

# Merton Pension Fund Audit results report

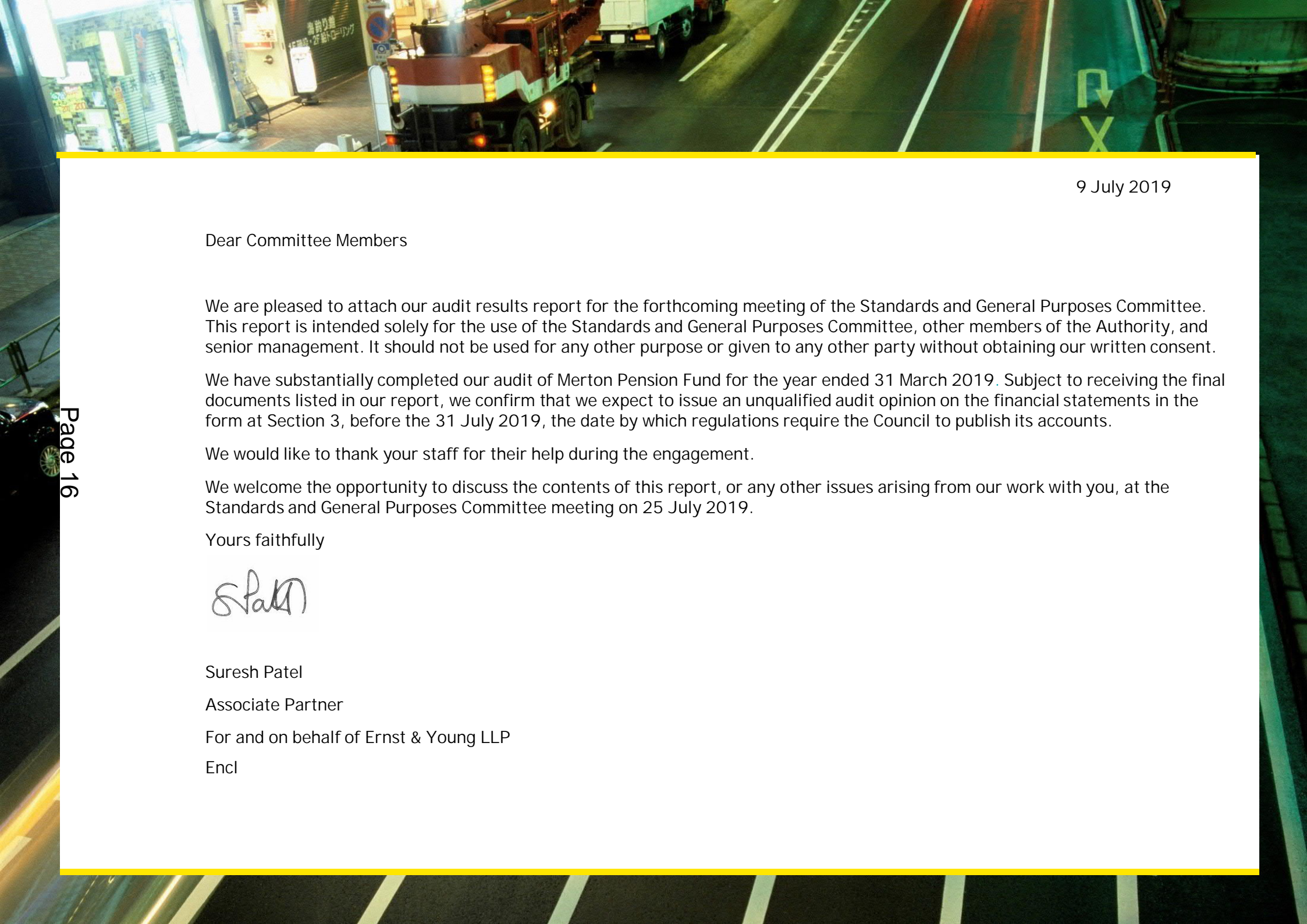
Year ended 31 March 2019

July 2019

Page 15

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y'.

Building a better  
working world

A nighttime photograph of a street scene. In the foreground, a large truck with its headlights on is driving away from the camera. To the left, there is a building with a brightly lit entrance and some signage. The street has white lane markings and a green-painted area with a yellow 'X' and a right-turn arrow. The overall scene is illuminated by streetlights and the truck's headlights.

