

The logo for Audit West features the company name in a bold, orange, sans-serif font. The text is centered between two horizontal grey lines. A grey diamond shape is positioned behind the top line, pointing downwards towards the text, and another grey diamond shape is positioned behind the bottom line, pointing upwards towards the text.

Audit West

**Internal Audit Report
Confidential**

Avon Pension Fund

Pension Investments Reporting

August 2023

Executive Summary

Audit Opinion:

Assurance Rating	Opinion
Level 5 - Full Assurance	The systems of internal control are excellent with a number of strengths, no weaknesses have been identified and full assurance can be provided over all the areas detailed in the Assurance Summary.
Level 4 - Substantial Assurance	The systems of internal control are good with several strengths evident and substantial assurance can be provided as detailed within the Assurance Summary.
Level 3 - Reasonable Assurance	The systems of internal control are satisfactory and reasonable assurance can be provided. However, there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan.
Level 2 - Limited Assurance	The systems of internal control are weak and only limited assurance can be provided over the areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the levels of risk exposure.
Level 1 - No Assurance	The systems of internal control are poor, no assurance can be provided and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure.

Assurance Summary:

Assessment	Key Control Objectives (To avoid following risks)
Substantial	1. To ensure that the Brunel Pension Partnership provides accurate and timely monitoring reports that give assurance all investment portfolios are being managed in line with the Portfolio Guidelines.
Substantial	2. To ensure that the Avon Pension Fund Committee/ Panel receive accurate and timely reports to enable robust oversight and decision-making on BPP investments.

Detailed Report

Opinion

Internal Audit has undertaken a review of the risks and controls related to Avon Pension Fund – Pension Investments Reporting and assessed the framework of internal control at Level 4 – Substantial Assurance. A total of four audit recommendations are detailed in the Action Plan.

Scope and Objectives

The scope and objectives of our audit were set out in the Audit Brief and a summary of our opinion against each of the specific areas reviewed is shown in the Assurance Summary section above.

Context & Audit Comment

Pension Fund Committee

The role of the Avon Pension Fund Committee is to discharge the responsibilities of Bath and North East Somerset Council in its role as lead Authority for the administration of the Avon Pension Fund (APF). The Committee has sixteen members, including Councillors, Trade Union representatives, and independent members.

We confirmed that an up-to-date Terms of Reference was in place for both the Committee and the Panel (see Investment Panel section below), that contained clear responsibility for monitoring of Brunel Pension Partnership (BPP) managed assets. At the time of testing, however, we noted that the Terms of Reference version included within the published Constitution, was incorrectly dated June 2021 instead of June 2022, and missing a clause that had been agreed in the draft version sent to Democratic Services.

We reviewed a summary of investment training provided to the Committee members and discussed this with the Group Manager for Funding, Investment & Risk. In March 2023, the Committee approved a recommendation that should ensure all members complete the Hymans LOLA training modules, helping to ensure a consistent baseline level of understanding relating to investments. Due to the recent elections, and subsequent changes within the Committee, we recommend that all members complete this training as soon as is practicable, and at the very latest by the end of the twelve month period as agreed by the Committee.

A review of Committee Papers verified that monitoring of BPP managed assets is regularly undertaken. All meetings examined appear to have been quorate, although we noted some instances where members had not attended three meetings in a row. The Group Manager for Funding, Investment & Risk has informed us that the members in question were now standing down. Furthermore, their absences would not have prevented the Committee's from undertaking its duties, as those absent were non-voting members.

Committee papers indicated that a representative from Mercer, the Pension Fund's independent advisors, attended all Committee meetings. BPP representatives had attended less often however we did see some evidence of attendance, for example in the September 2022 Committee meeting which discussed Responsible Investment. In our discussion with the Investment Manager, it was indicated that the level of attendance by BPP was sufficient and that, if necessary, they could be asked to attend additional meetings.

