

# The Audit Findings for Avon Pension Fund

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**Year ended 31 March 2017**

29 August 2017

**Julie Masci**

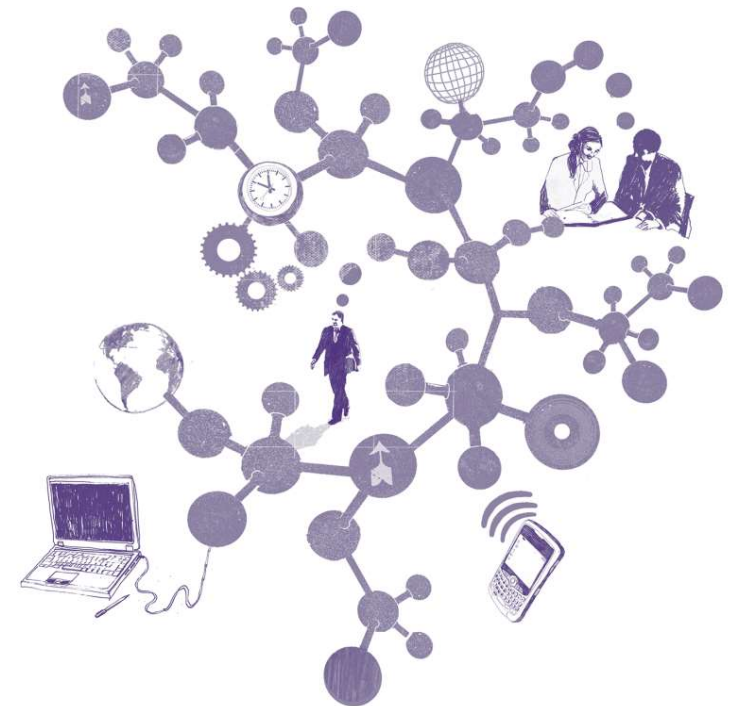
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29 August 2017

Dear Members of the Audit Committee

**Audit Findings for Avon Pension Fund for the year ending 31 March 2017**

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Avon Pension Fund, the Audit Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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

Julie Masci

Engagement Lead

**Chartered Accountants**

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# Section 1: Executive summary

**1. Executive summary**

**2. Audit findings**

**3. Fees, non-audit services and independence**

**4. Communication of audit matters**

## Purpose of this report

This report highlights the key issues affecting the results of Avon Pension Fund ('the Fund') and the preparation of the Fund's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Fund's financial statements give a true and fair view of the financial position of the Fund.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 24 February 2017.

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

- review of the final version of the financial statements and Pension Fund Annual Report;
- review of cash confirmation letters from Bank of Scotland, Goldman Sachs and Handelsbanken;
- obtaining and reviewing the management letter of representation; and
- updating our post balance sheet events review, to the date of signing the opinion.

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

## Key audit and financial reporting issues

### Financial statements opinion

We have identified no adjustments affecting the Fund's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2017 recorded net assets of £4.353bn which has not changed as a result of our work. We have recommended a number of adjustments to improve the presentation of the financial statements which management have either resolved in the final copy or we have concluded are not material.

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

- management have made good progress in accelerating their closedown process and the draft accounts were provided before our audit commenced
- working papers were received on time and well presented and requests were handled promptly.

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

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

## Controls

### Roles and responsibilities

The Fund'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 Fund.

### **Findings**

We draw your attention in particular to control issues identified in relation to:

- employee contribution banding rates being incorrectly applied.

Further details are provided within section two of this report.

### **The way forward**

Matters arising from the financial statements audit of the Fund have been discussed with the finance team.

We have made a small number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the finance team.

