

# Merton Pension Fund Provisional Audit planning report

Year ended 31 March 2023

12 October 2023

12 October 2023



Merton Pension Fund  
Pensions Committee  
Civic Centre  
Morden  
SM4 5DX

Dear Committee Members

*Provisional Audit planning report*

*We are pleased to attach our provisional audit planning report for the forthcoming meeting of the Pensions Committee. The purpose of this report is provide the Committee with a basis to review our proposed audit approach and scope for the 2022/23 audit, in accordance with the requirements of the auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committees' service expectations.*

*This report summarises our assessment of the key issues which drive the development of an effective audit for Merton Pension Fund. We have aligned our audit approach and scope with these.*

*This report is intended solely for the information and use of the Pensions Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.*

*We welcome the opportunity to discuss this report with you on 12 October 2023 as well as understand whether there are other matters which you consider may influence our audit. As ever, as our risk assessment and work continues, we will update the committee as required, notably if any significant changes in key risks or audit approach*

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.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 Pensions 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 Pensions 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 the Pensions Committee and management of the London Borough of Merton 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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# Overview of our 2022/23 audit strategy



# Overview of 2022/23 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year. We continue to assess risk throughout the audit. We will bring any changes in our risk assessment to the attention of the Committee.

## 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 Level 3 investments   | Significant risk              | No change in risk or focus | <p>The Fund's Level 3 investments (£121.9m at 31 March 2022) include unquoted pooled property and private debt funds and are categorised as level 3 investments due to the uncertainty associated with the valuation of such investments and the absence of a liquid market, meaning that the valuations are not based on observable inputs. The material nature of investments means that any error in judgement could result in a material valuation error.</p> <p>We consider the valuation of Level 3 investments to be a significant risk due to the unobservable inputs making up the valuations. This involves a high degree of estimation from the fund manager as audited accounts supporting the valuation are only produced up to Quarter 3 of the financial year.</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> |
| IAS26 disclosure - Actuarial Present Value of Promised Retirement Benefits | Inherent risk                 | No change in risk or focus | <p>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.</p> <p>While IAS 26 does not inform the primary statements, there is stakeholder interest in this disclosure due to its nature.</p>  |

## Overview of our 2022/23 audit strategy

### Audit scope

*This Audit Plan covers the work that we plan to perform to provide you with our audit opinion on whether the financial statements of Merton Pension Fund give a true and fair view of the financial position as at 31 March 2023 and of the income and expenditure for the year then ended.*

*Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.*

*When planning the audit we take into account several key inputs:*

- *Strategic, operational and financial risks relevant to the financial statements;*
- *Developments in financial reporting and auditing standards;*
- *The quality of systems and processes;*
- *Changes in the business and regulatory environment; and,*
- *Management's views on all of the above.*

*By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Fund.*

*We will provide an update to the Pensions Committee Members on the results of our work in these areas in our audit results report which we expect to issue in January 2024.*

*Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit, we will discuss these with management as to the impact on the scale fee with increased focus on, for example, the valuations of land and buildings, the auditing of complex investment assets, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years. Therefore to the extent any of these are relevant in the context of Merton Pension Fund, we will discuss these with management as to the impact on the scale fee.*



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## 02 Audit risks



## Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

|   |   |  |
|---|---|--|
| <p><i>Misstatement due to Fraud or Error – Posting of investment journals*</i></p>  | <p><b>What is the risk?</b></p>   | <p><b>What will we do?</b></p>   |
| <p><b>Financial statement impact</b></p> <p><i>Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.</i></p> | <p><i>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.</i></p> <p><i>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</i></p> | <p><i>Our approach will focus on testing the appropriateness of manual journal entries recorded in the general ledger related to investments and ensuring that:</i></p> <ul style="list-style-type: none"> <li><i>• The amount is consistent with the fund manager/custodian report;</i></li> <li><i>• Correct authorisations have been obtained; and</i></li> <li><i>• The transactions are in the normal course of business or, if they are outside of the normal course, the business rationale will be requested and assessed for reasonableness.</i></li> </ul> |



## Our response to significant risks

### Valuation of Level 3 investments

#### What is the risk?

The Fund's level 3 investments include investments that require the fund to make judgements, often using the work of a fund manager or custodian, to value those investments whose prices are not publically available. The material nature of investments means that any error in judgement and estimate could result in a material valuation error.

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.

#### Financial statement impact

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 current market volatility.

The values of these investments in 2021/22 was £121.9m.