9 July 2019

Dear Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Standards and General Purposes Committee. This report is intended solely for the use of the Standards and General Purposes Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We have substantially completed our audit of Merton Pension Fund for the year ended 31 March 2019. Subject to receiving the final documents listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the 31 July 2019, the date by which regulations require the Council to publish its accounts.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report, or any other issues arising from our work with you, at the Standards and General Purposes Committee meeting on 25 July 2019.

Yours faithfully

A handwritten signature in black ink, appearing to read 'S Patel'.

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

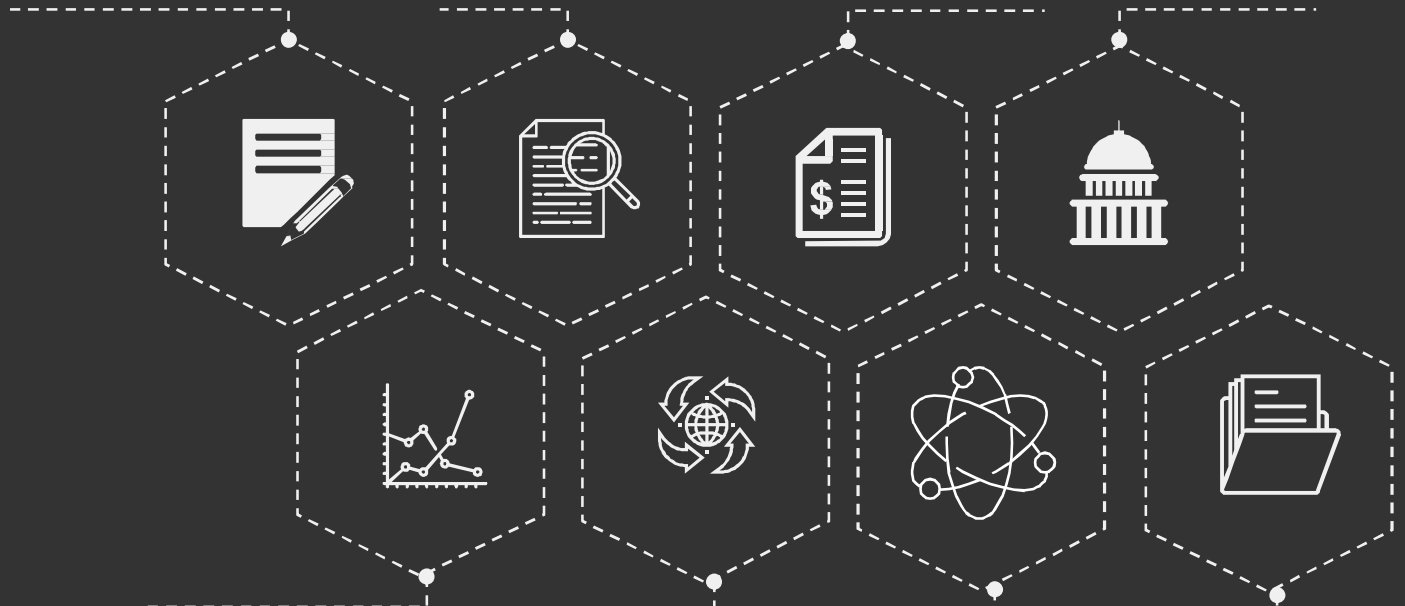
# Contents

01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences



05 Other reporting issues

06 Assessment of Control Environment

07 Independence

08 Appendices

Page 17

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk)). It is available from the Chief Executive of each audited body and via the PSAA website.

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.



01

# Executive Summary

# Executive Summary

## Scope update

In our Audit Plan presented at the 14 March 2019 Standards and General Purposes Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exception:

- Changes in materiality: We updated our planning materiality assessment using the draft financial statements. Based on our materiality measure of net assets, we have updated our overall materiality assessment to £7.2m (Audit Planning Report – £6.6m). This results in updated performance materiality, at 75% of overall materiality, of £5.4m, and an updated threshold for reporting misstatements of £360,000.

## Status of the audit

We have substantially completed our audit of the Pension Fund's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit Plan. Subject to satisfactory completion of the following items we expect to issue an unqualified opinion on Merton Pension Fund's financial statements in the form which appears at Section 3.

Completion of subsequent events review.

Receipt of the signed management representation letter.

Final review of the amended financial statements and annual report.

A national issue has resulted in a relatively late change to the pension fund accounts and IAS26 fund liability disclosure. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The draft pension fund accounts did not recognise this matter, but officers were aware of the issue and intended to disclose it as a contingent liability. However, since the year-end there has been additional evidence, including the legal ruling by the Supreme Court on 27th June 2019 which rejected the Government's appeal, which suggested that the amounts should in fact be able to be fully calculated and so included in the IAS26 liability disclosed within the financial statements. We consider the impact of this on the financial statements further in Section 4.

