Grant Thornton

The Audit Findings for Avon Pension Fund

Year ended 31 March 2020

18 November 2020

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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 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Avon Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had an impact on the normal operations of the Pension Fund. The Pension Fund experienced a number of challenges as a result of Covid-19, including key staff members working from home, and delays from counter party working arrangements. Authorities and Pension Funds are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 4 May 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19. Further detail is set out on page 6. Restrictions for non-essential travel has meant both Pension Fund and audit staff have had to adapt to ensure we have gained sufficient audit evidence for the balances with the financial statements. This has meant a greater reliance on video calling for many aspects of the audit, particularly in terms of the use of sharing of screens to watch transaction listings being run. Where information is normally provided in a spreadsheet format, we have undertaken additional levels of testing to ensure that the information provided hasn't been manipulated prior to being sent to the audit team. We are pleased to report that this process has worked well with both teams collaborating to identify solutions to hurdles presented by remote working but, inevitably, the remote working has impacted on delivery and additional resources have been necessary on both sides to in order to complete the work in accordance with the new extended reporting timetable. The financial statements were provided to the audit team on 26 June 2020, in advance of the deadline. The accounts were supported by good quality working papers and we generally received prompt responses to our queries.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Avon Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements: • give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	We commenced our post-statements remote audit in July 2020 and as at 18 November our audit is substantially complete. Our findings are summarised on pages 5 to 13. We have identified no material errors or adjustments to the financial statements. Audit adjustments are detailed in Appendix B. The draft financial statements were presented for audit in accordance with the agreed timetable. The accounts were supported by good quality working papers and we generally received prompt responses to our queries. Our enhanced audit procedures this year, particularly in the area of derivatives, resulted in delays in completing the audit due to the need to involve our own valuations team and challenges around receiving valuation reports from the various fund managers. Subject to completing our remaining audit procedures set out on page 5, we anticipate issuing an unqualified audit opinion following the Corporate Audit Committee meeting on 26 November 2020, as detailed in Appendix D. We have also raised recommendations for management as a result of our audit work in Appendix A. Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting the asset valuation material uncertainties with the Pension Fund's property funds that are disclosed within its financial statements. Further information can be found on page 11.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times. The delivery of this audit has been achieved through good cooperation from both sides.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management.

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

Audit approach

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

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

Audit approach (continued)

We have had to alter our audit plan, as communicated to you on 19 February 2020, to reflect our response to the Covid-19 pandemic including the identification of a new significant risk in relation to Covid-19.

Conclusion

As noted on page 4, we have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Corporate Audit Committee meeting on 26 November 2020, as detailed in Appendix D.

The following matters are still outstanding:

- receipt of management representation letter and
- review of the final set of financial statements.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels have been revised, to reflect the fall in net assets at year end. We have kept the benchmarks used consistent with that at planning, as we believe these remain appropriate at the year end.

