

The Audit Findings for Avon Pension Fund

Year ended 31 March 2022

Avon Pension Fund

29 November 2022



Contents



Your key Grant Thornton team members are:

Peter Barber

Key Audit Partner

T 0117 305 7897

E Peter.A.Barber@uk.gt.com

Beth Bowers

Senior Manager

T 0117 305 7726

E Beth.AC.Garner@uk.gt.com

George Amos

Assistant Manager

T 0117 305 7780

E George.WM.Amos@uk.gt.com

Section

1. Headlines
2. Financial statements
3. Independence and ethics

Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees

Page

- 3
4
15
18
22
23
26

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. 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.

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1. 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 2022 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 audit in June and as at November 2022 our audit is substantially complete. This year we adopted a hybrid approach involving a combination of on-site and remote working. Our findings are summarised on pages 6 to 14.

We have identified no material errors or adjustments to the financial statements and there are no matters arising to date that would require modification of our audit opinion. We have recommended a number of other adjustments to improve the presentation of the financial statements. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

The draft financial statements were presented for audit in accordance with the agreed timetable. Whilst in the main, good quality working papers were provided to support entries, we did encounter issues that resulted in additional, unplanned audit work.

This additional work reflects the continuous raising of the bar and us as auditors providing greater challenge to the Pension Fund especially in the areas subject to greatest estimation and uncertainty. This additional time has resulted in a proposed further increase in audit fees for 2021/22 as set out in Appendix D.

Subject to a small number of audit procedures being completed, we anticipate issuing an unqualified audit opinion following the completion of the Bath and North East Somerset Council audit.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

2. Financial Statements

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 have been discussed with management prior to presentation to the Corporate Audit Committee.

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

Conclusion

We have substantially completed our audit of your financial statements and subject to a small number of outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the completion of the Bath and North East Somerset Council audit.

These outstanding items include:

- receipt of management representation letter; and
- review of the Annual report
- review of the final set of financial statements
- Completion of the 2021/22 Bath and North East Somerset Council audit.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As part of our audit procedures, we identified several issues in relation to the reconciliation of several populations, discussions about prior period adjustments and difficulty obtaining IT evidence.

This resulted in us having to carry out additional audit procedures, as summarised on page 26 to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements.

2. 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 remain the same as reported in our audit plan.

We detail in the table to the right our determination of materiality for Avon Pension Fund.

Pension Fund Amount (£) Qualitative factors considered

Materiality for the financial statements	59,000,000	We considered the proportion of 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 2022.
Performance materiality	44,250,000	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. In addition, the management and finance team remain stable.
Trivial matters	2,950,000	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'.



2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Commentary

Management override 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 by management and considered their reasonableness with regard to corroborative evidence; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our testing of estimates, judgements and journals has not identified any evidence of management override of controls. We have raised one control recommendation in Appendix A relating to our journals work.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Improper revenue recognition (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.

We rebutted this risk in our Audit Plan. 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.

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 (£1,312 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 2022.

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 2021 with reference to known movements in the intervening period
- in the absence of available audited accounts, we have evaluated the competence, capabilities and objectivity of the valuation expert
- tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register
- where available reviewed investment manager service auditor report on design effectiveness of internal controls.

Our audit work has not identified any significant issues in relation to the risk identified.

As highlighted above, our audit focuses on looking at external confirmations from both investments managers and the custodian, and as a result there will always be differences in when information is received compared to the information available when management are estimating the values for the accounts. This year, two individual differences identified were above our trivial threshold and these are detailed on page 10. The total aggregate difference identified for Level 3 investments was £8.6m.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Expenditure recorded includes fraudulent transactions (rebutted)

Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:

“As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related expenditure may be greater than the risk of material misstatements due to fraud related revenue recognition”. Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.

