

**Attendance:**

Cllr Philip Jones (Chair)  
Cllr Adam Bush (Vice Chair)  
Cllr Mark Allison  
Caroline Holland (Director of Corporate Services LBM)  
Roger Kershaw (Interim Assistant Director of Resources)  
Paul Audu (Interim Head of Treasury and Pensions)

**Additional Attendees:** Simon Mathers, External Auditor (Ernst & Young)  
Suresh Patel, External Auditor (Ernst & Young)

**1. MEETING**

- 1.1 Welcome and Introduction by Chair
- 1.2 Apologies for lateness: None
- 1.3 Apologies for absence: Tina Pickard (Unison); Gwyn Isaac (GMB Union Rep)
- 1.4 Members Declaration of Interest – Adam Bush (Employee of BDO who are tendering for Council business)

**2. PRESENTATION OF MINUTES OF LAST MEETING (8 March 2017)**

- 2.1 The minutes were agreed as a correct record of the PFAP meeting held on 8<sup>th</sup> March 2017.

**3. DRAFT LB MERTON PENSION FUND ANNUAL REPORT AND ACCOUNTS 2016/17**

- 3.1 The Chair explained that this was a special meeting arranged to allow the PFAC to review the Draft LB Merton Pension Fund Annual Report and Accounts 2016/17 and consider the external auditors draft report prior to the Standards and General Purposes Committee (SGPC) taking place about an hour after this Panel meeting. The Chair invited PA to present the Pension Fund Annual Report.
- 3.2 PA gave a potted overview of the LB Merton Pension Fund Annual Report and Accounts 2016/17 mindful of E&Y's attendance and the imminent SGPC meeting.
- 3.3 As at 31 March 2017, total assets of the Merton Pension Fund were at £651m representing an increase of £120m from the previous year, due largely to favourable markets and investment income.
- 3.4 The Pension Fund is 94% funded (89% in 2013) and remains cashflow positive. The Fund achieved a total return of 22.7% relative to the benchmark return of 23%. The marginal -0.3% underperformance was against the background of volatile global markets in the twelve months to 31<sup>st</sup> March 2017. Similar margins of relative performance between the Fund and the

benchmark on a 3yr (10.7 v 11.4%) and 5yr (10.1% v 10.7%) basis respectively. Average employer contribution rate is 15.2%.

- 3.5 The Pension Fund's financial statements have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2016/17', based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

#### **4. PRESENTATION BY ERNST & YOUNG**

- 4.1 The Chair welcomed Simon Mathers (SM), Senior Manager and Suresh Patel (SP), Executive Director from EY to the meeting and invited them to present their Draft Audit Report.
- 4.2 SM began by outlining the objectives of the external audit review and EY's approach to the exercise. He said that as at 30<sup>th</sup> August 2017, EY had almost completed their audit on Merton Pension Fund's 2016/17 financial statements in line with EY's audit plan. EY used a materiality of circa £10.3million. However, the materiality estimate changed to £13million when measured against actual year-end figures. Accordingly, the threshold for reporting audit discrepancies had changed from £530K to £650K.
- 4.3 There was some discussion about the basis of the materiality estimates. The Panel sought clarity on the approach and method of determining materiality. SM advised that the basis of EY's assessment had remained consistent at 2% of net assets.
- 4.4 SP gave an overview of the procedures performed by EY. He said there were a few outstanding matters to be finalised before an unqualified opinion could be issued on the Pension Fund financial statements. SM cautioned that there was the remote possibility of further amendment.
- 4.5 There was some further discussion on materiality and audit process. SM advised that the final Executive Director review of EY audit work was essentially done. Review of the final version of the annual report and accounts and subsequent events was almost complete. EY were awaiting receipt of the signed management representation letter.
- 4.6 SM advised the Panel that as at the end of August 2017, there no issues (unadjusted misstatements) they were required to notify the Panel. EY also did not expect to uncover any misstatements. SM concluded that from EY's perspective, there were no issues they wished to alert the SGPC.
- 4.7 There was some discussion about the new general ledger migration. CH advised that preparations were in hand to ensure the deadlines for 2017/18 are met.
- 4.8 The Panel resolved to recommend the LB Merton Annual Report and Accounts 2016/17 for approval by the Standards and General Purposes Committee at their meeting on 7<sup>th</sup> September 2017.

**Action:** The Panel requested that CH (Director of Corporate Services) convey the Panel's decision to the SGPC at their meeting on 7<sup>th</sup> September 2017.

4.9 The Chair thanked SM and SP for the presentation.

**5.0 ANY OTHER BUSINESS**

5.1 None

5.2 The Chair declared the meeting closed at 7:10pm

**Date of Next Meetings:**

6<sup>th</sup> December 2017

7<sup>th</sup> March 2018

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