	Pension Fund (£)	Qualitative factors considered
Materiality for the financial statements (figures in brackets are the values at planning)	44.0m (48.0m)	We considered the proportion of the net assets to the Fund to be an appropriate benchmark for the financial year. In the prior year we used the same benchmark. Our materiality equates to approximately 1% of your net assets for the year ended 31 March 2020.
Performance materiality	33.0m (36.0m)	We have determined this using 75% of materiality. This is considered an appropriate benchmark as we have not identified a history of significant deficiencies in the control environment or a large number of significant misstatements in prior year audits. The management and finance team remain stable.
Trivial matters	2.2m (2.5m)	This is based on 5% of materiality, which we consider to be an appropriate threshold to use in terms of our reporting to the Corporate Audit Committee as 'Those Charged with Governance'.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid–19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification if the instruments of trading may have reduced to such and extent that quoted prices are not readily and regularly available and therefore do no represent actual and regularly occurring market transactions. • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • evaluated whether sufficient audit evidence could be obtained using alternative approaches for the purposes of our audit while working remotely; • evaluated whether sufficient audit evidence could be obtained to corroborate management's fair value hierarchy disclosure • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as level 3 asset valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report if we have been unable to obtain sufficient audit evidence. The Fund responded well to the challenge of remote working and were able to produce draft financial statements in accordance with the agreed timetable, albeit this was a month later than in previous years. Whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management were required to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen. As explained on page 11, the Pension Fund has disclosed that a material uncertainty exists in respect of property assets held by the Fund and will refer to this in our audit opinion as an 'emphasis of matter'. Our opinion is not qualified in this respect.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
The revenue cycle includes fraudulent transactions (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Avon Pension Fund mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Avon Pension Fund	We have reconsidered this as part of our audit work on the financial statements and have not changed our assessment and therefore we confirm that we do not consider this to be a significant risk for Avon Pension Fund. Our audit work has not identified any issues in respect of improper revenue recognition. There is no change to our assessment as reported to you in our Audit Plan dated 19 February 2020.
Management over-ride of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny of its stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our testing of estimates, judgements and journals have not identified any evidenced of management override of controls.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of Level 3 investments The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£793 million) and the sensitivity of this estimate to changes in key assumptions. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2020. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated management's processes for valuing Level 3 investments • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • independently requested year-end confirmations from investment managers and custodians. • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2020 with reference to known movements in the intervening period • in the absence of available audited accounts, we evaluated the competence, capabilities and objectivity of the valuation expert • where available reviewed investment manager service auditor report on design effectiveness of internal controls. Our audit work focuses on looking at external confirmations from both investment managers and the custodian, and as a result there will always be differences, which are largely as a result of timing differences in when information is received compared to the information available when management are estimating the values for the accounts. From the work performed, where we have independently requested year-end confirmations from investment managers and custodians, the following difference were noted, whereby, management and the custodian have used the fund manager valuation as at 28 February 2020 to provide their year-end fair value. This is because the fund manager does not produce the report until after the accounts deadline. For this year, the following differences were identified: • Level 3 – JP Morgan Valuation: The figure included in the accounts is £257.9m, this is derived by the custodian taking the actual figure at December 2019 and then adjusting this for drawdowns and distributions. The audit team received the valuation of £251.1m from the Fund Manager. The difference between the figure included in the accounts and the figure received as the actual value of the investment is different by £6.8m. This £6.8m difference is above our triviality levels and is therefore included within our audit adjustments section (Appendix C), but management have chosen not to adjust the accounts for the value, given that the difference is not material. Given that our headline materiality is £44.7m, we are comfortable that this difference does not present of a risk of material misstatement of the fair value of your investments. The difference referenced below does not indicate any weakness in management's arrangements for estimating investment values at year end. Our audit work has not identified any other issues in respect of the valuation of Level 3 investments.

Significant findings – going concern

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern commentary	Auditor work and commentary
Management's assessment process Management set out their 'going concern considerations' as part of their response to our 'informing the audit risk assessment' in July 2020. Management and the s151 officer has a reasonable expectation that the Fund will continue for the foreseeable future. Members concur with this view. For this reason, the Fund continues to adopt the going concern basis in preparing the financial statements. Management have confirmed that: • no decision has been made to wind up the Pension Fund and no events have occurred that would trigger a wind-up; • they have taken into account all available information about the future, which is at least, but not limited to, twelve months from the date when the financial statements are authorised for issue; and • no material uncertainties related to events or conditions that cast significant doubt upon the Pension Fund's ability to continue as a going concern exist that require disclosure. Management have assessed that there are no material uncertainties in relation to Going Concern as they hold £4bn of assets which the actuary assesses will be sufficient to meet approximately 84% of future liabilities. The Fund's current overall aim is to recover the deficit in 13 years. The vast majority of the Fund's liabilities and deficit relate to local Authorities who hold tax raising powers. The Fund monitors employers, their financial performance and their assets in order to work with them in the management of their individual deficits. New employers to the Fund are required to provide guarantors or bonds where appropriate For this reason, management continue to adopt the Going Concern assumption in preparing the financial statements.	Chapter 6, Annex 6.5 of the CIPFA Code on the "Presentation of Financial Statements for Pension Funds" notes going concern as a particularly important reporting requirement and that para 3.4.2.23 of the Code applies. The CIPFA Code of Practice 2019/20 Code para 3.4.2.23 states "Local authorities that can only be discontinued under statutory prescription shall prepare their financial statement on a going concern basis of accounting; that is, the financial statement shall be prepared on the assumption that the function of the authority will continue in operational existence for the foreseeable future". For defined benefit schemes the Pension SORP gives further guidance in that even where a defined benefit scheme is significantly underfunded it should continue to be treated as a going concern for accounting purposes unless a decision has been made to wind up the scheme. The LGPS is a statutory scheme which can only be wound up by government and the presumption in local government is that the going concern assumption does apply unless there is specific evidence to the contrary from factors such as an announcement to wind up the administering authority. We note that the total value of the Fund's promised retirement benefits as at 31 March 2020 is £7.1bn. There are clearly sufficient assets to cover liabilities to November 2021. The assessment by the actuary is that the funding level as at 31 March 2020 is sufficient to meet 84% of its expected future liabilities in respect of service completed to 31 March 2020. Given the long term nature of the pension scheme there is little risk of material uncertainty in respect of the going concern assumption. Future funding contributions have been set by an independent actuary which mitigates the risk of material uncertainty. The future funding valuation covers a period of 3 years and assume a period of 13 years for deficit recovery. The 2019 triennial valuation was completed during 2019/20 setting employer contributions rates for future service and deficit recovery payments with effect from 1 April 2020. Management's view is that the use of the going concern assumption is appropriate with no material uncertainty that would require disclosure. We concur with this view.
Concluding comments	We consider that the preparation of accounts on a going concern basis is a reasonable and valid one and there are no indications of material uncertainty. Our audit opinion is unmodified in respect of going concern.