#### What will we do?

We will:

- Agree the valuation of Level 3 investments appearing in the financial statements to valuation reports from the fund managers;
- Obtain audited financial statements of fund managers and obtain bridging letters for the controls reports to year end. Where audited financial statements are not available at the financial statements date we will undertake alternative procedures to gain further assurance over the valuation reported in the financial statements;
- Consider the work performed by the fund managers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Challenge the key assumptions used by the fund managers in valuations and consider further whether specialist support is needed to support our work in this area; and
- Test accounting entries have been correctly processed in the financial statements.

## *Inherent risks and other areas of audit focus*

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be matters that we report on.

### What is the risk/area of focus?

IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits (Inherent risk)

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.

### What will we do?

We will respond to this inherent risk by conducting the following procedures including:

- Agree the disclosure to the IAS 26 actuarial statement and reporting requirements;
- Engage auditor's specialists to review the IAS 26 calculation approach and comment on the underlying assumption;
- Review the work of the management specialist (the actuary) and auditor's specialist; and
- Perform IAS 19 procedures, which give us assurance over the data input into the calculation. In addition to our usual IAS 19 procedures, in 2022/23 we have been required to test membership data informing the 2022 triennial valuation of the Fund which will provide IAS19 assurance for scheduled body audits across a number of years.



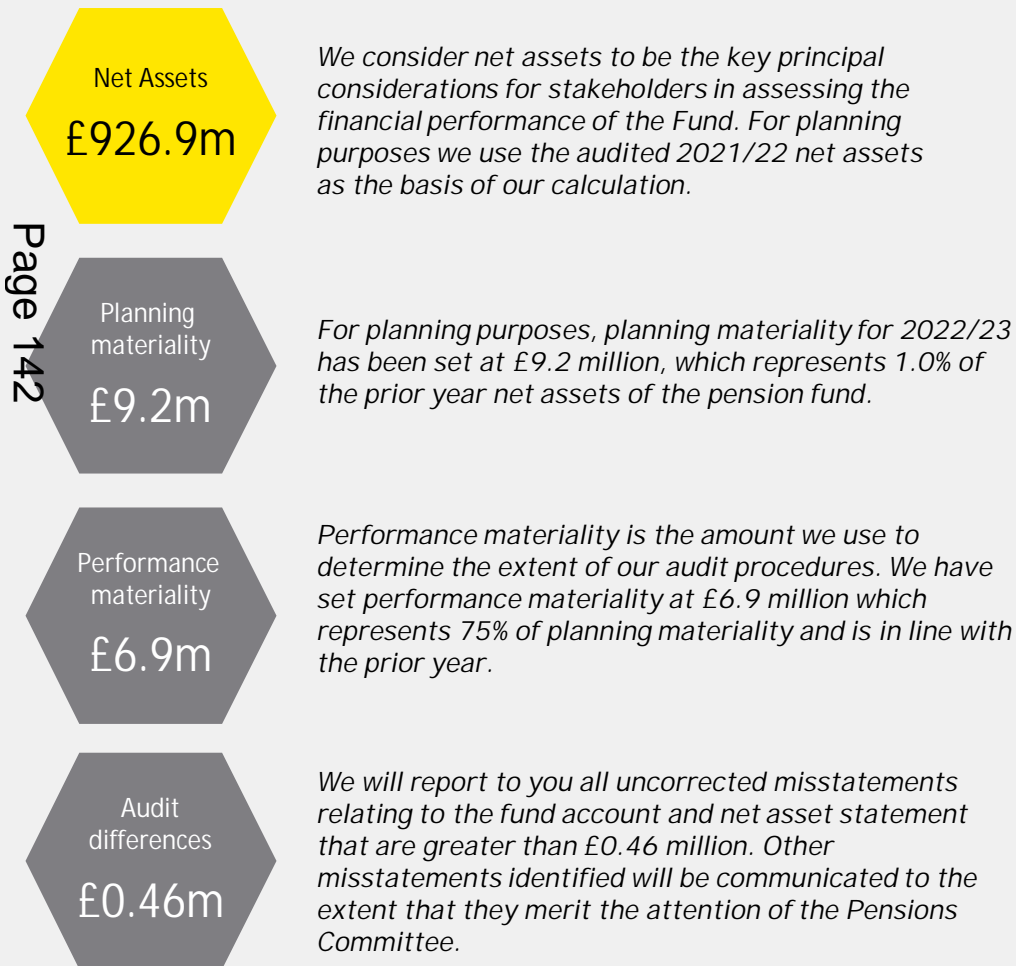
# 03 Audit materiality



## 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.*



*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.*

***We request that the Pensions Committee and Standards & General Purposes Committee confirm its understanding of, and agreement to, these materiality and reporting levels.***



# 04

## Scope of our audit



## Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Fund's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code. We issue an audit report that covers:

#### Financial statement audit

Our opinion on the financial statements:

- Whether the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2023 and the amount and disposition at that date of its assets and liabilities for 2022/23; and
- Whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

#### Consistency statement:

Our opinion on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of the London Borough of Merton.