Meeting minutes had captured discussion arising from the reports, including questions raised by Committee members.

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To ensure consistent messaging, such as the overall level of investments was being delivered to both Committee and Panel, we compared some headline information within the covering officer reports to both Committee and Panel, as well as the Mercer Reports, and found no cause for concern.

Quarterly Investment reports from Mercer and APF that summarised BPP managed investments, and that were provided to the Committee for discussion, were timely.

Investment Panel

The Investment Panel is a subset of the Pension Fund Committee, whose primary role is to consider in detail, matters relating to the investment of the assets within the strategic investment framework, and performance of investment managers in achieving the Fund's investment objectives.

Panel meetings over the last twelve months had been quorate and well attended. The agenda for Panel meetings appeared more routine than that for the Committee, with every meeting having a review of investment performance that included the Quarterly Performance and Monitoring Reports from both BPP and Mercer.

All meetings were attended by a representative from Mercer, with BPP attending by exception, such as the May 2022 Panel meeting which included a presentation on the Multi Asset Credit Portfolio.

Investment reports from both BPP and Mercer were timely, and meeting minutes evidenced investment discussions taking place with queries being raised by the Panel members.

We spoke to one of the independent members of the Committee/Panel, to obtain a direct view of whether reporting is fit for purpose. The response was very positive, with the member indicating that reporting by Brunel is of a good standard and would serve as an example of best practice which other funds/pools could learn from. Some areas are still being actively enhanced however, for instance ensuring the right balance of performance information that is taken to the Committee.

Investment Strategy Statement (ISS)

The ISS is important for several reasons. It establishes the governance arrangements for investments, investment objectives and beliefs, specifies how the fund incorporates Responsible Investment (RI), and sets out the strategic asset allocation, benchmarks, and permitted ranges. Our review of recent performance reports from BPP confirmed that they followed the requirements as set out in the ISS.

Our testing confirmed that APF have a current ISS in place, having been approved by the Pension Fund Committee in March 2023. The previous ISS had been approved by the Committee in September 2020. Both versions were broadly similar in terms of format, with some changes to the content noted, such as rebalancing of target allocations of long-term assets.

Portfolio Options

The Brunel Pension Partnership has put together a range of portfolios designed to cater specifically for the needs of its Pension Fund members. A copy of the Portfolio Specifications document was provided and reviewed. The Specifications include information such as the 'absolute risk' for each of its portfolio options, enabling clients to take this into account when deciding where to allocate funds.

Reporting Requirements

From our initial discussions it was indicated that requirements for reporting would have been initially established within the Service Level Agreement between BPP and APF. A copy of this agreement was obtained and reviewed. We confirmed that key reporting requirements were included for example, the requirement to provide standard investment performance reports on a quarterly and annual basis, as well as portfolio performance information and total fund performance.

Reporting Format

The reporting format used by BPP has gone through a number of iterations and a working group is currently in place to determine whether additional investment information would provide added value, for example information related to responsible investing and private markets.

However, the Investments Manager confirmed that the core portfolio information provided to APF would remain unchanged.

Timeliness of Reporting

Our testing confirmed that both the quarterly performance reports and individual portfolio reports were received timely to enable investment decisions to be made. A secure portal is used for exchanging reports and queries, and notifications are sent to APF when new data is available.

Level of Information Provided within BPP Reports

We obtained copies of recent reports from BPP to consider independently the level of detail provided. This included the quarterly performance report to December 2022 (as presented to the Investment Panel in March 2023), as well as a sample of the individual portfolio reports and we concluded that the level of information provided is detailed and extensive. The quarterly performance report for instance is broken down into logical sections which, for example, start with a high-level summary of the fund, then it provides a breakdown by asset class, asset allocation including variance from the strategy, sections on responsible investment and risk and return, a commentary from the BPP Chief Investment Officer, and a longer section which provides a more detailed overview for each portfolio holding. The report makes good use of charts and graphs to display data which helps make the key information more accessible and easier to identify and read.

