

The Audit Findings for Avon Pension Fund

Year ended 31 March 2013

12th September 2013

Stephen Malyn

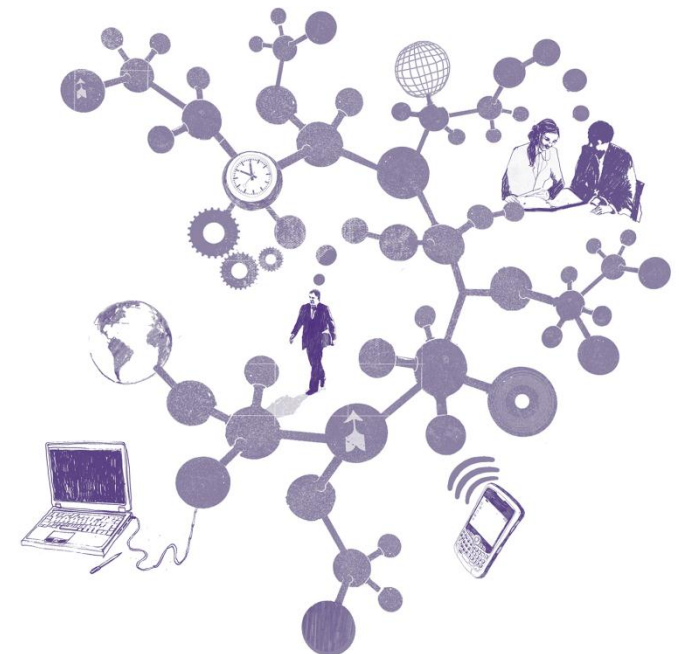
Director
T 0117 3057862
E steve.g.malyn@uk.gt.com

Chris Hackett

Manager
T 0117 3057876
E chris.i.hackett@uk.gt.com

Roy Edwards

Executive
T 0117 3057880
E roy.a.edwards@uk.gt.com



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

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

01. Executive summary

02. Audit findings

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Executive summary

Purpose of this report

This report highlights the key issues arising from the audit of Avon Pension Fund's ('the Fund') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position, the financial transactions of the fund during the year and that they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have not had to make any substantive changes to our audit plan, which we communicated to you at the meeting of the Corporate Audit Committee on May 20th 2013.

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

- review of the pension fund annual report for consistency with the statement of accounts;
- obtaining and reviewing the management letter of representation; and
- updating our post balance sheet events review, to the date of signing the opinion.

For audits with assets in excess of £1 billion we undertake an additional peer review, this is done at the end of the audit and is still to be completed.

We received draft financial statements and accompanying working papers at the start of our audit.

Key audit and financial reporting issues

Financial statements opinion

We have identified one adjustment affecting the fund's financial position. A creditor to HMRC had not been set up for £1.3m. This reduces the overall fund balance by this amount. We have made a number of recommendations to improve the presentation of the financial statements.

We anticipate providing an unqualified opinion on the Fund's financial statements.

Acknowledgement

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

Grant Thornton UK LLP
September 2013

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Corporate Audit Committee on 20th May 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any substantive changes to our Audit Plan as previously communicated to you, although admin expenses and investment management expenses were substantively tested as they were subsequently assessed as material when the accounts were received.

Audit opinion

We anticipate that we will provide the Fund with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>




Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Investment Income</p> <p>Profit and loss on disposal of investments and changes in the value of investments</p>	<p>Investments not valid</p> <p>Investments activity not valid</p> <p>Fair value measurement not correct</p>	<ul style="list-style-type: none"> We reviewed the reconciliation between information provided by the fund managers, the custodian and the pension fund's own records and sought explanations for any variances. We tested valuations, sales and purchases during the year to supporting information. 	<p>Our audit work has not identified any issues.</p>
<p>Pensions payable</p>	<p>Benefits improperly computed / claims liability understated</p>	<ul style="list-style-type: none"> We tested a sample of individual transfers, pensions in payment , lump sum benefits by reference to the member files. This testing was designed to ensure that all the appropriate documentation is correctly filed and internal control procedures operated by Avon Pension Fund have been followed. We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year together with comparing pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained. The movements on membership statistics will also be compared to transactions in the accounting records 	<p>Our audit work has not identified any issues.</p>
<p>Contributions receivable</p>	<p>Recorded contributions not correct</p>	<ul style="list-style-type: none"> We tested controls the pension fund operates to ensure that it receives all expected contributions from member bodies. We rationalised contributions received by reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained. We liaised with the auditors of a sample of admitted bodies to confirm deductions were correctly made on their respective payroll systems. 	<p>We agreed contributions to signed returns from admitted bodies confirming contributions, LGPS 50 forms.</p>

Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<ul style="list-style-type: none"> Investment income: dividends and interest have been accounted for on an accruals basis. Income on pooled investments is accumulated and reflected in the valuation of units. Except where otherwise stated the accounts are prepared on an accruals basis. Contributions are therefore on an accruals basis. 	<ul style="list-style-type: none"> The policies are in line with expectations and adequately explained. The application of the accounting policies requires limited judgement. 	
<p>Judgements and estimates</p>	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> pension fund valuations; and investment valuation are at bid price or net asset value quoted by the fund manager. 	<ul style="list-style-type: none"> The policies are in line with expectations and adequately explained. We have reviewed the work of the Fund's actuary by reference to the work of an independent expert and concluded their assumptions are reasonable. We note the actuary has changed some of his estimates, although this is not recorded in the accounts. 	
<p>Other accounting policies</p>	<ul style="list-style-type: none"> The Fund's accounting policies are in accordance with the requirements of the Code of Practice on Local Authority Accounting 	<ul style="list-style-type: none"> We have reviewed the Fund's policies against the requirements of the Code of Practice on Local Authority Accounting and do not have any comments to make. 	