### **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**  
**August 2017**

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## Section 2: Audit findings

1. Executive summary

**2. Audit findings**

3. Fees, non-audit services and independence

4. Communication of audit matters

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £38.348m (being 1% of net assets at 31 March 2016). We have considered whether this level remained appropriate upon the receipt of the draft financial statements and identified that the value of net assets has increased. This led us to revise our overall materiality to £43.538m (being 1% of net assets at 31 March 2017).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £2.177m. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following item where we decided that a separate materiality level was appropriate. This remains the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Investment management expenses	Due to public interest in these disclosures	£2 million

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)



# Audit findings against significant risks

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
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Avon Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Bath and North East Somerset Council as the administering body, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore we concluded that we did not consider this to be a significant risk for Avon Pension Fund</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> <li>• Review of entity controls</li> <li>• review of journal entry process and selection of unusual journal entries for testing back to supporting documentation</li> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• review of unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls in the year. In particular the findings of our review and testing of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We note that the two matters raised in previous years in relation to the segregation of the Avon Pension Fund journals from B&amp;NES journals and the ability to post in to period 14 have been suitably resolved in the year.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

# Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Level 3 Investments (Valuation is incorrect)</b> 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.</p>	<ul style="list-style-type: none"> <li>• We have updated our understanding of your process for valuing Level 3 investments through discussions with relevant personnel from the Pension Fund during the interim audit.</li> <li>• We have performed walkthrough tests of the controls identified in the process.</li> <li>• On a sample basis we have tested valuations by obtaining and reviewing the audited accounts at latest date for individual investments and agree these to the fund manager reports at that date. In addition reconciling those values to the values at 31<sup>st</sup> March with reference to known movements in the intervening period.</li> <li>• Reviewed the qualification of the fund managers as experts to value the level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached.</li> <li>• 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.</li> <li>• Reviewed the competence, expertise and objectivity of management experts used.</li> <li>• Reviewed the service auditors reports for Fund Managers and the custodian to provide assurance over the control environment at the service organisation.</li> </ul>	<p>Our audit work has not identified any material issues in respect of the valuation of Level 3 investments:</p> <ul style="list-style-type: none"> <li>• Our walkthrough of controls and review of service auditor control reports did not identify any control weaknesses which required additional work.</li> <li>• Our work did not identify any significant differences between the valuations for investments in the financial statements, confirmations received directly from the Fund Managers, and confirmations received from the custodian.</li> <li>• Our independent price verification exercise for pooled investment vehicles did not note any significant differences between prices confirmed to audited financial statements; independent price sources for the investment funds and prices on which the financial statement valuations have been based.</li> </ul>

# 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 values – Level 2 investments</b>	Valuation is incorrect. (Valuation net)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.</li> <li>Tested a sample of level 2 investments to independent information from custodian/manager on units and on unit prices.</li> <li>We have reviewed the latest AAF 01/06 or ISAE 3402 audited reports on internal controls, published by the respective investment managers and Custodian.</li> <li>Received direct confirmation from the custodian including obtaining a copy of their reconciliation to the respective segregated investment manager at the year end date.</li> <li>Received direct confirmation from all non-segregated investment managers and reviewed the reconciliation of the units of unitised pooled investment vehicles.</li> </ul>	Our audit work has not identified any material issues in respect of valuation of Level 2 investments.
<b>Investments –All levels</b>	Investment activity not valid (Valuation gross)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.</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 material issues in respect of the valuation of investments.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

# 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)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.</li> <li>• Controls testing over annual/monthly reconciliations and verifications with individual members.</li> <li>• Sample tested changes to member data made during the year to source documentation.</li> </ul>	Our audit work has not identified any material issues in respect of member data.
<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>• We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.</li> <li>• Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence.</li> <li>• Rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners and ensured that any unexpected trends were satisfactorily explained.</li> </ul>	<p>Our audit work has not identified any material issues in respect of occurrence of contributions.</p> <p>Our work did identify a control recommendation in relation to employee contribution rates applied. Further details are included within the internal controls section of this report on page 17.</p>
<b>Benefits payable</b>	Benefits improperly computed/claims liability understated. (Completeness, accuracy and occurrence)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.</li> <li>• Controls testing over, completeness, accuracy and occurrence of benefit payments.</li> <li>• Tested a sample of individual pensions in payment by reference to member files.</li> <li>• Rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year and ensured that any unusual trends were satisfactorily explained.</li> </ul>	Our audit work has not identified any material issues in respect of benefits payable.

