

Informing the audit risk assessment for Bath and North East Somerset Council and Avon Pension Fund 2021/22

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Table of Contents

Section	Page
Purpose	4
General Enquiries of Management	6
Fraud	9
Fraud Risk Assessment	10
Laws and Regulations	15
Impact of Laws and Regulations	16
Related Parties	18
Going Concern	20
Accounting Estimates	22
Accounting Estimates - General Enquiries of Management	23
Appendix A – Accounting Estimates	26

Purpose

The purpose of this report is to contribute towards the effective two-way communication between Bath and North East Somerset Council and Avon Pension Fund's external auditors and the Corporate Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Corporate Audit Committee under auditing standards. This assessment should include any issues relevant to the group entities of Aequus Developments Limited and Aequus Construction Limited.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with Corporate Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Corporate Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Corporate Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Corporate Audit Committee and supports the Corporate Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures, we are required to obtain an understanding of management processes and the local authority and pension fund's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Bath and North East Somerset Council and Avon Pension Fund's management. The Corporate Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	B&NES Response	APF Response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?</p>	<p>The Covid pandemic and wider impact on the economy continues to be the key event on Council services, the main impacts on property asset values were included in the 2020/21 accounts and current expectations is that this will not have a significant impact on the financial statements.</p> <p>Material judgements and estimates are also made in relation to Pensions valuations. The council uses experts to support our assessments of these estimates. However, a small change in some of the underlying assumptions can have a significant impact on the financial statements.</p>	<p>No events or issues expected to have a significant impact on the financial statements.</p> <p>Ukraine/Russia – the impact is unclear as the situation is still evolving. Russian assets have either been sold or written down but were not significant. Longer term impact will be on the funding position due to inflation and future investment returns, which will be partially mitigated by the equity and inflation hedge.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Bath and North East Somerset Council and Avon Pension Fund?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>Yes and confirm there are no events or transactions that would cause the Council to adopt new accounting policies.</p>	<p>Yes and confirm there are no events or transactions that would cause the Fund to adopt new accounting policies</p>

General Enquiries of Management

Question	B&NES Response	APF Response
3. Is there any use of financial instruments, including derivatives? If so, please explain	Financial Instruments are held in accordance with the Approved Treasury Management Strategy, a year end list will be provided. The Council holds no derivatives.	Held for efficient portfolio management for risk management purposes in the equity protection, FX and LDI strategies.
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	Covid Support Grant payments in respect of Government support to businesses during 2021/22	No
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	The 2021/22 property asset valuations will reflect current rental incomes, and we are not currently expecting any further significant impairments in the 2021/22 accounts from other reasons.	None other than related to market movements

General Enquiries of Management

Question	B&NES Response	APF Response
6. Are you aware of any guarantee contracts? If so, please provide further details	Not directly. The Council has provided a number of guarantees in respect of the pension deficit for admitted bodies when staff transfer under TUPE e.g. the West of England Combined Authority.	None
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	None of which I am aware	None of which I am aware

General Enquiries of Management

Question	B&NES Response	APF Response
<p>8. Other than in house solicitors, can you provide details of those solicitors utilised by Bath and North East Somerset Council and Avon Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p>	<p>In-house legal support from the Council provided in relation to general service support, queries and appeals against pension decisions. Under the Council legal services framework specialist advice is provided by external advisors including Bevan Brittan, Ashfords, Weightmans amongst others. Open cases can be provided on request.</p>	<p>The Fund uses Osborne Clarke for investment and actuarial legal advice. There is no open litigation or contingencies from prior years</p>
<p>9. Have any of the Bath and North East Somerset Council and Avon Pension Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details</p>	<p>None. There have not been any reported frauds or non-compliance with legislation / regulations or misstatements that would affect Council / Pension Fund financial statements.</p> <p>This has been confirmed by the Council's Chief Internal Auditor and the Council's Director Legal & Democratic Services (Monitoring Officer).</p>	<p>None of which I am aware</p>