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
Control deficiency	From the work performed it was noted that the controls report for Jupiter Asset Management offered a qualified opinion. All other opinions were unqualified. We have reviewed the exceptions and considered their impact. The first qualification related to a control over segregated mandate investment management fee invoicing which did not operate effectively over the period. The second relates to a control over non-standard client reporting which was not designed suitably. In both cases, the controls failed to achieve their respective control objectives.	Jupiter have re-performed both controls for the period and can confirm that no errors were found in the investment management fee invoices issued or in the non-standard reports provided to clients. As a result, we are satisfied that there is no material impact to our audit, however, we report this to you for information as Those Charged With Governance.
Benefit payments	From the work performed it was noted that one member's pension records had not been transferred to Avon Pension Fund and therefore their benefits payable could not be recalculated. This was identified as an isolated incident in relation to any pensioners transferred from one employer in one specific transfer. The total number of pensioners where Avon Pension Fund do not have access to their records is 140 and the total annual benefits payable is £344k which is below triviality. Therefore there is no material impact on the benefits payable figure.	We are satisfied that there is no impact to our audit, however we report this to you for information as Those Charged With Governance.

Significant findings – matters discussed with management

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

Significant matter	Commentary	Auditor view
Impact of Covid-19 on asset valuations at year end Given the timing of Covid-19 in relation to the year end of the 31 March 2020, we identified that there would be volatility in both financial and property markets that would increase the uncertainty of assumptions applied by management to asset valuation and the reliability of the evidence we can obtain to corroborate management estimates.	The fund holds £229.2m of UK Property funds at 31 March 2020 with a variety of fund managers. The fund manager of the UK property portfolio included in their report a material uncertainty over the valuation provided at year end, which totalled £229.2m. The fund manager noted that the indicative effect of the Covid-19 pandemic on these valuations could result in a reduction of 10-15% in the reported value which is between £23m and £34m. Officers have concluded that given the nature of these assets and their relative size that a material uncertainty exists in relation to their valuation at the year end. This material uncertainty has been disclosed in the Pension Fund's financial statements.	Officers have used 31 March 2020 valuations within the financial statements which can therefore take into account the impact of Covid-19 or reflect the uncertainty caused by the pandemic. Given the material nature of this amount, we have reviewed the basis of this disclosure and concur with officers that there is a material uncertainty in relation to property funds within the asset valuations at year end as a result of Covid-19.
McCloud The pension liability disclosed in the draft financial statements included an allowance for the implications of the McCloud ruling.	Clarification has recently been received on the restitution for McCloud and implications of the Goodwin case on pension liabilities. Expectations were that pension liabilities will be lower than was originally estimated in actuarial reports produced for 31 March 2020. In 2018/19 the Fund obtained a revised IAS 26 calculation from its actuary which resulted in an adjustment of £40 million which the Pension Fund adjusted for in the 2018/19 accounts. For 2019/20, Avon Pension Fund sought the actuary's view, and management have concluded that the actuarial estimates remain materially accurate, and include a reasonable and appropriate allowance for the McCloud remedy. Further, management do not consider the impact of the Goodwin case to be material.	We are satisfied with management's assessment that the actuarial estimates remain materially accurate.
Derivatives The Fund hold £118m of derivative contracts which required further discussion with BlackRock and the use of an auditor's expert for valuation purposes.	We have used our own independent valuers for derivative contracts due to the complex nature of these investments which are held at Level 2 in the accounts. Our valuation experts did not identify a material difference in the valuation of these investments.	We are satisfied with management's assessment that the valuation of Level 2 Derivatives remains materially accurate.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 3 investments	The Pension Fund holds Level 3 investments that in total are valued on the net asset statement as at 31 March 2020 at £881m. These include hedge funds, property, and infrastructure pooled investments. These investments are not traded on an open exchange or market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts. The fund are also supported by investment advisors and the custodian who are independent from the fund managers who can advise on the performance of this type of investments.	As outlined in our testing of the valuation of level 3 investments (see page 8) we have: • assessed management's experts, reviewing their competence, expertise and objectivity where appropriate; • considered the valuation techniques used against industry practice; and • reviewed the adequacy of disclosure of the estimate in the financial statements.	●
Level 2 investment	The Pension Fund investments in Level 2 investments totalled on the balance sheet as at 31 March 2020 at £3,282m. These include quoted equities, quoted bonds, and other pooled investments. The investments are not directly traded on an open exchange / market and the valuation of the investment is subjective, although is often derived from investments in underlying quoted equities and so is not as subjective as a Level 3 investment. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts. The fund are also supported by investment advisors and the custodian who are independent from the fund managers who can advise on the performance of this type of investments.	Similar to our approach for level 3 investments outlined above, we have: • assessed management's experts, reviewing their competence, expertise and objectivity where appropriate; • considered the valuation techniques used against industry practice; and • reviewed the adequacy of disclosure of estimate in the financial statements.	●

