

# The Audit Findings for Avon Pension Fund

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**Year ended 31 March 2015**

25 September 2015

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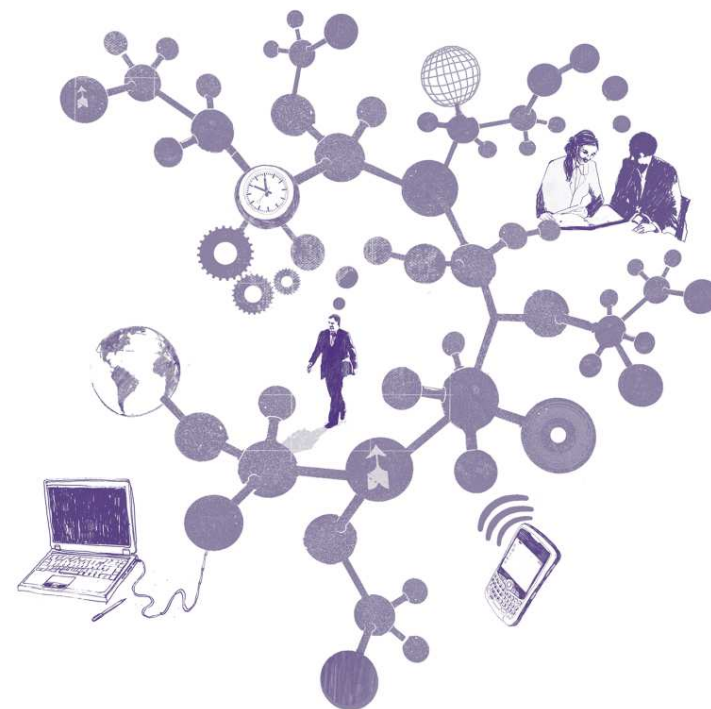
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25 September 2015

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### **Audit Findings for Avon Pension Fund for the year ending 31 March 2015**

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Avon Pension Fund, the Audit and Governance Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely

Barrie Morris, Director.

#### **Chartered Accountants**

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# Section 1: Executive summary

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# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Avon Pension Fund's (the Fund) financial statements for the year ended 31 March 2015. 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 260 (ISA UK&I).

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 and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated March 2015.

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

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

- completion of final specialist partner review,

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

## Key issues arising from our audit

### Financial statements opinion

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

The key messages arising from our audit of the Fund's financial statements are:

- Working papers are generally of a high standard,
- The draft accounts were presented for audit in accordance with the agreed timetable and contained minimal errors. This demonstrates good quality.

We have identified one adjustment affecting the Fund's reported financial position. In addition, we have agreed with officers some minor adjustments to improve the presentation of the financial statements.

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

## Controls

### Roles and responsibilities

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

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

### Findings

There is one area where control weaknesses have been noted. This relates to a number of manual adjustments relating to journals and the bank reconciliation. Further details can be found in the Internal Controls Section of this report.

## The way forward

Matters arising from the financial statements audit have been discussed with the Pension Fund Finance and Systems Manager and the finance team.

## Acknowledgment

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 2015**

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## 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 the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance Committee of 27 March 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you.

## **Audit opinion**

We provide two opinions on the Pension Fund, as follows:

- an audit opinion on the Pension Fund financial statements included in the Council's Statement of Accounts
- an opinion on the Pension Fund financial statements included in the Pension Fund Annual Report, which confirms if these financial statements are consistent with the financial statements in the Statement of Accounts