General Enquiries of Management

Question	B&NES Response	APF Response
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>The Council utilises advisors on large scales projects for example Cushman & Wakefield on the Milsom Quarter Masterplan and BDO for Social Care contract advice.</p>	<p>Mercer Investment Consulting advise on investment strategy. Mercer is the Scheme Actuary.</p>
<p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p>	<p>Yes, IFRS 9 credit loss provisions are reviewed each year for loans and investments, with details included in the Financial Instruments note to the accounts.</p>	<p>Yes, potential losses have been identified but are not disclosed as they are not material.</p> <p>According to the code of practice, impairments and loss allowances will only directly affect the reported carrying value of assets held at amortised cost. For the Pension Fund this relates to debtors and cash deposits. In the 20/21 accounts, of the £15.0m debtors included, £13.2m related to contributions which were subsequently received in April 2021. Of the remaining £1.8m only £0.4m related to debts over 2 months old. This value is viewed as not material and so no credit loss allowance is applied.</p>

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors' responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Corporate Audit Committee and management. Management, with the oversight of the Corporate Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Corporate Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Bath and North East Somerset Council and Avon Pension Fund's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures, we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Corporate Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Corporate Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Corporate Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Bath and North East Somerset Council and Avon Pension Fund's management.

Fraud risk assessment

Question	B&NES Response	APF Response
<p>1. Has Bath and North East Somerset Council and Avon Pension Fund assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the local authority and pension fund's risk management processes link to financial reporting?</p>	<p>None as informed by the Director of Legal and Democratic Services and the Service Director - One West.</p> <p>Internal Audit compile an annual audit plan which is risk based and focussed on the priorities of the organisation. All audit reviews consider the prevention and detection of fraud related to the area subject to review. During 2020/21 and 2021/22 central government have made significant Covid19 grant funding available and Internal Audit have continued to provide advice and guidance to those teams allocated responsibility for assessing applications and processing payments. In addition to providing advice about internal controls to manage fraud risks the Internal Audit team have carried out post grant payment assurance work including data matching activity.</p> <p>The Council's Corporate Audit Committee have been kept informed of work being carried out.</p> <p>Risk Management processes and Strategy were reviewed in full in 2019. Risk registers are maintained by the Council and the Pension Fund. Council services maintain a number of risk registers including a specific Treasury Management risk register.</p>	<p>The pension fund completes its own accounts and maintains the management accounts.</p> <p>Budget, Risk register, admin and investment performance are all reported to Avon Pension Fund Committee quarterly. Key financial risks are assessed as part of setting the annual service plan and annual review of the Risk Register.</p> <p>Key financial systems audit undertaken annually by Bath & North East Somerset Council Internal Audit and their findings are reviewed and reported in their internal audit reports which are presented to the Pensions Board. Additionally, their recommendations and observations are acted upon. Also, investments are monitored by Brunel.</p>

Fraud risk assessment

Question	B&NES Response	APF Response
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>In terms of risk of fraud during 2021/22, in addition to the normal business activity subject to fraud risk (such as payroll and creditor payments) the continuing distribution of Covid19 grant funding has been assessed as a significant potential fraud risk.</p> <p>In terms of normal business there are a range of potential mis-statements as a result of fraud, including:</p> <ul style="list-style-type: none"> • over-stating revenue / improper expense recognition / incorrect asset valuations / hidden liabilities / incorrect disclosures. <p>These can occur in a variety of ways within the administration of the council's financial affairs, for example:</p> <ul style="list-style-type: none"> - improper use of core systems and bank accounts, including accounts payable (e.g. paying fictitious suppliers, over / under-paying contracts); accounts receivable (suppressing debtor balances, credit notes and write-offs); payroll (ghost employees, inflating payments to staff); cash receipting and banking balances. - use of special purpose vehicles and new companies to hide liabilities / earnings. - over / under-stating revenues, as well as hiding / suppressing expenditure. - mis-classification between revenue / asset related transactions. - over-stating asset valuations to increase net worth. - hiding obligations and not including within the balance sheet. - incorrect / non-disclosure of related party transactions. - incorrect classification of structured finance arrangements. 	<p>Improper use of financial systems and bank accounts</p> <p>Investment transactions instigated by Investments Team.</p> <p>Overstatement of assets to increase NAV.</p>