Assessment

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

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Corporate Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	The Fund has informed us that a breach has been reported to the Pensions Regulator for the late issue of Pensions Savings Statements relating to the 2019/2020 financial year. The Fund was statutorily required to issue Pensions Savings Statements annually to affected members by 6 October 2020, however there was a delay until 19 October 2020 due to COVID related matters. The Pensions Regulator have replied advising that no further action has been taken. We have concluded that this does not impact the audit opinion however we bring it to the attention of Those Charged with Governance for completeness. Except for this matter, you have not made us aware of any other significant incidences of non-compliance with relevant laws and regulations and we have not identified any other incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund, which is included in the Corporate Audit Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to custodians, Fund Managers and the bank. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Disclosures	Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided. We experienced a number of delays and difficulties which included the following: • Additional derivatives testing including the use of our own Valuations expert • Delays in receipt of third party bank confirmations • Delays in receipt of evidence from Fund Managers • Delays and inefficiencies resulting from remote working • Difficulties obtaining GMP uplift calculations • Increased focus on certain areas as a result of Covid-19 including review of the material uncertainty on property investments. Obtaining suitable external confirmation from fund managers remains a time consuming process, with it rare that information requested is returned in full at the first request. Officers have been proactive in assisting the audit team in gaining this information, but this has been a slow process.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Fund's Annual Report on 26 November 2020.

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 Pension Fund's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Pension Fund's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Audit and Non-audit services

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

	Fees £	Threats identified	Safeguards
Audit related			
Audit of Brunel Pension Partnership Limited (BPP)	40,000	None	We do not consider the audit of BPP as a threat to our independence as Avon Pension fund cannot exercise control over BPP. The audit of BPP is carried out by a specialist team, authorised by the Financial Standards Authority. The fee of £40,000 is not significant compared to the audit fees of the ten participating pension funds. Please note this fee is not included in the financial statement of Avon Pension Fund as is payable by BPP.
Provision of IAS 19 Assurances to Scheme Employer auditors	6,000 (estimated)	Self review	This is not considered a significant threat as we are not reviewing any information that we have prepared. As this is an audit related service, it is acceptable for the audit team to carry out this work. In addition, we have not prepared the financial information on which our assurances will be used by the requested auditors to rom an opinion on as part of their opinion on the financial statements of the admitted body.
		Management	This is not considered a significant threat as the scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. We will not be making any recommendations as part of this work.
		Self interest	This is not considered a significant threat as the fee is recurring but not significant to the audit of the financial statements; further, it is fixed based on the number of admitted bodies.

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

Audit Related Services Fees

In addition to the audit fees we set out in Appendix B our final proposed fees for audit related services provided during the course of our audit are described below.