#### Our opinion on other matters:

- Whether other information published together with the audited financial statements is consistent with the financial statements.

#### Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

## Our Audit Process and Strategy

### Changes to auditing standards – ISA (UK) 315 (Revised): Identifying and Addressing the Risks of Material Misstatement

ISA 315 is effective from FY 2022/23 onwards and is the critical standard which drives the auditor's approach to the following areas:

- Risk Assessment;
- Understanding the entity's internal control;
- Significant risk; and
- Approach to addressing significant risk (in combination with ISA 330).

The International Auditing & Assurance Standards Board (IAASB) concluded that whilst the existing version of the standard was fundamentally sound, feedback determined that it was not always clear, leading to a possibility that risk identification was not consistent.

The aims of the revised standard is to:

- Drive consistent and effective identification and assessment of risks of material misstatement;
- Improve the standard's applicability to entities across a wide spectrum of circumstances and complexities ('scalability');
- Modernise ISA 315 to meet evolving business needs, including:
  - how auditors use automated tools and techniques, including data analytics to perform risk assessment audit procedures
  - how auditors understand the entity's use of information technology relevant to financial reporting; and
- Focus auditors on exercising professional scepticism throughout the risk identification and assessment process.

The key impacts are:

- Significant increase in work on entity's use of IT in business and system of internal control;
- Clearer workflow within the standard to highlight the importance of the auditor's understanding of the entity and environment, the applicable financial reporting framework, and system of internal control;
- New concepts: e.g. inherent risk factors, spectrum of inherent risk; and
- Changed definitions: notably, the definition of 'significant risk', which is an identified risk of material misstatement:
  - For which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur;
  - or
  - That is to be treated as a significant risk in accordance with the requirements of other ISAs (UK).

See Appendix D for our assessment of the impact of ISA (UK) 315 on the current year audit.

## Our Audit Process and Strategy

### Changes to auditing standards – ISA (UK) 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

*Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional and involves deception or is unintentional. ISA (UK) 240 deals with the auditor's responsibilities relating to fraud in an audit of financial statements.*

*The revision to the standard is effective from FY 2022/23 aims to clarify the obligations of auditors to identify and assess the risk of material misstatement due to fraud, as well as including supplemental requirements and guidance to enhance the auditors' procedures.*

Key changes are:

*The objectives of the auditor have been revised to emphasise the requirement to obtain reasonable assurance about whether the financial statements are free from material misstatement due to fraud;*

*There is a greater focus on professional scepticism including that audit approaches don't show bias to looking for corroborative evidence or excluding contradictory evidence;*

*There are new requirements for the auditor to determine whether the engagement team requires specialised skills or knowledge to perform their work on fraud, including their assessment of fraud risk, associated procedures and evaluation of the evidence obtained;*

- There is additional guidance regarding the discussion required by ISA (UK) 315 among the audit engagement team. This is to discuss the susceptibility of the entity's financial statements to material misstatement due to fraud or error. The revised ISA (UK) 240 emphasises the need for an exchange of ideas among all engagement team members about fraud risk factors;*
- The auditor shall make inquiries of management, or others within the entity who deal with fraud allegations, to determine whether they have knowledge of any actual, suspected or alleged fraud, including cases of fraud raised by employees or other parties;*
- Auditors are to hold a discussion with those charged with governance regarding the risks of fraud in the entity and to consider the implications for the audit;*
- The auditor must communicate with those charged with governance matters relating to fraud (unless prohibited by law or regulation) and the auditor's assessment of the risks of material misstatement due to fraud; and*
- Auditors must evaluate whether their assessment of the risk of material misstatement due to fraud remains appropriate at audit conclusion, that sufficient appropriate audit evidence has been obtained, and that the financial statements are not materially misstated as a result of fraud.*

*The auditor's report shall explain to what extent the audit was considered capable of detecting irregularities, including fraud.*



## Our Audit Process and Strategy

### Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2022/23 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

• Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and

• Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Pensions Committee.