We rebutted this risk in our Audit Plan. 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 expenditure recognition.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £1,312m	The Pension Fund has investments in pooled property funds, pooled infrastructure funds, a long term investment and hedge funds that in total are valued on the balance sheet as at 31 March 2022 at £1,312m. These investments are not traded on an open exchange/market and the valuation of the investments 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 who are independent from the fund managers who can advice on the performance of this type of investments. The performance of these investments are scrutinised by the pension fund investment board. The value of the investment has increased by £158m in year, and level 3 investments and now account for 22.5% of the fund.	<p>As outlined in our testing of the valuation of level 3 investments we have;</p> <ul style="list-style-type: none"> - Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate, - Considered the valuation techniques used against industry practice, and - Reviewed the adequacy of disclosures of estimate in the financial statements. <p>Our findings in relation to the testing of Level 3 investments identified small estimation differences. The total aggregate difference identified for Level 3 investments was a potential overstatement of the estimates by £8.6m.</p> <p>Two differences identified were individually greater than our trivial threshold:</p> <ul style="list-style-type: none"> • A difference of £3.4m in the Brunel Secured Income Standard Life Fund when compared to the latest available audited accounts of the fund; and • A difference of £6.7m in the Brunel Secured Income Greencoat Fund when compared to the latest available audited accounts of the fund 	Blue

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £4,217m	The Pension Fund investments in level 2 on the balance sheet as at 31 March 2022 total £4,217m. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. 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 who are independent from the fund managers who can advise on the performance of this type of investments. The performance of these investments are scrutinised by the pension fund investment board. The value of the investments has increased by £297m compared to the prior year.	<p>Similar to our approach for level 3 investments, we have;</p> <ul style="list-style-type: none"> - Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate, - Considered the valuation techniques used against industry practice, and - Reviewed the adequacy of disclosures of estimate in the financial statements. <p>Our findings in relation to the testing of Level 2 investments identified some estimation differences. Most of the individual differences identified were not above our trivial threshold. The total aggregate difference identified for Level 2 investments was a potential understatement of the estimates by £9.3m.</p> <p>Only one difference identified was greater than our trivial threshold:</p> <ul style="list-style-type: none"> - A difference of £7m in the Brunel Global Sustainable Mutual Fund when compared to the latest available audited accounts of the fund. 	Blue

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Valuation of Pension Fund Liability	The fund has elected to take 'option B' from IAS 26 when considering the actuarial present value of promised retirement benefits, and as such presents this as a note to the accounts. Management have obtained this information from the actuary for the fund. The actuary has been provided with all of the necessary information using the annual returns required, which results in the actuary producing the valuation and required reporting paragraphs. The principal assumptions used by the actuary are in respect of mortality (longevity at 65 for current and future pensioners) and financial assumptions: rate of CPI inflation, rate of increase in salaries, rate of increase in pensions and rate for discounting scheme liabilities. The Council's Pension & Investments Manager communicates with the externally appointed actuary throughout the year and the year-end report is considered by management prior to inclusion in the financial statements.	<p>We have;</p> <p>Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate,</p> <p>Considered the data upon which the valuation has been based</p> <p>Considered the reasonableness of the assumptions used, and</p> <p>Reviewed the adequacy of disclosures of estimate in the financial statements.</p>	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.
Measurement of Financial Instruments	The Fund values its financial instruments at fair value, as informed by the advice of external and independent Management advisors and Investment Fund Managers. Fair values are estimated by calculating the present value of cash flows that take place over the remaining term of the instruments, as provided by management experts. Management consider the exposure of each of its categories of financial instruments to credit, liquidity and market risks. Risks to accounting estimates used in our measurement of financial instruments are managed through our Pensions Investment Strategy Statement and the Funds overall risk management procedures which focus on the unpredictability of financial markets to minimise potential adverse effects on the resources available to fund sources.	<p>We have;</p> <p>Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate,</p> <p>Considered the valuation techniques used against industry practice, and</p> <p>Reviewed the adequacy of disclosures of estimate in the financial statements.</p>	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

