Merton Pension Fund

Outline Audit Plan

Year ended 31 March 2022

24 February 2022

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24 February 2022

Merton Pension Fund
Standards and General Purposes Committee
Civic Centre
Morden
SM4 5DX

Dear Committee Members

Outline Audit Plan

We are pleased to attach our Outline Audit Plan for Merton Pension Fund. Its purpose is to provide the Standards and General Purposes Committee with an overview of our plans and fee for the 2021/22 audit before detailed work commences.

This report summarises our initial assessment of the key issues which drive the development of an effective audit for Merton pension Fund. Due to the late completion of our 2020/21 audit, we have not yet completed our detailed planning procedures. We will provide a more detailed and comprehensive audit plan for the Committee at the next meeting, or circulate the plan separately if Members prefer. This report sets out the areas which we consider will be a focus for our 2021/22 plan.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

E.Jackson.

Elizabeth Jackson, Associate Partner
For and on behalf of Ernst & Young LLP
Encl

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The 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 and further guidance (updated April 2018)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Standards and General Purposes Committee and management of Merton Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Standards and General Purposes Committee, and management of Merton Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than to the Standards and General Purposes Committee, and management of the Merton Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 2021/22 Audit

2021/22 Audit

Wider public sector audit context

Recognising the increasing pressure on all auditors in the current climate the Department for Levelling Up, Housing and Communities (DLHUC) and CIPFA/LASAAC have both published papers relating to audit firms and timely completion of audits.

The DLHUC paper published in December 2021 sets out a range of measures agreed with key partners to support the timely completion of local government audits and the ongoing stability of the local audit market. It makes the following commitments:

1. FRC to publish updated Key Audit Partner (KAP) guidance by spring 2022, including new routes for an experienced Registered Individual to become a KAP;
2. Work with CIPFA to further develop the proposal for a new local audit training diploma in local government financial reporting and management aimed at different levels of auditor, and a new technical advisory service that could provide support to firms, and in particular new entrants;
3. DLUHC to provide further funding of £45 million over the course of next Spending Review period to support local bodies with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendations and increased auditing requirements;
4. CIPFA to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, consider making the guidance, committees and the independent member statutory;
5. DLUHC to provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs;
6. NAO rolling over of amendments to 20/21 AGN 03 and 07 to allow for altering the timing of elements on the VfM arrangements work and enable more focus on fully delivering opinions on the financial statements;
7. CIPFA/LASAAC is undertaking a project to improve the presentation of local authority accounts to inform the development of the 2022/23 Accounting Code and comply with IFRS and statutory accounting principles HMT to undertake thematic review of financial reporting valuations for non-investment properties to inform development of the Accounting Code from 2022/23 onwards;
8. The government has asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for 2021/22;
9. Delaying implementation of standardised statements and associated audit requirements;
10. PSAA to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24;
11. Extending the deadline for publishing audited local authority accounts to 30 November 2022 for 2021/22 accounts, then 30 September for 6 years, beginning with the 2022/23 accounts;
12. NAO to prepare for a re-laying of the Code of Audit Practice 2020 in parliament, so that it will apply for the whole of the next appointing period; and
13. Developing an industry-led workforce strategy, working with the system leader and audit firms, to consider the future pipeline of local audits, and associated questions related to training and qualifications.

2021/22 Audit

2021/22 financial statements audit

Planning for 2021/22

We have met the Director of Corporate Services, the Assistant Director of Resources and members of the finance team regularly through December 2021 and January 2022 to discuss the conclusion of our 2020/21 audit.

We have commenced our initial planning work for the 2021/22 audit and have met with the Chief Executive, the Director of Corporate Services and Assistant Director of Resources. We have arranged regular liaison meetings throughout the year to inform our continuous audit planning and have held an initial kick off meeting with officers to discuss key points from the prior year, incorporating the learning from the 2020/21 audit.

For 2021/22, the timetable as published in the draft Accounts and Audit (Amendment) regulations 2021 extends the publication date for audited local authority accounts from 31 July to 30 November 2022.