# Audit findings against other risks continued

## **Going concern**

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&I) 570).

## **Management Assessment**

Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

## **Grant Thornton Assessment**

Upon review of management's assessment of the going concern assumption and the disclosures in the financial statements we have concluded that the use of the going concern basis of accounting is reasonable and adequately disclosed.

## **Other material balances and transactions**





Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams have therefore been audited. However, the procedures have not been as extensive as the procedures adopted for the risks identified in the previous sections.

# Significant matters discussed with management




	Significant matter	Commentary	
1.	The future of the Avon Pension Fund under the Brunel Pension Partnership.	<p>On 18 July 2017 the Brunel Pension Partnership Local Government Pension Scheme (LGPS) Funds formally created BPP Ltd, a £27.5 billion investment company. The company, a FCA regulated entity, will implement the asset allocation strategies for the 10 member LGPS Funds. Under these new arrangements, the Avon Pension Fund will retain responsibility for setting its investment strategy (or asset allocation), as well as the funding and administration strategies. The company structure will be in place and operational by April 2018.</p> <p>The costs to the Pension Fund of setting up the partnership were trivial in 2016-17. £154k of fees were charged to the Net Assets Statement within Investment Manager Expenses.</p>	<p><b>Auditor view</b></p> <ul style="list-style-type: none"> <li>• We will continue to monitor key milestones of BPP Ltd to determine what specific audit procedures are required in the 2017-18 audit programme.</li> <li>• We will discuss with management how BPP Ltd will implement the Fund's investment strategy.</li> </ul>

# Accounting policies, estimates and 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
<b>Revenue recognition</b>	The Pension Fund's policy for Contribution and Investment income is set out in Note 2.2-2.3 to the Statement of Accounts.	<ul style="list-style-type: none"> <li>The policy used is appropriate and in line with the accounting framework (CIPFA Code of Practice on Local Authority Accounting)</li> <li>The accounting policy is adequately disclosed.</li> </ul>	 <b>Green</b>
<b>Judgements and estimates</b>	<p>Key estimates and judgements disclosed in the notes to the accounts include:</p> <ul style="list-style-type: none"> <li>the actuary's valuation of future promised benefits</li> <li>Valuation of Level 3 investments</li> </ul>	<p>We have reviewed the independence, competency and objectivity of the actuary. We have reviewed the methodology and assumptions applied by the actuary in preparing the estimate and reviewed these against the results of an auditor expert.</p> <p>We have performed specific work on the valuation of Level 3 investments as outlined on page 10.</p> <p>We concluded:</p> <ul style="list-style-type: none"> <li>The key estimates are appropriate.</li> <li>The accounting policies are adequately disclosed.</li> <li>From the work undertaken the judgements and estimates made are reasonable.</li> </ul>	 <b>Green</b>
<b>Going concern</b>	Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Fund's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	 <b>Green</b>
<b>Other accounting policies</b>	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	We have reviewed the Pension Fund's policies against the requirements of the CIPFA Code of Practice on Local Authority Accounting. The accounting policies are appropriate and consistent with previous years.	 <b>Green</b>