## Audit differences

Some disclosure changes have been made to both the financial statements and annual report, including changes made by the Fund to Note 14.3 of the draft financial statements, which reconciles movements in investments during the year. Full details of audit differences are set out in Section 4.

# Executive Summary

---

## Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Merton Pension Fund's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Standards and General Purposes Committee.

Page 29

## Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

## Other reporting issues

We have no other matters to report.

## Independence

Please refer to Section 7 for our update on Independence. There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.



## 02 Areas of Audit Focus



## Areas of Audit Focus

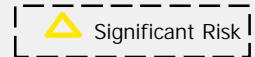
### Significant risk

#### Risk of manipulation of Investment income and valuation

##### What is the risk?

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We assessed that the risk of manipulation of investment income and valuation through management override of controls was most likely to affect investment income and assets in the year, specifically through journal postings.



Page 22

##### What did we do and what judgements did we focus on?

- Tested journals at year-end to ensure there are no unexpected or unusual postings;
- Undertook a review of reconciliations to the fund manager and custodian reports and investigated any reconciling differences;
- Re-performed the detailed investment note using the reports we have acquired directly from the custodians or fund managers, including the agreement of investment additions and disposals in the year;
- Sought to obtain further independent support for the valuation of pooled year-end investments where this can be obtained;
- Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports; and
- Reviewed accounting estimates for evidence of management bias,

We utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias and evaluated for business rationale.

##### What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Pension Fund's normal course of business.





## Areas of Audit Focus

### Other area of audit focus

#### IFRS 9 Financial instruments

##### What is the risk?

A new accounting standard , IFRS 9, is applicable for pension fund accounts from the 2018/19 financial year. This impacts:

- How financial assets are classified and measured;
- How the impairment of financial assets are calculated; and
- The disclosure requirements for financial assets.

Page 28

##### What did we do and what management judgements did we focus on?

We:

- Assessed the Fund's implementation arrangements considering application of the new standard, transitional adjustments and planned accounting for 2018/19;
- Considered the classification and valuation of financial instrument assets;
  - Reviewed the new expected credit loss model impairment calculations for assets; and
  - Checked additional disclosure requirements.

##### What are our conclusions?

The transition to IFRS 9 did not have a significant impact on the classification, measurement or impairment of Fund financial assets. Our work identified some minor changes to the disclosure of financial assets which have been made in the updated financial statements.



## Areas of Audit Focus

### Other area of audit focus

#### London Collective Investment Vehicle (LCIV)

##### What is the risk?

During the year the Fund terminated most of the investments it held at the start of the year and reinvested funds both inside and outside of LCIV. This resulted in significant changes to the fund managers and custodian used by the Fund and has resulted in an increase in the number of fund managers and custodians employed compared to previous periods.

##### What did we do and what management judgements did we focus on?

We:

- Considered and documented an understanding of the revised arrangements, including the Fund's arrangements with LCIV. A highly material value of Funds is now invested in the London CIV, exclusively in pooled funds.
- Obtained further independent support for the valuation of pooled Investments at year-end where this was possible.

##### What are our conclusions?

We are satisfied that the Funds were transferred into LCIV in accordance with the Fund's investment strategy and that new fund manager and custodian arrangements are in place. LCIV offer a number of investments to individual members of the CIV. LCIV acts as the fund manager in respect of all of the investments it offers. It, however, delegates management of the individual funds through sub-contracting arrangements to other fund managers acting on its behalf. Merton Pension Fund continues to determine the specific LCIV funds in which it invests. As the Fund continues to exercise this control we have determined LCIV is acting as an agent in terms of the services provided to the Fund.

We were able to agree the year end carrying value of LCIV investments to independent confirmation from the sub-contracted fund managers, the custodian (via the online LCIV portal) and independent market evidence where possible. The change in investment holdings and investment in LCIV has generated additional work for Fund officers and has taken more time and resource to gain audit assurance. We therefore propose to charge an additional fee, subject to Public Sector Audit Appointments agreement, in respect of this.

Some changes have also been made by the Fund to Note 14.3 of the draft financial statements, which reconciles movements in investments during the year.



# 03 Audit Report



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERTON PENSION FUND

##### Opinion

We have audited the pension fund financial statements for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Corporate Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Corporate Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Director of Corporate Services is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

#### Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### Responsibility of the Director of Corporate Services

As explained more fully in the Statement of the Responsibilities set out on page 170, the Director of Corporate Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Corporate Services is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### Use of our report

This report is made solely to the members of Merton Pension Fund, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund's members as a body, for our audit work, for this report, or for the opinions we have formed.



