

Bath & North East Somerset Council		
MEETING:	LOCAL PENSION BOARD - AVON PENSION FUND	
MEETING DATE:	5 th December 2024	AGENDA ITEM NUMBER
TITLE:	Internal Audit Update	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
Appendix 1 – Internal Audit Report - Pensions Payroll		
Appendix 2 – Internal Audit Report - Pensions Increases		
Appendix 3 – Internal Audit Report - APF Scheme of Delegation		
Appendix 4 – Internal Audit Report - APF Year-End Processes		
Appendix 5 – External Audit – APF Audit Findings Report		

1 THE ISSUE

- 1.1 The purpose of this report is to provide an update on Internal Audit activity since the last report to the Pension Board on 7th December 2023.
- 1.2 The Board should consider the report and the appendices in the context of their understanding of the performance and management of the fund.

2 RECOMMENDATION

- 2.1 The Pension Board is asked to –
 - a) Note the report and the outcomes of the Internal Audit and External Audit work carried out on behalf of the Avon Pension Fund.
 - b) Comment on any areas for potential inclusion in the 2025/26 Internal Audit Plan.

3 FINANCIAL IMPLICATIONS

- 3.1 The assurance work carried out by Internal Audit is performed within the budget agreed with the Avon Pension Fund.

4 REPORT

2023-24 & 2024-25 Internal Audit Work

- 4.1 The work of the Internal Audit Service is to provide independent assurance to the Avon Pension Fund's (APF) senior officers and members that governance, risk management and the related framework of internal controls are sufficient in ensuring delivery of the APF's objectives.

An annual programme of internal audits of APF governance and operations is scheduled based on the annual audit planning process which is used to assess risks that could impact the Pension Fund.

4.2 This report provides an update on progress in delivering the programme of work since the last update report presented to the Pension Board. Four audit reports have been issued, and the table below summarises the Assurance Level assigned to each internal audit review:

Audit	Assurance Opinion	Appendix
Pensions Payroll	Substantial (Level 4)	1
Pension Increases	Reasonable (Level 3)	2
APF Scheme of Delegation	Reasonable (Level 3)	3
APF Year-End Processes	Reasonable (Level 3)	4

4.3 The Pension Increases (PI) audit was assigned a “Reasonable” Assurance rating.

Overall, there are adequate internal controls within the annual pension increase process to ensure that increases are being paid accurately and timely to pensioners. In terms of the historical issue of pensioners not receiving pension increases, Internal Audit acknowledge that the Quality Assurance team are still progressing 400+ cases and it is expected that all cases should be resolved by the end of December 2024.

We identified two high risk weaknesses where improvements should be made to current PI controls, and these were:

- Reconciliation of pension admin and payroll records were not carried out to verify that all pension increases had been processed. The implication being that pensioners were underpaid and linked to that compliance failures needed to be reported to the Pension Regulator.
- Warning messages - Management reports generated for this year's PI increase did highlight a high volume of warning messages. This detective internal control was not acted on to correct the errors being reported.

This report had a total of two high risk weaknesses and five medium risk recommendations. Management commitment and support was positive and they agreed to implemented all recommendations by April 2025.

4.5 The APF Scheme of Delegation audit was assigned a “Reasonable” Assurance rating. A total of seven medium risk and three low risk recommendations were made for this piece of work. Management engagement was positive and they agreed to implement all recommendations by December 2024.

- 4.6 APF Year-End Processes was assigned a “Reasonable” Assurance rating and a total of thirteen medium risk and four low risk recommendations were reported. We are pleased to report that staff and management were supportive of the audit findings and that six medium and three low risk recommendations were actioned during the fieldwork, with the remaining eight due for implementation by March 2025.
- 4.7 Finally, our planning process will shortly commence for 2025/26 and the Board are asked for their comments on areas for potential inclusion in the 2025/26 Internal Audit Plan.
- 4.8 In respect of External Audit they have completed their audit of the Avon Pension Fund Accounts and the VFM review and the findings report is attached at Appendix 5. These have already been reviewed and approved by the Council’s Audit Committee and are attached for information.

5 RISK MANAGEMENT

- 5.1 A proportionate risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision-making risk management guidance.
- 5.2 The role of the Internal Audit Service is to review high risk areas of the Pension Fund and provide independent assurance about systems of internal control. This report therefore provides the Pension Board with assurance on how risks are managed.
- 5.3 The Avon Pension Fund Committee is the formal decision-making body for the Fund and its uses the Pension Board to focus on ongoing risks to the operation of the Fund including internal and external audit work. As such it has responsibility to ensure adequate risk management processes are in place.
- 5.4 The Committee discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition, it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations using the assurances from the Board and Investment Panel meetings.

6 EQUALITIES

- 6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

7 CLIMATE CHANGE

- 7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council’s Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

8 CONSULTATION

8.1 The Report and its contents have been discussed with the Head of Pensions representing the Avon Pension Fund and the Director of Financial Services, Assurance & Pensions representing the administering authority.

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