## 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

# Other communication requirements

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

	Issue	Commentary
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 Pensions 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.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Fund, which is included in the Committee papers.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained authorisation from management to send direct confirmation requests to the Fund's custodian, investment fund managers and for bank accounts held.</li> <li>Most of these requests have been received with positive confirmation, however we are currently awaiting responses for bank balances held with Bank of Scotland, Goldman Sachs and Handelsbanken. In anticipation of receiving these confirmations, we have undertaken alternative procedures to verify these balances.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>We reviewed disclosures against the CIPFA Local Government Pension Scheme disclosure checklist. Our review found no material omissions in the financial statements.</li> </ul>
7.	<b>Matters on which we report by exception</b>	<ul style="list-style-type: none"> <li>We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines, the Pension Fund Annual Report is not required to be published until the 1<sup>st</sup> December 2017. A draft report was produced and provided to us on 1 August 2017 which we have reviewed and we have not found any material inconsistencies between the Annual Report and the audited financial statements.</li> <li>A review of the final version of the Annual Report remains outstanding at the time of writing. Whilst we are able to conclude our work on the pension fund financial statements opinion, we are unable to certify completion of the audit of the administering authority until this work has been finalised.</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 Investment Income, Contributions, Benefits Payable, and Member Data as set out on page 9 to 13 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A. 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
1.	 Amber	<ul style="list-style-type: none"> <li>From our testing of employee contributions we identified one individual where their contribution rate had remained unchanged since 2012.</li> <li>In the LGPS in England and Wales, employees currently pay between 5.5% and 12%. The current pay bands and rates should have been applied from April 2014.</li> <li>For one individual, a rate of 7.2% of pensionable pay had been applied, rather than 8.5% under the current LGPS Regulations. This issue arose at a small Community Admitted Body. The total contributions relating to this body was not material.</li> <li>As a result, the Fund has been underfunded against its future obligation and will affect its funding level.</li> <li>We carried out additional testing of contributions calculations across the largest employer contributors to the Fund. We identified no further occurrences of this issue and therefore do not consider there to be a systemic issue with employer contribution rates applied.</li> </ul>	<ul style="list-style-type: none"> <li>We note that:                             <ul style="list-style-type: none"> <li>under LGPS regulations it is the responsibility of the employing body to ensure that members are allocated to the correct banding based upon their pay and to deduct and pay over the appropriate contributions; and</li> <li>the employer will ultimately bare any additional cost since it will be recovered within their deficit and employer secondary rate contributions following future actuarial valuations.</li> </ul> </li> <li>The Fund play an important role in monitoring the actions of the employers to ensure that it is receiving the correct level of funding from members and employing bodies.</li> <li>Whilst we are satisfied our finding does not have a material impact, we recommend the Fund should set up a process of identifying and communicating to employers any differences identified between the expected employee contribution rates and their actual contribution rate, so that employers can take appropriate action to address this.</li> </ul> <p>Please refer to Appendix A: Action plan on page 25 of this report.</p>

## Assessment

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

"The purpose of an audit is for the auditor 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. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

## Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<p>As part of our testing of journals it was not possible to extract a journals listing which contained only journals relating to the Pension Fund and did 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>There was also one journal posted into period 14 in error.</p>	<ul style="list-style-type: none"> <li>The Council has implemented a new process which includes the creation of two new pension only transaction types for processing pension journals.</li> <li>Our review has concluded that only Pension fund journals have been posted using these transaction types and as such this matter is now resolved.</li> <li>A review of the journals posted throughout the year has identified that there were no postings made into period 14, and therefore this one off issue has not continued in 2016-17.</li> </ul>
2.	✓	<p>The fund's bank reconciliation is being completed on a regular and accurate basis. However the presentation of the reconciliation is complex. A clearer presentation of the reconciliation would be of benefit to users and reduce the risk of any error or misunderstanding. This matter was also raised in the 2014-15 audit findings report.</p>	<ul style="list-style-type: none"> <li>This process has since been improved and a clearer summary is prepared allowing for the reconciliation to be reviewed easier.</li> <li>We note however that there is still a level of complexity to the reconciliation which could be simplified further.</li> </ul>

**Assessment**

- ✓ Action completed
- X Not yet addressed

## Adjusted misstatements

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. There are no adjustments to the draft accounts have been identified during the audit process.

## Unadjusted misstatements

There were no unadjusted misstatements identified during the audit.