Fraud risk assessment

Question	B&NES Response	APF Response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Bath and North East Somerset Council and Avon Pension Fund as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>In terms of Covid Small Business Grants there were a number of suspected cases of fraud and these were either prevented through the decision not to award grant funding or alternatively in one case requesting repayment of the £10,000 grant paid. This grant was repaid in full.</p> <p>There was a case during 2021 / 22 whereby Council Tax Single Person Discount Fraud was investigated. This resulted in the agreement to repay Single Person Discount over a number of years (£8,200). In addition to recovering the fraudulently claimed discount Internal Audit have liaised with the Revenue's Team and they are in the process of applying penalty charges – an invoice will be despatched to the responsible person(s) for the penalty charges which will exceed £1,000. A decision was taken by the S151 Officer not to refer the matter to the Police. (as informed by management and the Service Director - One West)</p> <p>Report risk issues through relevant Director and Corporate Audit Committee</p>	<p>None of which I am aware.</p>
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Report risk issues through relevant Director and Corporate Audit Committee</p>	<p>Report all breaches and fraud to Avon Pension Fund Committee and Pension Board.</p>

Fraud risk assessment

Question	B&NES Response	APF Response
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Bath and North East Somerset Council and Avon Pension Fund where fraud is more likely to occur?</p>	<p>In 2021/22 specific fraud risks considered in relation to Covid19 grants especially applications for Small Business, Retail & Hospitality / Omicron grants. This funding was particular at higher risk of fraud based on the need to distribute funds without due delay.</p> <p>Outside of grant funding there are not areas with a high risk of material fraud that have been identified. If any risks are identified, recommendations for mitigation are made to managers who then implement as necessary</p>	<p>No areas with a high risk of material fraud have been identified. If any risks are identified, recommendations for mitigation are made to managers who then implement as necessary.</p>
<p>6. What processes do Bath and North East Somerset Council and Avon Pension Fund have in place to identify and respond to risks of fraud?</p>	<p>The Council:</p> <ol style="list-style-type: none"> 1) receives alerts from the National Anti Fraud Network and respond to each alert as required. 2) Is actively involved with the Cabinet Office National Fraud Initiative and provide all relevant data sets for matching purposes. Data matching reports are reviewed and investigated when considered appropriate based on the risk assessment. <p>In addition to the above activity to identify / detect fraud the Council continues to assess its systems of internal control and check. This includes management 1st & 2nd line roles of monitoring budgets, financial & data systems, bank accounts and Internal Audit's 3rd line role of verifying the adequacy of internal controls such as segregation of duties and authorisation levels.</p>	<p>Financial & data systems and bank accounts are regularly monitored. Segregation of duties, authorisation levels in place to mitigate fraud.</p> <p>In relation to pensioner payroll, the Fund takes part in the National Fraud Initiative scheme. Any queries identified are investigated and resolved.</p> <p>Internal control reports (or equivalents) of investment managers are reviewed annually.</p>

Fraud risk assessment

Question	B&NES Response	APF Response
<p>7. How do you assess the overall control environment for Bath and North East Somerset Council and Avon Pension Fund, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Good.</p> <p>The Council has robust systems and controls. The work of Internal Audit provides assurance that material misstatement and fraud is not occurring.</p> <p>If internal controls are not in place (for example identified by Internal Audit) then this is reported to management for corrective action to be taken.</p> <p>None identified.</p>	<p>Good. The work of Internal Audit provides assurance that material misstatement and fraud is not occurring</p> <p>Use external data validation (e.g. for investment performance) as part of monitoring process</p> <p>There is potential for misreporting but this is mitigated by processes and controls in place.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>There is potential for misreporting but this is mitigated by processes and controls in place.</p>	<p>There is potential for misreporting but this is mitigated by processes and controls in place.</p>

Fraud risk assessment

Question	B&NES Response	APF Response
<p>9. How does Bath and North East Somerset Council and Avon Pension Fund communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>Staff receive induction training and are reminded periodically of Council's rules and regulations such as: Employee Code of Conduct (recently updated), General Employment Standards & Financial Regulations & Codes of Practice. The Code of Conduct requires staff to declare interests and the giving / receiving of gifts and hospitality. The appropriate Director reviews and considers all disclosures. To ensure 'independence' the registers are reviewed periodically by the Council's Monitoring Officer.</p> <p>The Council has a values and behaviours framework all staff and members should adopt</p> <p>The Whistle blowing policy applies to staff, members, suppliers, contractors, volunteers and anybody acting on behalf of the council. The Council has in place a web accessible Whistleblowing submission report enabling any concerns to be reported.</p>	<p>Staff are reminded from their induction course and periodically of the Code of Conduct, and the need to declare any financial & non financial relationships with suppliers to the Fund.</p> <p>The Whistle blowing policy applies to staff, members, suppliers, contractors, volunteers and anybody acting on behalf of the council.</p> <p>The Council has a values and behaviours framework all staff and members should adopt.</p>