Audit related	£	Description
IAS 19 assurance letters to other auditors In addition to the audit of the main financial statements, we are also responsible for the audit of the Pension Fund. In that capacity, we have been contacted by the auditors of eight other entities who are admitted bodies of the pension scheme to provide assurance in terms of our work on the Pension Fund audit. Both PSAA, in the Terms of Appointment, and the National Audit Office, in its Auditor Guidance Notes, expects that auditors will cooperate with other local government auditors and therefore we are required to respond. We are required to respond to requests received from other auditors of admitted bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations. The Chief Financial Officer has given his consent for us to respond directly to the auditors of these admitted bodies in relation to these requests.	Estimated fee £6,000 Final fee £7,000	The Financial Reporting Council has highlighted that the quality and scope of work by audit firms in respect of IAS 19 assurance letters needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year. Historically the majority of the cost of this work has been absorbed within the audit fee of the administering and admitted bodies. Given the lower fees we are now recovering the cost of this extra work through an additional invoice to Avon Pension Fund. It will be for the Pension Fund to determine any appropriate recharges. For 2019/20 IAS 19 letters of assurance were provided to the following admitted bodies of Avon Pension Fund.: • Bristol City Council • Avon Fire Authority • North Somerset Council • South Gloucestershire Council • Bath and North East Somerset Council • Shaw Healthcare • National Audit Office (CQC) • West of England Combined Authority Our estimate is that the fee for this will be £3,000 plus an additional £500 for each body which requests a letter of assurance.

Action plan

We have identified 2 recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on the recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	From the work performed it was noted that the controls report for Jupiter Asset Management offered a qualified opinion. All other opinions were unqualified. We have reviewed the exceptions and considered their impact. The first qualification related to a control over segregated mandate investment management fee invoicing which did not operate effectively over the period. The second relates to a control over non-standard client reporting which was not designed suitably. In both cases, the controls failed to achieve their respective control objectives.	Jupiter have re-performed both controls for the period and can confirm that no errors were found in the investment management fee invoices issued or in the non-standard reports provided to clients. As a result, we are satisfied that there is no impact to our audit, however, we report this to you for information as Those Charged With Governance. **Management response** Management annually review the internal control reports for external providers where available and follow up any qualified opinions to ensure corrective action is taken. The outcome of the review is reported to the Pensions Committee.
Low	From the work performed on Benefits Payable it was noted that one member's pension records had not been transferred to Avon Pension Fund and therefore their benefits payable could not be recalculated. This was identified as an isolated incident in relation to any pensioners transferred from one employer in one specific transfer. The total number of pensioners where Avon Pension Fund do not have access to their records is 140 and the total annual benefits payable is £344k which is below triviality. Therefore there is no material impact on the benefits payable figure	We are satisfied that there is no impact to our audit, however, we report this to you for information as Those Charged With Governance. **Management response** This is an isolated incident for a single LG employer transferring member administration. The member data transfer was carried out by the software provider Heywood, through an automated interface process. Reconciliation of member data was undertaken by the ceding scheme administrator prior to transfer taking place and further consistency checks were undertaken by the receiving scheme following receipt of the data upload.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Pension Fund Account £'000	Net Asset Statement £'000	Impact on total net assets £'000
No amendments have been made to the Pension Fund's primary statements.	£nil	£nil	£nil
Overall impact	**£nil**	**£nil**	**£nil**

Misclassification and disclosure changes

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

Disclosure omission or misclassification	Detail	Adjusted?
Management Expenses	Management expenses stated as 31,103 in Note 7 - Fund Account	✓
Non-Property Pooled Investment Vehicles	In the prior year accounts, non-property pooled investment vehicles are stated as 77.1% of total assets - Fund Account. Correction is required.	✓
Investment Transaction costs	In the prior year accounts, Investment Transactions Costs - Commission is stated as £601k per Note 9. Correction is required.	✓
Inflation	In the prior year accounts, inflation is stated as 2.2% per Note 15. Correction is required.	✓
Rate of Pay Increases	In the prior year accounts the rate of pay increases is stated as 3.7% per Note 15. Correction is required.	✓
Rate of Payment Increases	In the prior year accounts the rate of payment increases in pensions is stated as 2.3% per Note 15. Correction is required.	✓
Casting error	There is a casting error in Note 23 and the figure £574,078 casts to £517,748, the figure requires amendment.	✓
Reclassification of NAS	Being the reclassification of the Net Asset Statement in order to agree back to the supporting notes (which formerly didn't reconcile back to the NAS) – for non property pooled investment vehicles and cash.	✓
Other minor disclosure errors	A number of minor clarifications to the accounting policies were added by management to comply with the Code; a number of minor changes to the Related Parties note were required, to correct a transposition error and a date error; and a minor change to the Audit Fee was also required to correct this. Other minor Prior Year errors were noted in Note 22. Minor changes to the Annual Report were required. Clarification to the Post Balance Sheets Event note was required.	✓

