and its contents have been consulted with the Head of Pensions and Director – One West representing the administering authority.

Contact person	Geoff Cleak – Pensions Manager – 01225 395277
Background papers	Various statistical reports
Please contact the report author if you need to access this report in an alternative format	

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Bath & North East Somerset Council		
MEETING	AVON PENSION FUND LOCAL PENSION BOARD	
MEETING	8 December 2022	Agenda Item Number
		09
TITLE:	Update on Legislation	
WARD:	All	
AN OPEN PUBLIC ITEM		

1 THE ISSUES

- 1.1 The purpose of this report is to update the Pension Fund Board on the latest position concerning the Local Government Pension Scheme [LGPS] and any proposed regulatory matters that could affect scheme administration. An updated list is available to view in the Modern Gov Library.

2 RECOMMENDATION

The Board is asked to:

- 2.1 Note the current position regarding the developments that could affect the administration of the fund.

3 THE REPORT

The table below provides a summary of the main regulatory updates since the last meeting covering McCloud and Pension Dashboards, including brief comment on what the implications are for the Fund and what next steps will be. Confirmation of the new DLUHC minister is also included for reference alongside brief comment on a couple of areas where further updates are expected in the coming weeks, which could have implications for the administration team. Further details can be found in the updated list which is accessible on the Modern Gov library via the following text path – **Modern Gov/Library/Avon Pension Fund/2022-2023 Quarter 03/01 Regulatory Update**

Item	Latest Position	Relevant Links	Action by Fund / Next Steps
New DLUHC Minister	Lee Rowley was appointed Minister of State at the Department for Levelling Up, Housing and Communities on 27 October 2022 replacing Paul Scully who had been in post since 8 July.	https://www.gov.uk/government/ministers/parliamentary-under-secretary-of-state--172 https://lgpsboard.org/images/Other/Letter to Lee Rowley MP from Cllr Phillips November2022.pdf	<p>No action – just to note and to acknowledge that the appointment of the new minister and potential for further delays in current workstreams.</p> <p>The Chair of the Scheme Advisory Board has written to the new minister to welcome him to his new role.</p>
McCloud Judgment	<p>It is expected that the expected timing for guidance and regulations will be delayed (relative to the earlier timetable issued by DLUHC).</p> <p>It has been confirmed that certain Teachers will also be eligible for LGPS membership due to the McCloud remedy.</p>		<p>Fund to continue work on collating/analysing data from employers in relation to implementing the remedy. An officer from the Fund is also represented on the scoping group setup to discuss how Funds can implement the remedy.</p> <p>Any delays in the relevant stages may have administrative implications given the time available to respond/progress may be shortened.</p> <p>The inclusion of certain Teachers in relation to the LGPS remedy will also add to the administrative burden and further guidance awaited on how to deal with such cases.</p>
Pension Dashboard	<p>The Pension Dashboard Programme gathers pace with developments in a number of areas.</p> <p>The main development over recent months was the laying of a draft of The Pensions Dashboard Regulations 2022 before each House of Parliament by DWP. These were debated on 15 November by MPs and Peers and approved.</p>	https://www.legislation.gov.uk/ukdsi/2022/9780348239645/contents? https://www.pensionsdashboardprogramme.org.uk/2022/11/16/dashboards-standards-released-following-consultation/	<p>The Fund will continue its preparations towards meeting the necessary Pensions Dashboard requirements and awaits further guidance from central bodies e.g. LGA in relation to what action LGPS Funds should be considering.</p> <p>A separate update will be provided on this item in the administration report in relation to what actions have/are being taken by the Fund.</p>