The individual portfolio reports, provided by BPP, are not taken to the Panel or Committee but are used by the APF Investment Team for their monitoring activities. From the sample provided, each of these reports also provides notably more information than would be possible in the quarterly performance report.

We also reviewed the report provided by Mercer for the period up to December 2022 (also presented to the Investment Panel in March 2023). This report was of a similar length to that provided by BPP and whilst it does mirror the information within the BPP reports, it also provided a higher level and broader independent perspective for example by providing their market analysis and views and current topics of interest.

Data Quality

To support effective monitoring and decision making, reported information must be reliable. APF Officers provided verbal assurance that when reports are received from BPP, these are reviewed and checked for reasonableness by the Investments Team and would be discussed during team/group meetings. These checks do not seek to verify individual figures, but rather ensure that the report appears reasonable and in line with expectations.

A monthly investment reconciliation spreadsheet is produced by the APF investment team, based on data obtained from State Street, who are the official Custodians of BPP managed investments. The purpose of the reconciliation is to review the movement in the value of assets compared with the prior period along with a comparison against the

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benchmark index. However, the spreadsheet does not include a corresponding figure from the latest BPP report, so it does not allow a direct correlation with BPP figures. The Investment Manager said that as both APF and BPP obtain the raw data from the custodian State Street, it is expected that the information contained will be the same. To prevent potential errors, we have recommended that the spreadsheet includes the total fund figure from BPP data and the checking officer details.

To ensure that reported data had been accurately reported, we selected two data points from the BPP performance report that were presented to the Investment Panel in March 2023, and a further two from the Investment Dashboard report prepared by APF and presented to the Pension Committee in June 2023. APF were able to provide supporting evidence for the reported figures, which agreed to the source information. BPP were likewise able to provide supporting spreadsheets which matched the figures included in their performance report. Financial data which is used within the BPP performance reports passes through a number of agencies before reaching BPP, including for instance Trucost, State Street, Opus Nebula and finally BPP. BPP have stated that State Street, being the custodian, is primarily responsible for cleansing, auditing, and assuring the integrity of all data before it makes its way into BPP reporting. BPP hold quarterly service review meetings with their suppliers, where they discuss any identified issues with data being provided.

BPP provided email assurance that QA is performed by their team via the Opus Nebula platform. The team are required to approve the data through a workflow system of sequential approvals before the final .pdf becomes available for distributing to client portals. Approval is not only sought from the Investment Team but also the Head of Listed Markets, Head of Communications, and Head of Client Relations.

We identified the following strengths:

- An Investment Strategy Statement is in place and up to date.
- Reporting requirements are formally established within a Service Level Agreement.
- BPP provide a Portfolio Specification document which includes a risk profile for each asset option.
- Performance and portfolio reports provided by BPP are timely and detailed.
- BPP teams perform QA checks which require approval prior to releasing data to APF.
- APF produce their own informal reconciliation each month with data obtained directly from State Street.
- Terms of Reference for the Committee and Panel establish responsibility for monitoring BPP managed assets.
- A standard level of training for all Committee members has been approved.
- Committee and Panel meetings are well attended and regularly consider BPP managed investments.

We identified the following weaknesses:

- Not all members have completed the approved Hymans LOLA training programme.
- Information within the Constitution relating to the Committee Terms of Reference was not always reliable.
- The valuation/reconciliation document produced by APF each month would benefit from further development.
- Procedures to support the reconciliation produced by APF could be updated and version control information added.

Audit & Risk Personnel

Lead Auditor: Gary Spratley

Acknowledgements:

Sincere thanks to Liz Woodyard, Group Manager for Funding, Investment & Risk, and Nathan Rollinson, Investments Manager, for their help and assistance provided throughout the Audit review.