Our proposed audit opinion on the Pension Fund financial statements in the Statement of Accounts 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 (UK&I) 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.	<b>Improper revenue recognition</b> Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition	We rebutted this presumption during the interim phase of the audit, and this was communicated to members as part of the audit plan.	Our audit work has not identified any issues in respect of revenue recognition.
2.	<b>Management override of controls</b> Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management,</li> <li>• testing of journal entries, and</li> <li>• review of unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. However, our review of journal controls has identified a control issue, which will be detailed in the Internal Controls section of the report.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>
3.	<b>Level 3 Investments – Valuation is incorrect.</b>  A level 3 investment is one where at least one input that could have a significant effect on the value of the investment is not based on observable market data. The most common example of which are investments in private equity, which are valued using various estimation techniques.	<ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle,</li> <li>• reviewed the control reports from all fund managers with level 3 investments,</li> <li>• tested level 3 investments by obtaining and reviewing audited accounts at latest date for individual investments and agreeing these to the fund manager reports,</li> <li>• reviewed the qualifications of fund managers as experts to value level 3 investments,</li> <li>• reviewed the nature of estimated values and the level of assurance that management has over level 3 investments.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>We have been able to gain assurance over Level 3 investment balances through agreeing investment values presented in the accounts to those provided by the custodian and individual fund managers. We note that the audited financial statements of the Gottex Value Added Fund were qualified by the Gottex fund auditors. However, the qualification related to a specific fund in which Avon Pension Fund is not invested and therefore this does not affect the value of Avon Pension Fund's investment.</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
<b>Investment Income</b>	Investment activity not valid. Investment income not accurate. (Accuracy)	<p>We have undertaken the following work in relation to these risks:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle,</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding, and</li> <li>we have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances.</li> </ul>	Our audit work has not identified any significant issues in relation to the risks identified.
<b>Investment values – Level 2 investments</b>	Valuation is incorrect. (Valuation net)	<p>We have undertaken the following work in relation to these risks:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle,</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding,</li> <li>We have confirmed investment market values to independent pricing sources; and</li> <li>we have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances.</li> </ul>	Our audit work has not identified any significant issues in relation to the risks identified.

# Audit findings against other risks continued



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Contributions</b>	Recorded contributions not correct. (Occurrence)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>tested key controls over the contributions made to the fund,</li> <li>Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence, and</li> <li>Performed an analytical review on contributions to ensure that any unexpected trends are satisfactorily explained.</li> </ul>	<p>During the course of our audit the Pension Fund reached an agreement with Bristol City Council (BCC) as to the treatment of an overpayment of contributions made by BCC in 2013/14. During the audit a further contribution overpayment of £2.3m was identified in 2014/15 from BCC. Although the amounts are not material to the Pension Fund audit, the financial statements have been amended to ensure consistency between BCC and the pension fund's final accounts. Details of the adjustments made are in the adjusted misstatements table.</p> <p>Our audit work has identified one employer who was erroneously omitted from Note 26. Employing Bodies. This has now been corrected.</p> <p>Other than the issues identified above there have been no significant issues in relation to the risk identified.</p>
<b>Benefit payments</b>	Benefits improperly calculated/claims liability understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>tested key controls for member to be enrolled on the scheme,</li> <li>Tested a sample of individual pensions in payment by reference to member files, and</li> <li>Rationalised pension paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

## Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Member Data</b>	Member data not correct. (Rights and obligations)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"><li>• documented our understanding of processes and key controls over the transaction cycle</li><li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li><li>• tested key controls over changes to the pension fund data set, and</li><li>• Tested a sample of changes to member data made during the year to source documentation.</li></ul>	Our audit work has not identified any significant issues in relation to the risk identified.

# 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 Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	There are two key policies in relation to revenue recognition: that for contribution income and that for investment income. Normal contributions are accounted for in the payroll month to which they relate. Investment income from equities is accounted for on the date stocks are quoted ex-dividend. Income from fixed interest and index-linked securities, cash and short term deposits is accounted for on an accruals basis, as is income from other investments.	<ul style="list-style-type: none"> <li>The policies are considered appropriate under the accounting framework in place.</li> </ul>	 <b>Green</b>
<b>Estimates and judgements</b>	<p>Because of the nature of the fund no significant accounting judgements have been made, with all judgements following the requirements set out in the Code.</p> <p>The fund has a material balance of investments with significant unobservable inputs. The valuation of these investments is subject to varying degrees of estimation uncertainty. The fund discloses the differing methods of valuation for these funds within the accounting policies. In each case the Fund chooses to rely on the valuation provided by the fund manager.</p>	<ul style="list-style-type: none"> <li>The policies are considered appropriate under the accounting framework in place.</li> <li>Sufficient assurance has been provided by either the experts used for valuing the fund, or we have been able to agree valuations to third party evidence. .</li> </ul>	 <b>Green</b>

## Assessment

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate and disclosures sufficient

 Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Other accounting policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	<div>●</div> <div>Green</div>

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient
- Accounting policy appropriate but scope for improved disclosure

# Other communication requirements

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


	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"><li>We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.</li></ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"><li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li></ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"><li>A letter of representation has been requested from the Fund.</li></ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"><li>Our review found no non-trivial omissions in the financial statements.</li></ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"><li>We are not aware of any related party transactions which have not been disclosed.</li></ul>
6.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"><li>We obtained direct confirmations from all of the investment managers, banks and the custodian of the fund. Positive confirmation was received from all parties.</li></ul>
7.	<b>Going concern</b>	<ul style="list-style-type: none"><li>Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.</li></ul>

# Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls 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 considered and walked through the internal controls for level 3 investment valuation, investment income, investment values, contributions, benefits payable and member data as set out on page 9 above.