Fraud risk assessment

Question	B&NES Response	APF Response
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Posts within Treasury Management, Payroll, Payments, Council Tax, NNDR</p> <p>Financial systems access is key to identifying and assessing the risk of fraud and corruption. A framework of internal control to manage the risks is required i.e. segregation of duties and authorisation.</p> <p>The maintenance of robust systems of internal control is reviewed by the Internal Audit Service</p>	<p>Payroll and Administration teams, where segregation of duties mitigates risk</p> <p>Officers with access to bank accounts could make fraudulent payments. Clear segregation of access, instruction and authorisation.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No none.</p> <p>As stated above staff (and Members) have to declare interests. Members as well as declaring all known interests also have to declare any conflicts when attending meetings</p>	<p>None of which I am aware</p> <p>Staff and committee members have to declare conflicts of interest at all committee meetings</p>

Fraud risk assessment

Question	B&NES Response	APF Response
<p>12. What arrangements are in place to report fraud issues and risks to the Corporate Audit Committee?</p> <p>How does Corporate Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>As previously advised above we carry out a rolling review of our approach to Fraud risk and a review of policies and procedures and report the outcomes of this to the Audit Committee.</p> <p>In addition, Members of the Corporate Audit Committee have been provided with briefings (training) on fraud and internal control.</p> <p>This has resulted for instance in updates to our strategy and key policies.</p>	<p>Decision making and monitoring reports to the pensions committee.</p> <p>Reporting of Fraud and breaches to Pension Board</p> <p>IA reviews of key processes including fraud risk</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>All of these are reported to the Audit Committee, no material or significant items to report.</p>	<p>None of which I am aware</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No none</p>	<p>None</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Corporate Audit Committee, is responsible for ensuring that Bath and North East Somerset Council and Avon Pension Fund's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures, we are required to make inquiries of management and the Corporate Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance, we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	B&NES response	APF Response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Bath and North East Somerset Council and Avon Pension Fund have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the local authority and pension fund's regulatory environment that may have a significant impact on the local authority and pension fund's financial statements?</p>	<p>We view this through the three lines of defence model and we have a well established internal control framework and robust systems in place for governance, financial management, risk management and performance management.</p> <p>We then use Internal Audit (& External Audit) to independently review and report back to us on the level of assurance.</p> <p>Specialist legal advice and training is provided by or arranged by the legal department to service areas. Officers regularly consult lawyers for advice. Where specialist knowledge is not available internally the Council calls on external advice through legal framework agreements. All decision reports require a review by a lawyer to consider legal implications and to confirm sign off before reports are cleared for publication.</p> <p>No.</p>	<p>The Council has a Monitoring Officer and S151 Officer who provide assurance that all relevant laws and regulations have been complied with. The Fund has a Technical and Compliance Advisor who monitors regulatory developments and prepares the administration for change</p> <p>Refer to response to Q2 below</p> <p>No</p>
<p>2. How is the Corporate Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>This is primarily achieved through the work of Internal Audit, outcomes from External Audit work and most importantly the assurance we receive through the Annual Governance Statement. Any significant issues are then reported as necessary</p>	<p>The Monitoring Officer and s151 officer provide assurance that all relevant laws and regulations are complied with. The Pension Committee receive regular reports of compliance from officers. Any non compliance would be reported to Pension Board via Internal Audit reports and appropriate plans put in place to remedy such issues. These would cover the pension fund as applicable.</p>