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Misstatements, misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit. In addition a number of transposition errors were amended.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misstatement	1,310	Creditors	Omission of amount owed to HMRC in respect of March 2013 pensions payment run. Corresponding reduction in the net assets of the Fund.
2 Disclosure	N/A	Note 2 membership numbers	There are 2,126 members who are currently not referred to in note 2 analysing the pension fund member. These are people who are due refunds of contributions. Pension fund officers have not been able to assess the liability relating to these people.
3 Disclosure	N/A	Note 17	The note disclosing the actuarial present value of the promised retirement benefits should be more explicitly linked to the notes detailing the asset values and funding levels.
4 Disclosure	4,374	Note 20	The note relating to additional voluntary contributions does not state that the related assets are not included in the pension fund.
5 Disclosure	29	Note 8	The 2012/13 audit fee is £28,804, not £19,000 as initially disclosed.
6 Disclosure	N/A	Note 24	The note has been adjusted to include cash holdings within investment assets, the related policy for valuing payables and receivables has been disclosed.



Unadjusted disclosure items

The table below provides details of disclosure issues identified during the audit which have not been amended but which will be considered for future years.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	N/A	Note 25	Note 25 includes an analysis of the currency hedging. IFRS 7 requires the analysis to be at the year end. The Fund uses dynamic hedging. Officers know the level of hedging at the year-end but cannot calculate the impact that it has on currency volatility at the year- end which is what is being portrayed in the risk analysis
2 Disclosure	N/A	Note 13 Single investments over 5% of Asset Class	The accounts include the disclosure of large holdings, over 5% of the total assets, but not those over 5% in each class as required by the accounts Code. Officers felt disclosing everything over 5% in each class would lead to a large number of potentially small investments being disclosed.

Internal control

- The purpose of an audit is to express an opinion on the financial statements.
- Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- We have not identified any important control deficiencies during the audit, though there are two system access issues which are reported below for completeness.
- 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 merit to report to you in accordance with auditing standards.
- These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
1.		<p>Agresso and pension system folder access rights management</p> <p>The review established that access rights for folders used to store Agresso and pension system interface data are not adequately controlled. Interface data is sent via email and stored in an 'editable' mode in these folders, meaning there is a possibility of alteration of the interface information/data.</p> <p>There is a risk of unauthorised alteration of interface data hence compromising the integrity of information held in Agresso.</p>	<p>A review should be done of those who have access to interface folders. A form should be developed and used to document and evidence approval of folder access variations. This will help to ensure that only authorised users have access to interface folder.</p> <p>Interface data should be sent via secure protocol and encrypted to prevent unauthorised access or alteration.</p>
2.		<p>User access rights.</p> <p>No formal user access rights reviews are performed for the pension application to ensure that only authorised staff have access to the application, and the levels of access granted is appropriate for their roles and responsibilities.</p> <p>If user access is not reviewed by management on a periodic basis, there is a risk that leavers and unauthorised users may continue to have access to the Council's systems and data. The level of access provided may be disproportionate to roles and responsibilities.</p>	<p>Management should consider implementing a process to review user access rights on a periodic basis to ensure that only authorised users have access to pension applications and the levels of access granted is appropriate for their roles and responsibilities.</p>

Assessment

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

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Corporate Audit Committee and not been made aware of issues.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Fund. We will seek also a representation that the liability relating to 'unallocated members', being those due refunds, is not material.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Section 3: Fees, non audit services and independence

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Fees, non audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Fund audit	28,804	28,804

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

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

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
	Note 13 should be expanded to include all investments over 5% of asset class.	L		
	Additional disclosures should be included in the accounts covering: <ul style="list-style-type: none"> • Membership information • AVC's • Explaining the link between promised retirement benefits and funding levels. 	L		
	The actuary has changed some of his estimates, the changes should be recorded in the accounts.	L		
	A review should be done of those who have access to interface folders. A form should be developed and used to document and evidence approval of folder access variations. This will help to ensure that only authorised users have access to interface folder. Interface data should be sent via secure protocol and encrypted to prevent unauthorised access or alteration.	M		
	Management should consider implementing a process to review user access rights on a periodic basis to ensure that only authorised users have access to pension applications and the levels of access granted is appropriate for their roles and responsibilities.	M		
	The audit fee should be correctly disclosed.	L		

Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BATH AND NORTH EAST SOMERSET COUNCIL

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Avon Pension Fund included in the accounts of Bath and North East Somerset Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Bath and North East Somerset Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Divisional Director Finance and auditor

As explained more fully in the Statement of the Divisional Director Finance's Responsibilities, the Divisional Director Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Divisional Director Finance and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013 and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Stephen Malyn
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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

September 2013

Draft opinion for inclusion in annual report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BATH AND NORTH EAST SOMERSET COUNCIL

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Avon Pension Fund included in the accounts of Bath and North East Somerset Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Bath and North East Somerset Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Divisional Director Finance and auditor

As explained more fully in the Statement of the Divisional Director Finance's Responsibilities, the Divisional Director Finance is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

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

Opinion on other matters

In our opinion, the information given in the pension fund annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if, in our opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We have nothing to report in this respect.

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Stephen Malyn
 Director
 for and on behalf of Grant Thornton UK LLP, Appointed Auditor
 Grant Thornton UK LLP
 55-61 Victoria Street
 Bristol BS1 6FT
 September 2013



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