The matters that we identified during the course of our audit are set out in the table below:

	Assessment	Issue and risk	Recommendations
1.	 <b>Amber</b>	<p>As part of our testing of journals it was not possible to extract a journals listing which contains only journals relating to the Pension Fund and does not include journals relating to B&amp;NES Council. In order to compile a list which contains only pension fund journals, manual adjustment of the journals listing is required. This increases the risk of journals being omitted from the listing provided to audit, due to fraud or error.</p> <p>Additionally, due to the Fund being part of the Council's accounts in the ledger, the bank reconciliation is calculated from the bank balance, rather than the cash book balance as the cash book contains B&amp;NES and Fund transactions which need to be separately identified. The difference between the cash book and bank account balance is trivial at £15k.</p>	<p>It is recommended that the Council consider separating the Pension Fund within the Agresso ledger system, in order to allow separate identification of pension fund transactions and balances.</p>



## Unadjusted misstatements

The table below provides details of adjustments identified which have not been made within the final set of financial statements. The audit committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail		Impact on accounts		Reason for not adjusting
1	None	None	None	
Overall impact		£0		

## Adjusted misstatements

One adjustment to the draft financial statements has been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

### Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the financial statements.

Detail	Fund Account £'000	Net Asset Statement £'000	Impact on net assets carried forward £000
Bristol City Council overpaid its contributions in 2013/14 and 2014/15 totalling £4,524k. It has been agreed that these will be repaid and therefore this has reduced contributions received in the Fund account and increased creditors in the Net Asset Statement, therefore reducing net assets carried forward.	4,524	4,524	4,524
<b>Overall impact</b>	<b>£4,524</b>	<b>£4,524</b>	<b>£4,524</b>

# Misclassifications & 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.

Adjustment type		Account balance	Impact on the financial statements
1	Presentation and disclosure	N/A	Our review of the Employing Bodies list contained within note 26 highlighted the omission of Action for Children. Management confirmed this had been omitted in error and it has now been corrected.
2	Presentation and disclosure	N/A	Admin and processing expenses in Note 8 of the accounts was misstated. The original accounts showed a figure of £1,996k. This has been amended to the correct figure of £2,804k. There was no effect on the account balances.
3	Presentation and disclosure	Various	<p>Our review of the accounts highlighted some minor improvements that were required to be made to the accounts. None of these were individually significant and they have been made to improve the final presentation and aid clarity for the reader. The proposed minor adjustments were agreed with the Fund and changes have been made to the draft accounts submitted for audit.</p> <p>Examples include including a reference to the introduction of the Career Average Revalued Earnings (CARE) under operations and membership, to update the note referring to the delay in the introduction of IFRS 13, and to update the regulations disclosed in the introduction. This is in addition to the need to tidy up formatting and some punctuation prior to publication.</p>

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## Section 3: Fees, non-audit services and independence

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04. Communication of audit matters

## Fees, non-audit services and independence

We confirm below our final fees charged for the audit.

### Fees

	Per Audit plan £	Actual fees £
Pension fund scale fee	30,116	30,116
<b>Total audit fees</b>		

### Fees for other services

Service	Fees £
None	Nil

### 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 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.

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## Section 4: Communication of audit matters

01. Executive summary

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# Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) 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](http://www.audit-commission.gov.uk)).

We have been appointed as the Council'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 Council 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 Council 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 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
1	<p><b>Manual adjustments to journal reports and bank reconciliation</b></p> <p>It is recommended that the Council consider separating the Pension Fund within the Agresso ledger system, in order to allow separate identification of pension fund transactions and balances.</p>	M	The Council will consider the options which may be available to separate the Pension Fund within the Agresso system. Any decision on this will then be based upon an appraisal of the benefits and impacts.	Martin Phillips - Ongoing

# Appendix B: Audit opinion

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

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

We have audited the pension fund financial statements of Bath and North East Somerset Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The pension fund financial statements comprise the Pension 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 2014/15.

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, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010 and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Director of Strategic Resources and auditor**

As explained more fully in the Statement of Responsibilities, the Director of Strategic Resources is responsible for the preparation of the Authority's Statement of Accounts, which include 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 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

## **Scope of the audit of the pension fund financial statements**

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

## **Opinion on the pension fund financial statements**

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2015 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2015, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

## **Opinion on other matters**

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

Barrie Morris  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
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September 2015:



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