Assessment

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

2. Financial Statements - 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
<p>The draft financial statements were presented for audit in accordance with the agreed timetable. Whilst in the main, good quality working papers were provided to support entries, we did encounter issues that resulted in additional, unplanned audit work.</p> <p>This additional work reflects the continuous raising of the bar and us as auditors providing greater challenge to the Pension Fund especially in the areas subject to greatest estimation and uncertainty. This additional time has resulted in a proposed further increase in audit fees for 2021/22 as set out in Appendix D.</p>	<p>Additional work was required due to the following issues:</p> <ul style="list-style-type: none"> - The Purchases and Sales populations did not reconcile to the draft financial statements - We encountered reconciliation issues with the Benefits population provided to us, which resulted in delays in being able to select our sample of benefits paid. - We identified two potential prior period errors that we discussed with the financial statements team and our financial reporting colleagues in order to determine whether prior period adjustments were required. Neither error impacted the primary statements. One presentational error was adjusted and the other was not material. - We experienced difficulties obtaining IT audit evidence, which required additional time input to resolve. - The derivatives population did not easily reconcile to the draft financial statements, and we identified some adjustments that were required to the disclosure.

2. Financial Statements - other communication requirements

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

Issue	Commentary
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 other 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	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation will be requested from the Pension Fund.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all of the fund managers that work with the Fund and all banking institutions that management. This permission was granted and the requests were sent, of these requests all were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement 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 difficulties in obtaining a population for purchases and sales testing. We also identified a few differences in reconciliations between notes in the financial statements.

2. Financial Statements - other communication requirements



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).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> 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 entity'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, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Pension Fund and the environment in which it operates the Pension Fund's financial reporting framework the Pension Fund's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	Our review of the Pension Fund Annual Report is underway, but has not yet been completed.
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 Funds Annual Report at the same time as our audit opinion.



3. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical 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 Council'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

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

3. Independence and ethics

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.

Service	Fees £	Threats identified	Safeguards
Audit related			
Audit of Brunel Pension Partnership Limited (BPP)	40,000	None	<p>We do not consider the audit of BPP as a threat to our independence as Avon Pension fund cannot exercise control over BPP.</p> <p>The audit of BPP is carried out by a specialist team, authorised by the Financial Standards Authority.</p> <p>The fee of £40,000 is not significant compared to the audit fees of the ten participating pension funds.</p> <p>Please note this fee is not included in the financial statement of Avon Pension Fund as is payable by BPP.</p>
Non-audit Related			
Provision of IAS 19 Assurances to Scheme Employer auditors	12,000 (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 form 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 Corporate Audit Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified [X] 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 these recommendations during the course of the 2022/23 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
	<p>As part of our risk assessment procedures around Journals, we identified that the fund were reviewing all journals at year end rather than throughout the year.</p> <p>We also identified that user reviews are scheduled to take place quarterly. Both findings leave the fund open to significant time passing before issues are identified.</p>	<p>We recommend that journal reviews are undertaken monthly rather than at year end and that reviews of user listings are undertaken monthly rather than quarterly.</p> <p>Management response</p> <p>Agreed - journal reviews and user reviews will be undertaken monthly instead.</p> <p>Journal reviews are not the only way that issues are identified, though. Budget monitoring, contributions monitoring, bank reconciliations and reporting to the Actuary will often pick up issues more promptly.</p> <p>User reviews are not the only check on user access. The B&NES Financial Systems Team have processes around starters and leaver access.</p>
	<p>Our reconciliation of the current year comparative figures to last year's Avon pension Fund Annual Report identified two immaterial differences in the figures published to those included in the 2021-22 draft financial statements. We identified that the fund had included the correct figures in the B&NES Signed accounts for 2020-21, but that the Pension Fund Annual Report had not been updated.</p>	<p>We recommend that further checks are performed prior to publication of final audited statements to ensure that all audit adjustments have been reflected. It is the audited body's responsibility to publish the appropriate statements. Through our financial statements review where prior year comparator figures are referenced through to published prior year statements, there were some inconsistencies within the Related Parties and Financial Instruments notes. These figures had been updated in the BANES accounts, however the final published APF annual report still displayed 20/21 draft figures.</p> <p>Management response</p> <p>Agreed - the post audit adjustments should have been reflected in the Annual Report. Further checks will be implemented to ensure that this doesn't happen in the future.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	<p>Our journals testing identified one off ledger adjustment. While this year the adjustment is trivial in value, there is a risk that off ledger adjustments are incorrectly processed or accidentally excluded.</p>	<p>We recommend that this adjustment is moved onto the ledger in the future.</p> <p>Management response</p> <p>Agreed - for completeness this adjustment will be posted to the ledger in 22/23.</p> <p>The adjustment relates to tax on lifetime allowances. When a member takes their benefits, if the capital value of those benefits is more than the lifetime allowance, tax has to be paid on the excess. APF offer to pay the tax upfront and are reimbursed from pension deductions over time (creating a long term debtor in the Accounts). The current lifetime allowance is £1,073,100, so this affects very few members when they retire.</p>
	<p>Our contributions testing identified that one Pension Fund officer altered the benefits reconciliation to reflect a value different to one of the admitted bodies LGPS 50 forms. The amendment was made to reflect the fact that the admitted body was suggesting their return was incorrect.</p>	<p>We recommend that where errors are identified in LGPS 50's their either new ones are submitted by the admitted body, or that these are explained as reconciling items and that the reconciliations are not amended.</p> <p>We also recommend the fund implements a form of exception report which identifies when members contributions are out of line with the matrix.</p> <p>Management response</p> <p>Agreed – a reconciling item should have been added instead for this. To put this into context, the value of the adjustment was relatively small, £1,279.44 (monthly contributions of £9m). Also, it is not possible to change the original LGPS50 form, this was an amendment to a csv download file, used in the contributions reconciliation.</p>
	<p>We identified that management are not reporting their derivative assets and liabilities gross, but are accounting for them net.</p>	<p>While the difference is not material in the current period, we recommend that management reports gross assets and liabilities moving forward.</p> <p>Management response</p> <p>Agreed - derivative assets will be reported gross from 22/23 onwards.</p>
	<p>We identified that management are not updating cyber security policies</p>	<p>While the policies are readily accessible by staff, we recommend that they are updated on a regular basis to ensure they remain relevant.</p> <p>Management response</p> <p>Agreed. This is something we are aware of and we are taking active steps to address this at the moment. For instance, the council is implementing a cyber resilience roadmap, is engaging with an external partner to deliver a cyber response plan, is updating its intranet pages on cyber security and has started an internal policy working group who are currently reviewing all IT policies.</p>