	<p>The rules that will ensure the stability and security of pensions dashboards have also been finalised and published by the PDP.</p> <p>Further information can be found on the PDP and PASA websites.</p>	https://www.pensionsdashboardsprogramme.org.uk/pur/	
<p>Other areas expected to have implications for administration team (expected shortly)</p> <p>Page 119</p>	<p>SCAPE Discount Rate Response to June 2021 consultation expected in coming weeks, including potential revision to SCAPE discount rate.</p> <p>Oasis Academy Consultation Response to December 2021 consultation expected in coming weeks.</p> <p>CARE Revaluation Date Consideration currently being given to amending the revaluation date to 6 April from 1 April to increasing number of members potentially subject to annual allowance charges.</p>		<p>Once decisions emerge in these areas, depending on the outcomes, there is likely to be knock-on implications for the administration team, which will need to be considered as required in terms of resource management / stakeholder communication / process changes etc.</p>

4 FINANCIAL IMPLICATIONS

- 4.1 The administrative and management costs incurred by Avon Pension Fund are recovered from the employing bodies through the employer's contribution rates.
- 4.2 Any other specific financial implications will be reported as appropriate.

5 RISK MANAGEMENT

- 5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

6 EQUALITIES STATEMENT

- 6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

7 CLIMATE CHANGE

- 7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

8 OTHER OPTIONS CONSIDERED

- 8.1 None

9 CONSULTATION

- 9.1 The report has been consulted with the Head of Pensions and Director – One West and have cleared it for publication.

Contact person	<i>Geoff Cleak, Pensions Manager; Tel 01225 395277</i>
Background papers	<i>LGA Bulletins SAB Meeting Minutes National Technical Group Meeting Minutes</i>
Please contact the report author if you need to access this report in an alternative format	

Bath & North East Somerset Council		
MEETING:	LOCAL PENSION BOARD - AVON PENSION FUND	
MEETING DATE:	8 December 2022	AGENDA ITEM NUMBER 10
TITLE:	Risk Management Update – Risk Register	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 - Avon Pension Fund Risk Register Appendix 2 - Avon Pension Fund Risk Management Policy		

1. THE ISSUE

- 1.1. The purpose of this report is to update the Pension Board with the new risk management policy and new look risk register.

2. RECOMMENDATION

- 2.1. That the Board notes the report.

3. FINANCIAL IMPLICATIONS

- 3.1. There are no direct implications related to the Pension Board in connection with this report.

4. REPORT – RISK MANAGEMENT PROCESS & RISK REGISTER

- 4.1. The Fund has reviewed its risk management process and documented it in a new risk management policy attached as appendix 2.
- 4.2. The policy sets out the Fund's approach to risk, process for review and update of the risk register and also sets out the roles and responsibilities of all those involved in the management of risk within the Fund including the role of the Pension Board and Pension Committee.
- 4.3. The new risk register is attached as appendix 1.
- The risk register identifies risks which could have material impact on the APF in terms of service, value, reputation, or compliance. And it sets out mitigating actions.
 - The risk register is reviewed quarterly by APF management and reported to the Pension Committee and Pension Board every quarter.
 - All risks are also reviewed when there has been a material change to the risk.
 - Risks fall into the following categories, owned by the relevant member of the APF management team:

Category of Risk	Risk Owner
Administration	Pensions Manager
Regulatory	Technical & Compliance Advisor
Governance	Governance & Risk Advisor
Employers (Funding)	Funding & Valuation Manager
Employers (Data)	Employer Services Manager
Investments	Investments Manager
Finance	Finance & Systems Manager

4.3.1. The risk register sets out how risks are linked to the relevant Fund strategy documents and how they are reported to Pension Committee and Pension Board.

5. EQUALITIES

5.1. A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

6. CLIMATE CHANGE

6.1. The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

7. CONSULTATION

7.1. The Report and its contents have been discussed with the Head of Pensions and the Director – One West representing the administering authority.