Impact of laws and regulations

Question	B&NES response	APF Response
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details	Not aware of any instance	None of which I am aware
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	No	None of which I am aware
5. What arrangements does Bath and North East Somerset Council and Avon Pension Fund have in place to identify, evaluate and account for litigation or claims?	<p>The legal department maintain a record of high risk cases which is reviewed and updated monthly. Cases are monitored each month by the Monitoring Officer. Significant issues or concerns identified would be discussed at the regular monthly Statutory Officers meeting.</p> <p>A quarterly council risk group meets and evaluates any updates on significant litigation or insurance claims.</p>	The Fund has an IDRPs policy in place. Decisions are reported to Pensions Committee and Pension Board
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	None of which I am aware	None of which I am aware

Related Parties

Matters in relation to Related Parties

Bath and North East Somerset Council and Avon Pension Fund are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Bath and North East Somerset Council and Avon Pension Fund;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the local authority and pension fund;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the local authority and pension fund or of any body that is a related party of the local authority and pension fund.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the local authority and pension fund's perspective but material from a related party viewpoint then the local authority and pension fund must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question`	B&NES Response	APF Response
<p>1. Have there been any changes in the related parties including those disclosed in Bath and North East Somerset Council and Avon Pension Fund's 2020/21 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Bath and North East Somerset Council and Avon Pension Fund whether Bath and North East Somerset Council and Avon Pension Fund has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>The Aequus Group has undertaken a review of the company structure and, following the advice of Haines Watts and Ashfords, have put forward company structure changes that were agreed at full Council on the 24/3/22.</p>	<p>No change in the nature of the related parties.</p>
<p>2. What controls does Bath and North East Somerset Council and Avon Pension Fund have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>The Council requires reporting of conflicts of interest by officers or receipt of gifts and hospitality from contractors/suppliers. Directors review and approve all disclosures.</p> <p>Annual accounts disclosures for related parties and transactions are reviewed for completeness by the Finance Management Team.</p>	<p>Declarations of Interest policy</p>

Related Parties

Question	B&NES Response	APF Response
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Transactions are subject to segregation of duties and authorised by relevant Director or s151 officer.</p> <p>The Council requires reporting of conflicts of interest by officers or receipt of gifts and hospitality from contractors/suppliers. Directors review and approve all disclosures.</p> <p>In relation to Aequus Group of companies, the Council operates a Protocol for governance of LA trading companies which includes operational monitoring through the Investment Forum and the Shareholder Reserved Matters schedule in the Shareholder Agreement operates to authorise significant transactions at cabinet level.</p>	<p>Transactions are subject to segregation of duties and authorised by Head of Pensions or s151 officer.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Segregation of duties requires multiple authorisations to create a supplier, instruct and approve a payment.</p>	<p>Segregation of duties requires multiple authorisations to create a supplier, instruct and approve a payment</p>

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	B&NES Response	APF Response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Bath and North East Somerset Council and Avon Pension Fund will no longer continue?</p>	<p>Going concern is considered on an annual basis as part of the preparation of the financial statements. This review considers key areas that impact on the Council's ability to continue as a going concern. The main factors which underpin this assessment are:</p> <ul style="list-style-type: none"> • The Council's current financial position • The Council's projected financial position • The Council's governance arrangements • The regulatory and control environment applicable to the Council as a local authority. 	<p>B&NES is statutorily responsible for the Fund so legally cannot discontinue services to the fund without providing alternative arrangements – interruption to services is dealt with formally through the Funds risk register</p> <p>The Risk Register identifies changes in regulations, market conditions that may affect the ability of the Fund to deliver its service. Actions to mitigate these are included in Annual Service Plan (and budget).</p>
<p>2. Are management aware of any factors which may mean for Bath and North East Somerset Council and Avon Pension Fund that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>None of which I am aware</p>	<p>No – see above</p>

Going Concern

Question	B&NES Response	APF Response
<p>3. With regard to the statutory services currently provided by Bath and North East Somerset Council and Avon Pension Fund, does Bath and North East Somerset Council and Avon Pension Fund expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Bath and North East Somerset Council and Avon Pension Fund to cease to exist?</p>	<p>The Council expects to continue to deliver current statutory services for the foreseeable future.</p>	<p>Avon Pension Fund will continue to deliver its statutory service for the foreseeable future.</p>
<p>4. Are management satisfied that the financial reporting framework permits Bath and North East Somerset Council and Avon Pension Fund to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Yes</p>	<p>Yes,</p> <ul style="list-style-type: none"> • the Fund has adequate liquidity to meet all liabilities due in the next 12 months. • The latest funding level, as at 31st December, is 102% • There are no concerning trends regarding timely receipt of contributions.