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	<p>Inadequate oversight around generic user in Agresso application</p> <p>During the audit, we obtained and inspected the evidence relating to the administration of generic accounts with privileged access within the Agresso application and observed that the access to a generic account [Administrator] is shared between the multiple administrators from Finance systems department. The Council has no controls in place to monitor the appropriateness of the activities performed by the account.</p> <p>Risk:</p> <p>The use of generic or shared accounts with high-level privileges increases the risk of unauthorised or inappropriate changes to the application or database. Where unauthorised activities are performed, they will not be traceable to an individual.</p> <p>Also, without appropriate audit logging and monitoring, unauthorised activities may not be detected in a timely manner, can go unnoticed, and evidence of whether the attack led to a breach can be inconclusive.</p>	<p>It is recommended that:</p> <ul style="list-style-type: none"> • Where possible, generic accounts should be removed, and individuals should have their own uniquely identifiable user accounts created to ensure accountability for actions performed. • Alternately, the Council should implement suitable controls to limit access and monitor the usage of these accounts (i.e. through increased use of password vault tools / logging and periodic monitoring of the activities performed). • Where monitoring is undertaken this should be formally documented and recorded. <p>Management response</p> <p>The admin user ID is assigned to overnight processes and automated processes. Individuals with systems access have their own systems admin access that they use, they have no need to log in as the admin user and this is actively discouraged. In addition amendment logging is activated which gives an audit trail of actions the individual has performed on the database.</p>
	<p>Lack of controls over granting new user access within Altair application</p> <p>Altair</p> <p>For a sample user, we noted that the new user access to be mirrored with appropriate user was not mentioned clearly in the new user creation form to verify appropriateness of roles granted against roles approved and had incorrect permissions to be granted within Altair. This lack of information made it difficult to verify whether the permissions requested versus the permissions granted were aligned, or whether the permissions requested were appropriate for the user's role.</p> <p>Risk</p> <p>User access may not be appropriately aligned to job role requirements which may lead to inappropriate access within the application or underlying data.</p>	<p>It is recommended that the Council ensure that all requests for user permissions are specifically defined in the new user creation form in order to provide a suitable audit trail.</p> <p>Management response</p> <p>The front-end user would have little knowledge of the back-office roles. The roles would be assigned by systems admin based on the requested team and job title on the request form. A new user request form is in development that will ensure the requester has sufficient knowledge of the roles the new user will be assigned to.</p>