Contact person	Carolyn Morgan - Governance & Risk Advisor – 01225 395240
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

Appendix 1

Risk Number	Risk	Impact	Mitigating Actions / Control Framework	PC/PB Review	Impact Level	Likelihood	Risk Score	Trend	Current Factors Impacting Risk Score	Risk Owner	Next Review Date
Administration											
NR01	The Fund's ability to deliver the administration service to members and employers within the agreed standards	Poor member outcomes and/or breach of regulations.	All aspects of service delivery are considered and set out in the Fund's Administration Strategy and Service Plan, including the Communications Strategy and plan to improve digital services. KPIs and complaints are monitored and reviewed.	Administration Strategy reviewed every three years. Service plan reviewed annually in March. KPIs reviewed every quarter.	Critical	Possible	15		Digital Transformation Project	Pensions Manager	Mar-23
									Recruitment, skills and experience of staff		
									Appointment of new AVC provider		
Regulatory											
NR02	Regulatory changes will impact ability to deliver service in accordance with LGPS and wider legislation. Political pressures may influence scheme changes	Breach of regulations, poor member outcomes, increased workloads for administration officers and the Investment Strategy Statement may have to change if political pressure directs how we invest.	Regulatory changes are monitored via LGE resources and professional advisors. Officers attend SWAPOG/Tech Group. Project plans are monitored in the Service Plan. Regulatory breaches and IDRP cases are monitored and reviewed. Officers respond to consultations. Asset allocation decisions must contribute to investment objectives set out in the Investment Strategy Statement.	Administration, legislation and Service Plan updates given periodically to PC/PB. Regulatory breaches reviewed annually in December.	Low	Unlikely	4		McCloud judgement	Technical & Compliance Advisor	Mar-23
									Pension dashboard		
									Exit payment cap		
									Levelling up agenda		
									TCFD consultation		
Governance											
NR03	Pension Committee cannot operate effectively due to knowledge and understanding of members and election cycles impacting consistency of membership	Delays in decision making for the Committee and Fund. Failure to meet MIFID & TPR regulations.	Representation of PC is set out in Fund's representation policy, knowledge requirements in Training Policy, and compliance against statutory requirements in Governance Compliance Statement. Responsibility for decisions are set out in the decision making matrix.	Governance review annually in June.	Medium	Unlikely	6		Low engagement with training modules	Governance & Risk Advisor	Mar-23
NR04	The governance of the Fund is not in accordance with BANES and APF policies and codes of practice and internal controls are not adequate	Fines for non-compliance, disciplinary issues and reputational risk.	Annual plan of internal and external audits. Managers and officers undertake training in accordance with the Council and APF's codes of practices and standards.	Annual audit report in December and governance report in June.	Medium	Unlikely	6		SAB Good Governance Review	Governance & Risk Advisor	Mar-23
									TPR Single Code of Practice		
NR05	Failure to secure and manage personal data held by the Fund in line with Data Protection Regulations	Personal data is corrupted, compromised or illegally shared resulting in fines and reputational damage.	One West acts as Data Protection Officer for Fund and advises on all data protection matters. Record of processing activities and privacy notice set out how data is managed. Processes in place for dealing with data breaches and other data protection requests. DPIAs used. Regular officer training.	Data breaches reported to PB annually in December.	High	Possible	12		Skills and experience of staff	Governance & Risk Advisor	Mar-23
									Submission of data electronically		
NR06	Fund is not prepared for an unexpected incident or cyber attack	Fund is unable to operate and members do not receive pension payments on time.	All aspects of dealing with an incident or cyber attack are set out in the Fund's disaster recovery/business continuity plan and BANES' cyber security policy.	Review annually	High	Unlikely	8			Governance & Risk Advisor	Mar-23
Employers and Funding											
NR07	Employers do not understand or comply with statutory responsibilities under the LGPS regulations and TPR requirements	Poor member data, late contributions, fines and greater scrutiny by TPR. Employer liabilities could be incorrect if data is incorrect.	Management of employers is set out in the Fund's Administration Strategy/SLAMOU. Employer KPIs are recorded and data monitored against TPR standards of data. Training Strategy includes employer training. DIPs in place.	KPIs and TPR standards of data reported to PC/PB quarterly.	Medium	Possible	9		iConnect roll-out	Employer Services Manager	Mar-23
									TPR Single Code of Practice		
NR08	The employer is unable to meet their legal and financial obligation to the Fund now and in the future (employer covenants)	Financial cost to other employers in the Fund.	The Fund's policies on the financial stability of employers is set out in the FSS & ISS. Covenant framework and plan is in place. Quarterly review and update of issues.	Annual review to PC.	High	Possible	12			Funding & Valuation Manager	Mar-23
Investments											
NR09	Governance risk of investment managers, custodian and other investment suppliers	Loss of assets or inability to trade due to assets being inaccessible.	Review of internal control reports. Diversification of investment portfolio (ISS). Quarterly service review with Brunel and their suppliers. Brunel quarterly risk dashboard (BOB).	Quarterly monitoring reports to PC/IP.	High	Possible	12			Investments Manager	Mar-23
NR10	Failure to earn investment returns	Scheme cannot meet liabilities and employer contributions could rise.	ISS and risk management strategy supports the Funding Strategy. FRMG & Investment Panel monitor performance and markets. Professional advice supports decision making (Mercers). Periodic strategic reviews carried out.	Quarterly monitoring reports to PC/IP	Critical	Possible	15		Market conditions not favourable to ESG tilt in portfolios	Investments Manager	Mar-23
									Stagflation		
									Weakening sterling		
NR11	Brunel fails to deliver its objectives to clients in terms of service delivery	Affects the Fund's ability to achieve its own investment objectives and/or implementing its strategy.	Brunel governance framework (client group, oversight board) and Avon's Brunel working group.	Brunel report and dashboard reported to PC quarterly.	High	Possible	12		Current impact factors on Brunel dashboard	Investments Manager	Mar-23
NR12	Failure to achieve decarbonisation targets in the required timescales in accordance with climate change priorities	Significant reputational risk and financial risk to the value of the investments assets.	ISS/RI Policy. Brunel's climate change policy and approach to investing. Use of professional advice. Strategic partnerships (IGCC) who are developing investment frameworks for climate risks. Policy advocacy work. Periodic strategic reviews.	Quarterly monitoring reports to PC/IP. Annual RI report. TCFD report. FRC Stewardship Code.	Medium	Possible	9		Limited ability to control systemic risk	Investments Manager	Mar-23
									Public policy is not driving agenda		
NR13	Loss of capital or income on treasury investments	Delayed return of principle or investment income.	B&NES manage Treasury management policy on APF's behalf in consultation with treasury management advisors.	Annual treasury management report to PC.	Medium	Unlikely	6			Investments Manager	Mar-23
NR14	Liability driven investing- regulatory pressure and/or reputational risk leads to managers withdrawing from the market	Fund's LDI strategy may have to be unwound or inability to increase hedge ratio.	Maintain collateral and buffer at levels to withstand significant/rapid move in rates/inflation. Set hedge triggers/hedge ratio at a level that can be adequately collateralised.	IP & FRMG monitor quarterly.	Critical	Possible	15		UK gilt market environment	Investments Manager	Mar-23