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	B&NES Response	APF Response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Valuation of PPE & Investment Properties Depreciation Pensions Liability Financial Instruments Fair Value Provisions Accruals Credit Loss & Impairment Allowances	Significant events such as the global pandemic that affect capital markets can give rise to uncertainty in estimates of asset values for certain types of assets.
2. How does the local authority and pension fund's risk management process identify and address risks relating to accounting estimates?	Include disclosure notes in the accounts that relate to risk on accounting estimates.	Include disclosure notes in the accounts that relate to risk on accounting estimates. Monitor asset values regularly to identify if valuation issues arising such as material uncertainty clauses being invoked
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Details set out for each area in Appendix A below	Disclosure notes are included in the notes to the accounts relating to risk on accounting estimates. Where available valuations from investment managers checked against custodian valuation and differences reconciled. Where not available (as custodian same as for manager/pooled vehicle), valuation checked for reasonableness

Accounting Estimates - General Enquiries of Management

Question	B&NES Response	APF Response
4. How do management review the outcomes of previous accounting estimates?	The outcome of previous accounting estimates is reviewed as part of the estimation process in the following year and takes into account any issues raised through the audit process.	Monthly accounting processes/valuation reconciliations would identify significant changes in accounting estimates.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	No changes	No changes
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	<p>See further detail in Appendix A, experts with specialist skills are used in the following area of estimation:</p> <ul style="list-style-type: none"> Valuation of PPE & Investment Assets Depreciation Fair Value valuation of Financial Instruments Pension Liability 	Knowledge of investments team, discussions with fund managers and advisors
7. How does the local authority and pension fund determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	<p>See further detail in Appendix A, Discussions with Valuers and Auditors both Internal and External.</p> <p>External Audit also obtain assurance that the experts are sufficiently qualified and independent.</p>	Internal control reports or equivalent for each investment manager and custodian are reviewed and any control weaknesses identified are followed up with the manager. All exceptions and how resolved by the manager are reported to the committee.

Accounting Estimates - General Enquiries of Management

Question	B&NES Response	APF Response
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Management ensures that experts appointed are suitably experienced and qualified, independent and professional.	Focus of internal control review are the controls over valuation of assets and the managers'/custodian's oversight of their external providers
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	Review and sign-off by Senior Management and disclosure in the notes of the accounts.	Experience of team, checking and reconciling custody and managers' valuations or comparing to index performance.
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	None other than in appendix A	None other than in appendix A
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Where estimation is necessary, appropriate estimating methodology is utilised. Estimates will be prepared by those best qualified, e.g. Pension Fund Actuary to supply estimates relating to IAS 19 – Employee Benefits, assets are professionally valued.	Yes these are reviewed as part of the close down process

Accounting Estimates - General Enquiries of Management

Question	B&NES Response	APF Response
12. How is the Corporate Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Details of estimates are disclosed in the accounting policies section within the Statement of Accounts	Valuation of assets including estimates provided by independent valuations or public market pricing which are then checked/reconciled for reasonableness.

Appendix A Accounting Estimates - Council

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Non-current assets are valued in accordance with the guidance published by the Royal Institute of Chartered Surveyors. The valuations were done on the basis of Existing Use Value, Market Value or, in the case of specialised properties on the basis of, Depreciated Replacement Cost in accordance with the RICS Valuation Standards. Valuations are reviewed and signed off by the Head of Property Services who is a FRICS Registered Valuer.	Valuations on Investment properties are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. For land and buildings all material assets will be considered in 2021/22	Yes, the valuer is a member of RICS. Valuations are reviewed and signed off by the Head of Property Services who is a FRICS Registered Valuer	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion	No
Investment property valuations	See Land and Buildings valuations response above	See Land and Buildings valuations response above	See Land and Buildings valuations response above	See Land and Buildings valuations response above	No