## Misclassifications 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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	1,020	Note 7 Management Expenses - Investment Management Expenses	£1,020k of Investment Management Expenses were classified as base fees when they related to performance fees.
2 Misclassification	104,919	Note 10 – Investment Assets.	Note 10 listed all State Street investments as UK Equities. Although consistent with the custodian's assessment, the investment manager's confirmation listed all State Street investments as Overseas Equities. Through discussions with management and review of the substance of the investments we agreed with the investment manager's assessment. Amount to be reclassified is £104,919k.
3 Misclassification	92,157	Note 23 – Market Price Risk – Sensitivity Analysis.	Investment Manager had classified all TT investments as UK investments, although the custodian defines them as £137m UK and £92m overseas investments. Through discussions with management and review of the investments we agreed with the custodian's assessment. Overseas investments were therefore understated and UK overstated, both by £92,157k.
4 Misclassification	375,391	Note 24 – Fair Value Hierarchy	The Standard Life GARS Fund was classified as a Level 3 financial asset. From review of the inputs to valuation techniques used to measure fair value it was determined it should be disclosed as a Level 2 financial asset.
5 Disclosure	N/A	General	Other minor presentational changes including spelling, syntax and rounding.

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

1. Executive summary

2. Audit findings

3. Fees, non-audit services and independence

4. Communication of audit matters

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

### Fees

	Proposed fee £	Final fee £
Pension fund audit	28,805	28,805
IAS 19 fee variation	1,311	1,309
<b>Total audit fees (excluding VAT)</b>	<b>30,116</b>	<b>30,114</b>

### 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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Fund. We have not provided any other services to the Fund during the year.

### Fees for other services

Service	Fees £
<b>Audit related services</b>	<b>Nil</b>
<b>Non-audit services</b>	<b>Nil</b>

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## Section 4: Communication of audit matters

1. Executive summary

2. Audit findings

3. Fees, non-audit services and independence

4. Communication of audit matters

# Communication to those charged with governance

ISA (UK&I) 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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Fund's key risks when reaching our conclusions under the Code.

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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓




# 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 and responsibility
1	We recommend the Fund should set up a process of identifying and communicating to employers any differences identified between the expected employee contribution rates and their actual contribution rate.		<p>We previously implemented a control to identify invalid contribution rates:</p> <ul style="list-style-type: none"> <li>When the interface file is loaded to Altair the system has previously not allowed any invalid contribution rates to be loaded, therefore enabling us to identify and refer any error back to the employer.</li> <li>The audit findings suggest this automated control may have been removed. We are currently investigating this with the system provider.</li> </ul> <p>We will review and further develop our procedures for monitoring and communicating with employers in this regard.</p>	April 2018 – Pensions Manager

## Controls

 High – Significant effect on control system

 Medium – Effect on control system

 Low – Best practice

# Appendix B: Audit opinion

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

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

We have audited the pension fund financial statements of Avon Pension Fund (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report 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 Resources Strategic Director and auditor

As explained more fully in the Statement of Responsibilities, the Resources Strategic Director 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 2016/17, which 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Resources Strategic Director; and the overall presentation of the pension fund financial statements.

In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts 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 financial statements present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities, and
- the pension fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

### Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the audited pension fund financial statements.

*Signature to be added*

Julie Masci  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House  
55 – 61 Victoria Street  
Bristol  
BS1 6FT

*Date to be added*

# Appendix C: Proposed audit opinion on the annual report

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

## **Independent auditor's report to the members of Bath and North East Somerset Council on the consistency of the pension fund financial statements included in the pension fund annual report**

### **Opinion**

The pension fund financial statements of Bath and North East Somerset Council (the "Authority") for the year ended 31 March 2017 which comprise the fund account, the net assets statement and the related notes of Avon Pension Fund are derived from the audited pension fund financial statements for the year ended 31 March 2017 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

### **Pension fund annual report - Pension fund financial statements**

The pension fund annual report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

### **Who we are reporting to**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report 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.

### **The audited financial statements and our Report thereon**

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 12 September 2017.

## **Resources Strategic Director responsibilities for the pension fund financial statements in the pension fund annual report**

Under the Local Government Pension Scheme Regulations 2013 the Resources Strategic Director of the Authority is responsible for the preparation of the pension fund financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the pension fund annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

### **Auditor's responsibility**

Our responsibility is to express an opinion on whether the pension fund financial statements in the pension fund annual report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

*Signature to be added*

Julie Masci  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
Hartwell House  
55 – 61 Victoria Street  
Bristol  
BS1 6FT

*Date to be added*



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