

Bath & North East Somerset Council		
MEETING:	LOCAL PENSION BOARD - AVON PENSION FUND	
MEETING DATE:	11 th March 2026	AGENDA ITEM NUMBER
TITLE:	2025/26 Internal Audit Progress Update & 2026/27 Internal Audit Plan	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
<p>List of attachments to this report:</p> <p>Appendix 1 – Internal Audit Report – Pensions Payroll</p> <p>Appendix 2 – Internal Audit Report – Transfers Out</p> <p>Appendix 3 – Internal Audit Plan 2026/27</p> <p>Audit updates included within this document:</p> <p>Update 1 – 4.5 Internal Audit Report – iConnect System Access</p> <p>Update 2 – 4.6 Internal Audit Report – Business Continuity</p> <p>Update 3 – 4.7 Internal Audit Report – Monitoring Contributions</p>		

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 12th December 2025.
- 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 work carried out on behalf of the Avon Pension Fund (APF).
 - b) Approve the 2026/27 Internal Audit Plan.

3 FINANCIAL IMPLICATIONS

3.1 The assurance work carried out by Internal Audit is performed within the budget agreed with the APF.

4 REPORT

2025-26 Internal Audit Work

4.1 The work of the Internal Audit Service is to provide independent assurance to the APF’s 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. The table below shows audits issued and in progress, and summarises the Assurance Level assigned to each internal audit review:

Audit	Assurance Opinion
Pensions Payroll (see Appendix 1)	Reasonable (Level 3)
Transfers Out (see Appendix 2)	Reasonable (Level 3)
i-Connect System Access	Reporting
Business Continuity Planning	In Progress
Monitoring Contributions	Reporting
Follow-up Reviews	Scheduled March 2026

4.3 The **Pensions Payroll** audit was assigned a “Reasonable” Assurance rating, where the systems of internal control were found to be satisfactory.

Effective controls over the payroll processing were identified, that includes payroll administration as well as management of spousal pensions and death grants. In addition, there has been further improvements made to pension increase processes.

The latest pension increase reconciliation reports identified a high number of variances between admin and payroll records, some of which are significant and would have a financial impact on individual pensioners. However, the Pensions Payroll Team are aware and are in the process of undertaking a review of these variances.

Similar to previous years, error and warning messages were identified on management reports generated during the annual pensions increase process. Whilst the majority of pension increases have been correctly applied, these reports show errors which require further review as well as a high number of warning messages.

There are some improvements which should be considered for bank validation and bank change processes. The APF are in the process of upgrading their online portal and are also planning changes to their bank validation software which should help in administering these more efficiently and securely.

4.4 The **Transfers Out** audit was assigned a “Reasonable” Assurance rating, where again the systems of internal control were found to be satisfactory and no high priority findings were reported.

Procedures are in place and there is routine reporting of performance to the Pensions Board and Committee. This shows actual transfers to be timely, with quotations somewhat below the internally set target. ICT access controls, separation of duties, and automated system checks help protect the integrity of the process.

Some improvements are suggested in the form of a counter fraud risk assessment, improving the quality of supporting evidence for scam checks, and in the evidence retained for any post system update checks carried out.

4.5 **i-Connect System Access Controls: Audit Update**

It is pleasing to note that no significant issues have been identified, and the audit is currently expected to conclude with a Level 4 - Substantial Assurance rating.

Overall, the control framework around user access was found to be well designed and operating effectively. User registration and deregistration processes are clearly defined and documented, with access granted based on role. Inactive and unused accounts are reviewed every 3 - 4 months, with follow-up and timely deletion where continued access is not confirmed; this process has resulted in a significant reduction in inactive accounts (from 72 in October 2025 to 21 in February 2026). Multi Factor Authentication (MFA) is already in place for APF administrative users and is scheduled to be extended to all remaining i-Connect users in March 2026.

A small number of low-impact findings were however noted, including around inactive users which the APF were already aware of and are following these up. In addition, APF has asked the software supplier, Heywood, to investigate an issue where a standard user roles report was found to be incomplete.

4.6 **Business Continuity Planning: Audit Update**

This review is progressing well, with a number of potential findings identified for discussion. These findings will form the basis of early engagement with management at the start of fieldwork in March 2026.

A key challenge in this area is that there is no statutory requirement for APF to undertake BCPR, nor does it fall clearly within the jurisdiction of the B&NES

Emergency Planning team. Guidance from The Pensions Regulator indicates that, for public sector schemes, BCPR is considered good practice rather than a mandatory requirement.

4.7 **Monitoring Contributions:** Audit Update

The audit brief for Monitoring Contributions has been issued, and initial scoping meetings have been completed. We have arranged discussions with the key contacts for this review, which will take place w/c 02/03/2026. These discussions should allow us to gain the necessary understanding to progress the audit with a target completion for the end of March 2026.

2026-27 Internal Audit Plan

4.8 Our planning process for 2026/27 is complete and the draft Internal Audit Plan has been produced following presentation to the APF Management Team. This document is attached as part of this pack under **Appendix 3** and is included for review and approval by the Board.

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 it 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 – One West representing the administering authority.

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