# 04 Audit Differences





## Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

### Summary of adjusted differences

We highlight any misstatements greater than £5.4 million which have been corrected by management during the course of our audit. There are no corrected differences we wish to bring to your attention.

We report to you any uncorrected misstatements greater than our nominal value of £360,000. There are no uncorrected misstatements to bring to your attention.

Page 30

### McCloud ruling

As noted in the Executive Summary a national issue has resulted in a relatively late change to the pension fund accounts and IAS26 fund liability disclosure. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The draft pension fund accounts did not recognise this matter, but officers were aware of the issue and intended to disclose it as a contingent liability. However, since the year-end there has been additional evidence, including the legal ruling by the Supreme Court on 27th June 2019 which rejected the Government’s appeal, which suggested that the amounts should in fact be able to be fully calculated and so included in the IAS26 liability disclosed within the financial statements. The actuary has now estimated the impact of the McCloud ruling on the present value of promised retirement benefits. The estimated increase in value of £7.1 million has now been disclosed at Note 19 to the accounts, with further associated disclosure added to recognise this as a source of estimation uncertainty and post balance sheet event.





# 05 Other reporting issues



## Other reporting issues

### Consistency of other information published with the financial statements.

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

# Other reporting issues

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of Merton Pension Fund's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
  - Any significant difficulties encountered during the audit;
  - Any significant matters arising from the audit that were discussed with management;
  - Written representations we have requested;
  - Expected modifications to the audit report;
  - Any other matters significant to overseeing the financial reporting process;
- Related parties;  
External confirmations;  
Going concern; and  
Consideration of laws and regulations.

We have nothing to report in respect of these matters.



06

# Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



Page 36

07

Independence

## Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report dated March 2019. We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this.

We confirm we have undertaken no non-audit work outside the PSAA Code requirements.

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Pension Fund, and its directors and senior management and its affiliates, including all services provided by us and our network to your Pension Fund, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee – Code work	18,170*	16,170	16,170	21,000

\* Includes a proposed fee of £2,000 for additional work arising from the significant changes made to the Fund's investment holdings during the year, movement of funds into LCIV and the resulting in changes in fund manager and custodian arrangements. The proposed additional fee remains subject to approval by Public Sector Audit Appointments Limited (PSAA)

All fees exclude VAT



# 07 Appendices



## Audit approach update




We are required to communicate whether there have been any changes to the audit of the net assets statement from the prior year audit. In 2018/19 we have again taken a fully substantive approach to the audit and there have been no significant changes to our approach.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
  - Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
  - Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
  - Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

## Appendix B




# Summary of communications

Date 	Nature 	Summary 
Throughout the year	Meetings, calls and e-mails	The Associate Partner and Senior Manager have been in regular contact with the Director of Corporate Services and Head of Treasury and Pensions in respect of the Fund's risks, accounts closedown and the audit approach.
Standards and General Purposes Committee  9/9/2018 11/11/2018 4/3/2019  Pension Fund Investment Advisory Panel  18/7/2018 2/10/2018 28/11/2018 28/3/2019	Meetings and reports	The current or previous Associate Partner and/or Senior Manager have attended all meetings of the Standards and General Purposes Committee held during the year and through to the date of issue of this report. The Associate Partner has also attended meetings of the Pension Fund Investment Advisory Panel.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

# Required communications with the Standards and General Purposes Committee

There are certain communications that we must provide to the audit committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Terms of engagement	Confirmation by the Standards and General Purposes Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	14 March 2019 Standards and General Purposes Committee – Audit Plan	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	14 March 2019 Standards and General Purposes Committee – Audit Plan	
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	25 July 2019 Standards and General Purposes Committee– Audit Results Report	

# Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Public Interest Entities / Major Local Audits	<p>For the audits of financial statements of public interest entities our written communications to the audit committee include:</p> <ul style="list-style-type: none"> <li>• A declaration of independence</li> <li>• The identity of each key audit partner</li> <li>• The use of non-member firms or external specialists and confirmation of their independence</li> <li>• The nature and frequency of communications</li> <li>• A description of the scope and timing of the audit</li> <li>• Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits</li> <li>• Materiality</li> <li>• Any going concern issues identified</li> <li>• Any significant deficiencies in internal control identified and whether they have been resolved by management</li> <li>• Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee</li> <li>• Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof</li> <li>• The valuation methods used and any changes to these including first year audits</li> <li>• The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework</li> <li>• The identification of any non-EY component teams used in the group audit</li> <li>• The completeness of documentation and explanations received</li> <li>• Any significant difficulties encountered in the course of the audit</li> <li>• Any significant matters discussed with management</li> <li>• Any other matters considered significant</li> </ul>	<p>14 March 2019 Standards and General Purposes Committee – Audit Plan and 25 July 2019 Standards and General Purposes Committee– Audit Results Report</p>





# Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	25 July 2019 Standards and General Purposes Committee– Audit Results Report
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	25 July 2019 Standards and General Purposes Committee– Audit Results Report
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	25 July 2019 Standards and General Purposes Committee– Audit Results Report
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Pension Fund</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the Pension Fund, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	25 July 2019 Standards and General Purposes Committee– Audit Results Report

# Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Pension Fund's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management - Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures - Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Pension Fund</li> </ul>	25 July 2019 Standards and General Purposes Committee- Audit Results Report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:</p> <ul style="list-style-type: none"> <li>• Relationships between EY, the company and senior management, its affiliates and its connected parties</li> <li>• Services provided by EY that may reasonably bear on the auditors' objectivity and independence</li> <li>• Related safeguards</li> <li>• Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>• A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> </ul>	<p>14 March 2019 Standards and General Purposes Committee - Audit Plan and</p> <p>25 July 2019 Standards and General Purposes Committee- Audit Results Report</p>
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations

# Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>• Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	25 July 2019 Standards and General Purposes Committee- Audit Results Report
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit.</li> </ul>	25 July 2019 Standards and General Purposes Committee- Audit Results Report
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>• Written representations we are requesting from management and/or those charged with governance</li> </ul>	25 July 2019 Standards and General Purposes Committee- Audit Results Report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	25 July 2019 Standards and General Purposes Committee- Audit Results Report
Auditors report	<ul style="list-style-type: none"> <li>• Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	25 July 2019 Standards and General Purposes Committee- Audit Results Report
Fee Reporting	<ul style="list-style-type: none"> <li>• Breakdown of fee information when the audit planning report is agreed</li> <li>• Breakdown of fee information at the completion of the audit</li> <li>• Any non-audit work</li> </ul>	14 March 2019 Standards and General Purposes Committee - Audit Plan and 25 July 2019 Standards and General Purposes Committee- Audit Results Report

# Management representation letter

Merton Pension Fund

## Management Rep Letter

xx July 2019  
Suresh Patel  
Associate Partner  
1 More London Riverside  
London  
SE1 2AF

Page 46

This letter of representations is provided in connection with your audit of the financial statements of Merton Pension Fund ("the Fund") for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1 April 2018 to 31 March 2019 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2019, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and are free of material misstatements, including omissions. We have approved the financial statements.



# Management representation letter

Merton Pension Fund

## Management Rep Letter

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/2019 that are free from material misstatement, whether due to fraud or error.
6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

### B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible for determining that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.
6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
  - Involving financial improprieties
  - Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements
  - Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties
  - Involving management, or employees who have significant roles in internal control, or others
  - In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
  - Additional information that you have requested from us for the purpose of the audit.
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

# Management representation letter

Merton Pension Fund

## Management Rep Letter

2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have made available to you all minutes of the meetings of the Fund and committees of members of the management of the Fund (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through 2018/19 to the most recent meeting of the Pension Fund Investment Advisory Panel on 18 July 2019, and Standards and General Purposes Committee on 25 July 2019.
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at 31 March 2019. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.
8. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities relating to litigation and claims, both actual and contingent, and have disclosed in Note 24 to the financial statements all guarantees that we have given to third parties.

### E. Subsequent Events

1. Other than as described in Note 6 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

### F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the London Borough of Merton Pension Fund Annual Report 2018-19.
2. We confirm that the content contained within the other information is consistent with the financial statements.

# Management representation letter

Merton Pension Fund

## Management Rep Letter

### G. Derivative Financial Instruments

1. We confirm that the Fund has made no direct investment in derivative financial instruments.

Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.

### I. Pooling investments, including the use of collective investment vehicles and shared services

1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

### J. Actuarial valuation

1. The latest report of the actuary, Alison Hamilton from Barnett Waddingham as at 31 March 2016, has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

### K. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine accounting estimates in the financial statements have been consistently applied and are appropriate in the context of CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/2019.

Yours faithfully,

\_\_\_\_\_  
Caroline Holland  
Director of Corporate Service

\_\_\_\_\_  
Councilor Peter McCabe  
Chair, Standards and General Purposes Committee

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

© 2019 EYGM Limited.  
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.