NR15	Liquidity levels within the Fund are insufficient to support investment and risk management strategies	Being forced to sale liquid assets in order to meet collateral and private market calls. Could lead to changes in asset allocation which means investment return objective is no longer achievable.	Maintain collateral and buffer at levels to withstand significant/rapid move in rates/inflation. Collateral policy in place to enable decisions around source of funds. Cashflow monitoring covers all other cashflows and updated continuously.	IP & FRMG monitor quarterly.	Critical	Possible	15		High stress market conditions	Investments Manager	Mar-23
Finance											
NR16	Cashflow profile is maturing	Not enough cash in bank account to meet pension payments.	Monthly monitoring of cashflow. Forecast inflows and outflows, liaise with Investments Team to ensure sufficient funds are available.	Cashflow monitoring quarterly to PC/PB.	Critical	Unlikely	10		Pressure on cash available to pay pensions	Finance & Systems Manager	Mar-23
NR17	Late/incorrect contributions from employers	Cashflow, employer funding position, default (exiting employer/covenant) TPR breach.	Monthly reconciliations of contributions, manager review and action. Contributions are reviewed quarterly and sent to Mercers to update funding monitor tool. FRS process review contributions annually. Larger employers pre pay contributions.	Late payers are monitored and reported to PC/PB periodically.	Low	Possible	6		Employer budgets stretched by economic crisis	Finance & Systems Manager	Mar-23