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Corporate Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Pension Fund Account £'000	Net Asset Statement £'000	Impact on total net assets £'000	Reason for not adjusting
From the work performed where we have independently requested year-end confirmations from investment managers and custodians, it was noted that for non-property pooled investment vehicles, management and the custodian have used the fund manager valuation as at 28 February 2020 to provide their year-end valuation leaving a difference of £6.8m between the accounts and value as at 31 March 2020. This is because the fund manager does not produce the report until after the accounts deadline.	£6,793	£(6,793)	£(6,793)	£6.8m is above our triviality levels and is therefore reportable in the audit findings report, but management have chosen not to adjust the accounts for the value, given that the difference is not material.
Overall impact	**£6,793**	**£(6,793)**	**£(6,793)**	

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Our testing of level three investments identified one difference of £2.4m between the fund manager valuation and valuation included in the accounts and custodian records. The difference has arisen due to the year end fund manager valuation not being received until after the accounts closedown process.	£2,430	£2,430	£2,430	Immaterial nature
Overall impact	**£2,430**	**£2,430**	**£2,430**	

Fees

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

Audit fees	Proposed fee	Final fee
Pension Fund scale fee	22,180	£TBC
Additional proposed audit fee	4,250	
Total audit fees (excluding VAT)	**£26,430**	**£TBC**

The Audit Plan presented in March included £4,250 in addition to the scale fee to take account of the additional scepticism required on the audit and the raising of the bar by our regulator. This is reflected in the proposed fee above.

Since the presentation of the audit plan, we have added a significant risk to the audit following the impact of Covid-19 and engaged our own auditors valuation expert to provide further assurance over your derivative disclosures. We have now reflected on the time taken to discharge our responsibilities this year and are proposing a further increase in fees of £6,000 in addition to those proposed at the planning stage of the audit. This brings the total proposed audit fee up to £32,430. Further details are provided on the next page.

This further charge has not been entered into lightly but reflects only a proportion of the significant additional work we have had to undertake this year to discharge our responsibilities.

As always these additional fees are subject to approval by PSAA in line with the Terms of Appointment.

The total proposed fees at the planning stage reconcile to the financial statements, with the financial statements showing the audit fee as £26k.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Provision of IAS 19 Assurance Letters to other auditors (estimated fee)	6,000	TBC
Total non- audit fees (excluding VAT)	**£6,000**	**£6,000**

Additional fees proposed

In addition to the proposed audit fees communicated at the planning stage of £26,430, we set out below the final additional fees proposed for the audit.

Audit related	£	Description
Auditor's expert - Valuation As part of our audit work on investments we used, for the first time this year, our internal valuations team to provide assurance over the fair value of your derivatives.	Estimated fee £2,000	Our estimate is that the fee for this will be £2,000.
Covid-19 Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes: • Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. • Management's assumptions and estimates - there is increased uncertainty over many estimates including investment valuations. We have include an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values. • Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working.. These are understandable and arise from the availability of the relevant information. In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.	Estimated fee £4,000	We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC. Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment. Our estimate is that the fee for this will be £4,000.

Audit opinion

We anticipate we will provide the Pension Fund with an unqualified audit report with an Emphasis of Matter in relation to the effects of Covid-19 on the valuation of property investments.

Independent auditor's report to the members of Bath and North East Somerset Council on the pension fund financial statements of Avon Pension Fund

Opinion

We have audited the financial statements of Avon Pension Fund (the 'pension fund') administered by Bath and North East Somerset Council (the 'Authority') for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Director of Finance and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

Audit opinion

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Director of Finance has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

Emphasis of Matter - effects of Covid-19 on the valuation of property investments

We draw attention to Note 1.31 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As, disclosed in Note 1.31 to the financial statements, for the pooled UK property funds held in the UK Property and Secured Income portfolios (valued at £229.2m), the independent valuers consider that less weight can be attached to previous market evidence for comparison purposes to inform opinions of value and as a result have reported the values on the basis of "Material Valuation Uncertainty' as per VPGA 10 of the RICS Red Book-Global Standards. Consequently, for these assets, less certainty and a higher degree of caution should be attached to the valuation than would normally be the case. Our opinion is not modified in respect of this matter.

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's and group's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Audit opinion

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters**.**

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Accounts [set out on page(s) x to x], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the pension fund's 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Director of Finance is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Corporate Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Audit opinion

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund’s financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 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 audit work has been undertaken so that we might state to the Authority’s 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.

[Signature]

Peter A Barber, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

[Date]