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	<p>Lack of controls over user access amendments within Altair and Agresso application</p> <p>Altair: For a sample user, we noted that the existing user access request via email does not define the specific access rights that should be assigned to the user. This lack of information made it difficult to verify the appropriateness of user's access to the new access role.</p> <p>Agresso: For a sample user, we noted that the existing user access new request was not approved by appropriate Line manager as described in the Agresso user form. However, we noted that the existing user access request was approved by an appropriate user from the Budget team and access was provided by Financial Systems Team.</p> <p>Additionally, it was noted that there was system limitation to obtain the access modification date from the Agresso system which made it difficult to identify the date when the access was modified within the system to verify that the access was granted in the Agresso system after the access requested was approved.</p> <p>Risk</p> <p>User access may not be appropriately aligned to job role requirements and may lead to inappropriate access being gained to the application and/or inappropriate changes being made to underlying data.</p>	<p>It is recommended that the Council should develop formal user access management procedures to ensure activities are consistently performed, logged and monitored.</p> <p>Where user access is modified, Council should proactively review existing user access prior to additional access rights being granted. This should ensure only access required for the user's new role remains assigned and that no segregation of duty threats are created.</p> <p>It is also recommended that Council ensure that all requests for user permissions are specifically defined in the user amendment form in order to provide a suitable audit trail.</p> <p>Management response</p> <p>In Altair a new user form will be adapted to revise the process and further define access rights that should be assigned to the user.</p> <p>In Agresso it is noted that on this one occasion the line managers approval was not sought. Staff will be reminded of this within the financial systems team and budget reporting team.</p> <p>The access modification date is available within Agresso, but you would need access to amendment logging and the knowledge of how to interrogate the database to retrieve this information. It is available and can be reported on, but non privileged users can't see this.</p>
	<p>Lack of review of security/audit logs in Agresso</p> <p>It was noted that whilst security/audit logs are enabled in Agresso, they are not proactively monitored or reviewed.</p> <p>Risks</p> <p>Without formal and routine reviews of security event logs, inappropriate and anomalous activity may not be detected and resolved in a timely manner.</p>	<p>It is recommended that security/audit event logs are reviewed on a regular basis for example daily or weekly, ideally by an IT security personnel/team who are independent of those administrating Agresso. Any issues identified within these logs should be investigated and mitigating controls implemented to reduce the risk of reoccurrence.</p> <p>Management response</p> <p>Key alerts are already set up on Agresso and are called intel agents and are ran automatically for things such as amendments to Bank accounts, pay runs. Which are reviewed externally. These intel agents will be reviewed.</p>

B. Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Pension Fund's 2020/21 financial statements, which resulted in one recommendation being reported in our 2020/21 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	At the time of concluding our audit of the Fund for 2019-20, we were alerted to a breach of the Fund's requirement to submit pension savings statements. Whilst this was not reported in 2019-20, we recommended that management ensure there were no further breaches through late submissions of statements. We confirmed at the time that there were no breaches during 2020-21.	We followed up on the previous breaches and identified that there have been no significant breaches identified in 2021/22.

Assessment

- ✓ Action completed
- X Not yet addressed

C. 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

There were no adjusted misstatements above trivial for the year ending 31 March 2022.