Risk Management Policy

Avon Pension Fund

Administered by Bath & North East Somerset Council

INTRODUCTION

The Avon Pension APF (APF) Committee must ensure robust risk management is in place, to enable compliance with regulations and manage risks faced by the APF. The Investment Panel strengthens risk management regarding investment issues.

The APF has a fiduciary duty to manage risk, to protect its employees, members, and assets. The APF acknowledges that risk is inherent in pension management, and that robust risk control involves management of complex trade-offs. Seeking to eliminate risk typically causes indirect problems such as cost escalation or the emergence of new risks.

The APF will adopt best practice risk management to support a structured approach to managing risks, embedded in operational management and governance. The over-arching objective is to embed risk management into the processes and culture of the APF to help it achieve its objectives and enhance service quality.

OBJECTIVES

The APF's seeks to:

- integrate risk management into its day-to-day activities, for all employees and partners.
- encourage a culture of openness which surfaces risks so they can be managed.
- maintain a robust framework for identification, assessment and management of risk, and its reporting and recording.
- ensure consistent application of APF's risk management framework across all activities, including projects and partnerships.

KEY MECHANISMS FOR DELIVERY

The APF has identified key mechanisms through which risk management will be delivered:

- maintain clear roles and responsibilities in the APF.
- create a culture of cross-team working, to openly communicated and shared.
- ensure risk management is explicitly considered in all policy decisions, strategies, and projects, e.g. committee reports, strategy documents, delegated decisions.
- maintain a single APF risk register assessing each risk for likelihood and impact with mitigating controls.
- review each risk at least quarterly.
- ensure there is appropriate leadership and risk monitoring of key projects.

The risk register reflects where the relevant risk is addressed and how it is reported to the Pension Committee and Pension Board.

Process for Review and Update of the Risk Register

- The risk register identifies risks which could have material impact on the APF in terms of service, value, reputation, or compliance. And it sets out mitigating actions.
- The risk register is reviewed quarterly by APF management and reported to the Pension Committee and Pension Board every quarter.
- All risks are also reviewed when there has been a material change to the risk.
- Risks fall into the following categories, owned by the relevant member of the APF management team:

Category of Risk	Risk Owner
Administration	Pensions Managers
Regulatory	Technical & Compliance Advisor
Governance	Governance & Risk Advisor
Employers (Funding)	Funding & Valuation Manager
Employers (Data)	Employer Services Manager
Investments	Investments Manager
Finance	Finance & Systems Manager

Roles & Responsibilities

- Risk Owners are responsible for day-to-day management of risks in their areas, ensuring the agreed control framework is in place and operating effectively.
- Each risk is reviewed quarterly or when facts change the impact / probability of the risk. Any changes should be agreed through the quarterly Managers' Meeting.
- The Head of Pensions is responsible for overseeing the work of risk owners and ultimately agreeing any changes to the risk register.
 - The detailed work, e.g. development of the risk framework, ensuring team leaders identify and manage risks, is delegated to the Governance & Risk Advisor.
 - The Governance & Risk Advisor also ensures the risk register is accurately updated, with reports prepared for Pension Committee & Pension Board.
- Committees & Boards:
 - The Pensions Committee is responsible for ensuring risks are effectively managed. It reviews the risk register at each quarterly meeting.
 - The Investment Panel focuses on investment risks and makes recommendations to the Pension Committee and risk owners.
 - The Pension Board has an independent oversight role, to ensure the overall risk framework is robust and compliant with regulations.