Action Plan

MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
M1	<p><u>Member Training</u></p> <p>The Pension Fund Committee have recommended that all members complete the Hymans LOLA training, which includes relevant training on investments.</p> <p>Testing found that not all members have completed this training, however, in part due to the change in Committee membership following the May 2023 elections.</p>	<p>If Committee members are not sufficiently trained, this may impact their ability to understand investment reports and adversely impact their investment decisions.</p>	<p>Once the new Committee and Panel structures have been agreed, the Investments Manager should ensure that all members complete the training as soon as practicable.</p>	<p>Agreed.</p> <p>Responsible Officer: Carolyn Morgan, Governance & Risk Manager</p> <p>Implementation Date: 31 March 2024</p> <p>Management Comments: We have a training policy and plan in place for Committee. It was agreed at Committee in Dec 2022 that all Committee members would study the Hymans modules within one year of becoming a Committee member and every three years after that.</p>

<p>M2</p>	<p><u>Reconciliation</u></p> <p>The monthly valuation spreadsheet produced by the APF investments team, using data obtained directly from State Street, did not:</p> <ul style="list-style-type: none"> - Record the name of the officer checking the spreadsheet or the date of the check. - The Investment Manager did not record the date of the review. <p>Further, the document summary page shows the fund total, as calculated by APF, but it does not include a comparison total from the most recent BPP performance monitoring report.</p>	<p>Unable to demonstrate that checks are completed in a timely manner.</p> <p>Unable to reconcile the accuracy of the fund totals.</p>	<p>The Investments Manager should ensure that the valuation spreadsheet records:</p> <ul style="list-style-type: none"> - Name of the checking officer and the date of completion. - Date of review by the Investment Manager. - A comparison total from the most recent BPP performance report. 	<p>Agreed</p> <p>Responsible Officer: Nathan Rollinson, Investments Manager</p> <p>Implementation Date: 31 October 2023</p> <p>Management Comments: Regarding the comparison with figures reported by BPP, we will add the quarterly figure from the latest Brunel performance report. This will need to be done retrospectively as the Brunel reports relate to the previous quarter whereas our own valuations are current.</p>
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LOW RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
L1	<p><u>Terms of Reference Update</u></p> <p>The Terms of Reference version included within the published Constitution, as at the time of testing, was incorrectly dated June 2021, and missing a clause that had been agreed in the draft version submitted to Democratic Services for inclusion in the updated Constitution in July 2022.</p> <p>It was also noted that the version of the Constitution submitted to Full Council for ratification in 2022 also included the incorrect date and also omitted the same clause.</p> <p>The missing clause (17), was from the section relating to Officer Delegations.</p>	<p>Relevant changes within the Terms of Reference for the Avon Pension Fund Committee and Panel may be missed resulting in Members not being aware of the full scope and limitations of their duties.</p>	<p>The Investments Manager should ensure that any changes made to the Terms of Reference are updated fully within the constitution.</p> <p>The Investments Manager should confirm that the updated Terms of Reference have been endorsed by Full Council and take relevant corrective actions as necessary.</p>	<p>Agreed.</p> <p>Responsible Officer: Carolyn Morgan, Governance & Risk Manager</p> <p>Implementation Date: 31 October 2023</p> <p>Management Comments: We are confident that all changes had been notified to Democratic Services and have provided evidence of this to the auditors.</p> <p>We agree however that the item in question does appear to be missing and will take this up with Democratic Services.</p> <p>We will also endeavour to follow up on any future changes to ensure they have been correctly incorporated to the Constitution.</p>

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L2	<p><u>Procedures</u></p> <p>The monthly valuation spreadsheet procedure document does not include version control information.</p>	<p>Outdated or redundant information could be distributed and used for decision making purposes.</p>	<p>The Investments Manager should ensure the monthly valuation spreadsheet procedure document includes version control.</p>	<p>Agreed.</p> <p>Responsible Officer: Nathan Rollinson, Investments Manager</p> <p>Implementation Date: 31 October 2023</p>
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