

Merton Pension Fund Outline Audit Plan

Year ended 31 March 2023

25 February 2023

25 February 2023



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 2022/23 audit before detailed planning 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 2021/22 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 2022/23 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, 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.psa.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.



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2022/23 financial statements audit

Planning for 2022/23

We have met the Interim Executive Director of Finance and Digital and members of the finance team during January and February 2023 to discuss the conclusion of our 2021/22 audit and have a detailed planning meeting for the 2022/23 audit on 2 March 2023.





We have not yet commenced our initial planning work for the 2022/23 audit. However, we set out in this report our initial considerations of the risks for the audit - these are broadly similar to those identified in 2021/22. We will update these risks as our planning progresses and new issues emerge during the course of the year.

We have arranged regular liaison meetings throughout the year to inform our continuous audit planning. We will also take in to account any updated CIPFA guidance for the 2022/23 year.

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.

Page 50	 <p>Net Assets £926.9m</p>	<p><i>We consider net assets to be one of the principal considerations for stakeholders in assessing the financial performance of the Fund. We have used the Net Assets total from the audited 2021/22 financial statements as a basis for our planning materiality.</i></p>
	 <p>Planning materiality £9.2m</p>	<p><i>For planning purposes, planning materiality for 2022/23 has been set at £9.2 million, which represents 1.0% of the prior year net assets of the pension fund.</i></p>
	 <p>Performance materiality £6.9m</p>	<p><i>Performance materiality is the amount we use to determine the extent of our audit procedures. We have set performance materiality at £6.9 million which represents 75% of planning materiality and is in line with the prior year.</i></p>
	 <p>Audit differences £0.46m</p>	<p><i>We will report to you all uncorrected misstatements relating to the fund account and net asset statement that are greater than £0.46 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Standards and General Purposes Committee.</i></p>

These figures will be updated upon receipt of the draft 2022/23 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	<p>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.</p> <p>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.</p>
Valuation of private debt and infrastructure investments (level 3 investments)	Significant risk	No change in risk or focus	<p>The Fund holds a material value of private debt and infrastructure investments which are not publicly quoted.</p> <p>The Fund will make judgements when valuing those investments whose prices are not publicly available. The material nature of investments means that any error in judgement could result in a material valuation error.</p> <p>Current market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year-end. Such variations could have a material impact on the financial statements.</p> <p>As these investments are more complex to value, we have identified the valuation of the Fund's Level 3 investments as a significant risk.</p>

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
IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits	Inherent risk	No change in risk or focus	We consider the valuation of IAS 26 to be of a higher degree of inherent risk because of the level of estimation uncertainty resulting from the calculation using a number of underlying assumptions. The actuary is required to make assumptions on salary increases, discount rates, pension rates, scheme member longevity and other variables. While IAS 26 does not inform the primary statements, there is stakeholder interest in this disclosure due to its nature.
Going concern disclosure	Area of focus	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.



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 2022/23	Planned fee 2021/22	Final Fee 2020/21
	£	£	£
Scale Fee - Code work (1)	16,170	16,170	16,170
Final 2020/21 scale fee variation determined by PSAA (see Note 1)	-	-	16,078
Increased fee for carrying out the audit (see Note 2)	35,397	35,397	-
Risk based scale fee variation not yet quantified (see Note 3)	TBC	TBC	-
IAS 19 work on the 2019 triennial valuation of the Fund	TBC	8,500	8,000
Total	TBC	TBC	37,970

All fees exclude VAT

Note 1 - The 2020/21 additional fees have been determined by PSAA at £16,078.

Note 2 - In order to meet regulatory and compliance audit requirements not present in the market at the time of our bid to PSAA for this contract, we assessed that the recurrent cost of additional requirements to carry out our audit should increase by £35,397. We remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to complete.

Note 3 - We have yet to quantify our proposed risk based scale fee variation for 2021/22. We will report our proposed 2021/22 scale fee variation to management and the Standards and General Purposes Committee in due course.