Appendix A Accounting Estimates - Council

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	<p>Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.</p> <p>Depreciation is provided for on all assets with a determinable finite life (except for investment properties) by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.</p>	Consistent application of depreciation methods across all assets.	Discussion with internal valuer, Head of Property Services	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	No
Valuation of defined benefit net pension fund liabilities	Non-teaching staff are members of the LGPS, administered by B&NES.	Rely on the calculations made by the actuary. Challenge any unusual movements or assumptions with the actuary.	The actuary of the pensions scheme.	Reliance on the expertise of the actuaries of the pension scheme.	No

Appendix A Accounting Estimates- - Council

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Fair value estimates	The Council values financial instruments at fair value based on the advice of our external treasury consultants in line with IFRS13 requirements.	Advice taken from the Council's Treasury Management Advisors	Yes – The Council's Treasury Management Advisors	Based on advice from our Treasury Management Advisors.	No.
Provisions	Provisions are made whenever an event takes place that give the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefit or service potential, and a reliable estimate can be made of the amount.	Each provision is separately reviewed by Corporate Finance and a working paper is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No.
Accruals	We use standard accruals accounting, for example, accruals are based on expenses incurred that have not yet been paid, or income due that has not yet been received.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year.	N/A.	Accruals for income and expenditure have been principally based on known values. Where accruals have been estimated, the latest available information has been used.	No.

Appendix A Accounting Estimates - Council

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Credit loss and impairment allowances	Debts are regularly reviewed and any debts that are deemed to be irrecoverable are written off to the Comprehensive Income and Expenditure Account.	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts. The S151 officer or delegated officer signs off the write off.	N/A.	N/A.	No.

Appendix A Accounting Estimates – Avon Pension Fund

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Fair value estimates	Rely on managers and their advisors.	Officers analyse the valuation of each portfolio monthly; quarterly review of performance and valuations to test for reasonableness. ICRs (or equivalent) of external managers are reviewed annually	Managers and their Advisors	The Managers of the underlying funds and their independent administrators and valuers select the assumptions based on their expertise.	No
Provisions	Where performance related fees accrue, managers are asked to confirm what performance fee has been accrued during the year but not yet paid.	Review Internal Control reports, account statements and audited accounts.	Fund Manager	We rely on the managers to provide the evidence.	No
Accruals	In terms of contributions, the latest available contributions are used in the absence of an actual return. For management expenses estimates will also be made based on the latest invoice/expected fees.	Accruals are reviewed prior to finalising accounts	Not required	n/a	No

Appendix A Accounting Estimates – Avon Pension Fund

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Credit loss and impairment allowances	Not applicable, as value is immaterial. Only applies to assets held at amortised cost (other debtors and cash). A large amount of debtors are (contributions) which are received in April.	Actual payments received in April (contributions) and aged debt report from Debtors ledger	Not required	n/a	No
Level 2 investments	Level 2 assets are generally pooled vehicles that invest in quoted securities. Therefore valuation is derived from market observable prices.	Knowledge of investments team, valuations of custodian	Fund managers and custodians	Given valuations based on quoted/listed assets there is a low degree of uncertainty	None that we are aware of

Appendix A Accounting Estimates – Avon Pension Fund

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Level 3 investments ((Hedge funds pooled property funds secured income and infrastructure funds)	Estimates are used in the valuation of unquoted investments. The funds investments are stated at fair value. Valuations based on industry standard guidelines. Property and infrastructure funds can use independent valuers. Where deemed appropriate by the independent valuers, assumptions can be adjusted to reflect the uncertainty of future cashflows and asset values (e.g. more prudent discount rate or higher risk premia)	Knowledge of the investments team, valuations verified by custodian, discussions with managers to understand their valuation methodology.	Fund Managers, advisors and Custodians.	Level 3 valuations are inherently uncertain. Valuations can be affected by material events between the date of the financial accounts provided and the pension fund's own reporting date, by changes to expected cash flows and by any differences between the audited and unaudited accounts. Custodian/managers use appropriate valuation techniques and guidelines.	None that we are aware of.

Appendix A Accounting Estimates – Avon Pension Fund

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
IAS 26 Disclosure	Based on IAS 19 methodology and actuarial assumptions, except for demographic assumptions which are those adopted in the 2019 valuation. The calculation is carried out by the actuary, Mercers.	Rely on the calculations made by the actuary. Investments team challenge any unusual movements or assumptions with the actuary.	Yes, Mercers are actuarial experts	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No



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