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	Auditor recommendations	Adjusted?
General amendments to presentation, grammar, rounding and typographical errors were made in various areas of the accounts.	We brought these to the attention of management, who adjusted most of these errors.	✓
Our testing of Note 9 identified that Cash Deposits Purchases at Cost, Sales Proceeds and Change in Market Value were calculated using the 20/21 purchases and sales report not 21/22. The values were adjusted by the following amounts: Purchases at Cost: £286,461k Sales Proceeds: £249,288k Change in Market Value -£37,173	We recommended that management adjust for the error, which they did.	✓

C. Audit Adjustments

Misclassification and disclosure changes continued

Disclosure omission	Auditor recommendations	Adjusted?
<p>Note 9 disclosure was updated for the property pooled investments disclosure as the draft disclosure did not include the Unitised Insurance Policies.</p> <p>The values were adjusted by the following amounts: Purchases at Cost: £575,000k Sales Proceeds: £574,903k</p>	We recommended that the note was updated and management appropriately adjusted for the omission.	✓
In the Fund's draft financial statements, Note 25 incorrectly included Aramark Limited - South Gloucestershire and Stroud College as an employer however they are no longer an admitted body of the fund.	This was included as the fund were not notified of their leaving until after the accounts were produced. We recommended the note was updated and management	✓
<p>Our testing of the draft Derivatives Note (Note 10) identified the following errors:</p> <p>Transposition errors between currency bought and currency sold for those instruments with a settlement date of 6-12 months.</p> <p>Misclassification of some investments as having a settlement date of within one month of year end, when in fact they had a settlement date of 28/04/23, which is >1 year.</p>	Client agreed this was a mistake and amended the disclosure. The net value of derivatives was unchanged. The note was adjusted to remove £77m bought, £101m sold and £257k net gain out of the GBP to USD less than one month line to create a new line in the table.	✓
Our contributions testing identified some reconciliation differences between monthly i-connect payroll listings and transaction listing for employee contributions. The total difference was £3.5m.	The differences have not been adjusted for as their cause is unknown.	✓
The sensitivity of assets valued at Level 3 which was disclosed in the draft version of Note 24 included incorrect calculations. The 'Property' and 'Fund of Hedge Funds' 10% value on increase and 10% value on decrease were incorrectly stated.	We recommended that these were adjusted and management processed the amendment.	✓
In the draft version of Note 24, we identified that the pooled investments title had slipped below the Equities line.	We recommended that this was adjusted for clarity of disclosure, and management processed the amendment.	✓

C. Audit Adjustments



Impact of estimation differences

The table below provides details of estimation differences identified during the 2020/21 audit which have not been adjusted within the final set of financial statements.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Testing of Level 2 investments identified a potential understatement of the estimate	9,289	9,289	9,289	Amount is not an error, but estimation difference
Testing of Level 3 investments identified a potential overstatement of the estimate	-8,640	-8,640	-8,640	Amount is not an error, but estimation difference
Overall impact	£649	£649	£649	

Impact of prior year unadjusted misstatements

There were no unadjusted misstatements in the prior period.

D. Fees

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

Audit fees	Proposed fee	Final fee
Pension Fund Audit Scale Fee	22,180	22,180
Additional Fees previously raised*	19,475	19,475
Additional Fees:		
Reconciliation issues: benefits, Purchases & Sales		5,000
Prior period Adjustment discussions		2,500
Difficulty obtaining IT evidence		1,000
Derivatives		3,500
Total audit fees (excluding VAT)	£41,655	£53,655

*Additional fees previously raised relate to those included in the prior period and are as a result of increased requirements of the regulator, new ISAs and new audit approaches.

Non-audit fees for other services	Proposed fee	Final fee
IAS 19 work	7,000	12,000
Total non-audit fees (excluding VAT)	£7,000	£12,000

The proposed fees for our IAS 19 letters of assurance to admitted body auditors has increased by £5,000 since planning. This reflects the additional work undertaken this year to enable us as the Pension Fund auditor to respond to the increased number of areas for assurance sought by the admitted body auditors. We anticipate these higher fees to continue going forward.

Reconciliation of Audit Fees to Financial Statements

The Fund disclosed Audit Fees relating to 2021/22 of £41,655 in it's statements (included within the Audit Fee note as part of External and internal Audit costs).

Our proposed fees for 2021/22 are £53,655.

The difference of £12,000 relates to the proposed additional fees included in this report.

The Fund disclosed Audit Related Fees for 2021/22 of £7,000 in it's statements.

Our proposed fees for 2021/22 are £12,000

The difference of £5,000 relates to the proposed additional fees included in this report.