Due to the ongoing impact of later deadlines and completion of audits from 2020/21, we have yet to start our planning for the 2021/22 audit. We set out in this report our initial considerations of the risks for the audit – these are broadly similar to those identified in 2020/21. We will update these risks as our planning progresses and take into account the risks suggested by the NAO in the Auditor Guidance Note 06 – Local Government Audit Planning, which has not yet been released for 2021/22.

2021/22 financial statements audit

The CIPFA/LASAAC paper explores proposals for change to the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022/23 code that might serve to improve current issues around timeliness of the publication of audited financial statements. Two key proposals of this report include:

1. To allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation; and

2. To defer the implementation of IFRS 16 Leases (standard) for a further year and not make the planned changes to the 2022/23 code to implement that standard.

This paper is currently undergoing consultation.

Neither of these proposed changes directly impact on the Pension Fund financial statements but are key considerations for the Authority's financial statements.

Materiality

Our application of materiality

When establishing our overall audit strategy, we determine the magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole.

Net Assets
£900.3m

We consider net assets to be one of the principal considerations for stakeholders in assessing the financial performance of the Fund.

Planning materiality
£9.0m

For planning purposes, planning materiality for 2021/22 has been set at £9.0 million, which represents 1.0% of the prior year net assets of the pension fund.

Performance materiality
£6.8m

Performance materiality is the amount we use to determine the extent of our audit procedures. We have set performance materiality at £6.8 million which represents 75% of planning materiality and is in line with the prior year.

Audit differences
£0.45m

We will report to you all uncorrected misstatements relating to the fund account and net asset statement that are greater than £0.45 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Standards and General Purposes Committee.

These figures will be updated upon receipt of the draft 2021/22 financial statements.

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements.

Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements. Materiality determines the locations at which we conduct audit procedures to support the opinion given on the financial statements; and the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality.

At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Overview of 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Standards and General Purposes Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatement due to Fraud or Error – Posting of investment journals	Fraud risk / Significant risk	No change in risk or focus	As identified in ISA (UK) 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. There is a specific risk that, due to fraud or error, investment journals posted into the general ledger are incorrect, which could result in a misstatement of year-end investment value and/or investment income.
Going concern disclosure	Inherent risk	No change in risk or focus	The financial landscape for the Fund's admitted and scheduled bodies remains challenging and as a result, the Fund will need to undertake a going concern assessment covering a period up to 12 months from the expected date of final authorisation. It will also need to make an appropriate disclosure in the financial statements. In addition, the revised auditing standard on going concern requires additional challenge from auditors on the assertions being made by management.
Valuation of private debt and infrastructure investments	Inherent risk	No change in risk or focus	The Fund holds a material value of private debt and infrastructure investments which are not publicly quoted, categorised as level 3 in the fair value hierarchy and inherently harder to value. Valuation of these assets may also be made more difficult because of the ongoing impact on markets of Covid-19. We will keep the need to consider this as an area of audit focus under ongoing review.

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02 Fees

Fees

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The table sets out our expected fees for 2020/21 and 2021/22. However, these figures could change, and need to be agreed with officers and the PSAA.

	Planned fee 2021/22	Planned fee 2020/21	Final Fee 2019/20
	£	£	£
Scale Fee – Code work (1)	16,170	16,170	16,170
Planned recurrent fee variation reflecting the underlying level of additional risk at the Authority yet to be agreed by the Authority or PSAA (See Note 1)	28,290	28,290	9,900
Going concern and PBSE assessments and disclosures including EY consultations (2)	TBC	2,000 – 6,000	2,900
IAS 19 work on the 2019 triennial valuation of the Fund (3)	TBC	5,500	9,000
Total	**TBC**	**TBC**	**37,970**

All fees exclude VAT

1. We remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to do to meet regulatory requirements. In our view the scale fee for the Merton PF audit should be increased by £28,290. For 2019/20 PSAA determined additional fees of £9,900 in relation to this.

2. The 2019/20 additional fees have been agreed with management and approved by PSAA.

3. IAS19 work is to provide assurance to the auditor of the LB Merton. These additional fees are not subject to approval from PSAA and for 2019/20 (where there was additional work on the triennial data) we have agreed fees with management.