Internal audit:

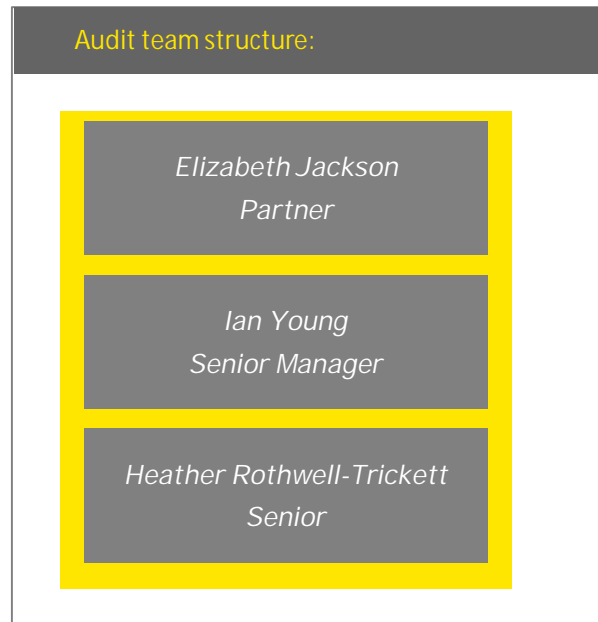
We review internal audit plans and the results of internal audit work. We use this to inform our ongoing assessment of risks likely to impact our responsibilities.



# 05 Audit team



## *Audit team*



## Use of specialists

### *Use of Specialists*

| Area   | Specialists   |
|--------|---|
| IAS 26 | Management Specialist – Barnett Waddingham<br>EY Specialist – PWC as consulting actuary and EY Pensions |

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Fund's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



# 06 Audit timeline





# Audit timeline

## Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2022/23. The final timetable will depend on our ability to obtain sufficient, appropriate audit evidence to support our audit opinion.

From time to time matters may arise that require immediate communication with the Pensions Committee and we will discuss them with the Committee's Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

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| Audit phase  | Timetable                          | Committee Meeting timetable | Deliverables   |
|--|------------------------------------|-----------------------------|--|
| Planning:<br>Risk assessment and setting of scopes<br>Walkthrough of key systems and processes | October - November 2023            | Pensions Committee          | Audit Planning Report to be presented to the 12 October Pensions Committee   |
| Year end audit   | November - December 2023           |                             | Delivery of the year-end audit and Audit Planning Update (if required).      |
|  | January 2024                       | Pensions Committee          | Audit Results Report to be presented to the January 2024 Pensions Committee. |
| Audit Completion procedures  | TBC - Likely January/February 2024 |                             | Audit opinions.  |





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# Independence





# Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

## Required communications

### Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence.

### Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.



## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Elizabeth Jackson, your audit engagement partner, and the audit engagement team have not been compromised.

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Fund. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

Self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

### Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Fund. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

## *Relationships, services and related threats and safeguards*

### Other threats

*Other threats, such as advocacy, familiarity or intimidation, may arise.  
There are no other threats at the date of this report.*

## *Other communications*

### Transparency Report 2022

*EY Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.*

*Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2022 and can be found here:*

[EY UK 2022 Transparency Report | EY UK](#)



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Appendices



## Appendix A – Audit Fees

### Services provided by Ernst & Young

The table below includes a summary of the proposed fees for the year ended 31 March 2023 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below.

|   | Planned Fee 2022/23 | Final Fee 2021/22 | Final Fee 2020/21 |
|---|---------------------|-------------------|-------------------|
|   | £                   | £                 | £                 |
| Scale Fee – Code work (See Note 1)  | 24,795              | 16,170            | 16,170            |
| Final 2020/21 scale fee variation as determined by PSAA (See Note 2)              | N/A                 | N/A               | 16,078            |
| Final 2021/22 scale fee variation as determined by PSAA (See Note 3)              | N/A                 | 18,095            | N/A               |
| 2022/23 scale fee variation not yet quantified (See Note 4)                       | TBC                 | N/A               | N/A               |
| Additional fee for IAS19 assurance work on behalf of admitted bodies (See Note 5) | £14,500 - £17,500   | 8,500             | 8,000             |
| <b>Total Fees</b>   | <b>TBC</b>          | <b>42,765</b>     | <b>40,248</b>     |

Note 1 – The scale fee set by PSAA has been increased by £8,625 to recognise a proportion of the additional costs of the regulatory challenge and regarding the additional work required on pension valuations.

Note 2 - The 2020/21 additional fees have been determined by PSAA at £16,078.


Note 3 - Given the number of significant risks and areas of audit focus that we highlighted in our audit plan as areas of additional work required to meet our responsibilities, and in order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we provided an estimate of the additional recurrent fee that will be incurred in 2022/23 and in future years of £39,857. PSAA ultimately determined that an additional 2021/22 fee of £18,095 should be paid by the Fund on a non-recurrent basis.


Note 4 – We have yet to quantify our proposed scale fee variation for 2022/23. We will report our proposed 2022/23 scale fee variation to management and the Pensions Committee in due course. We also expect to charge additional fee for work to comply with the enhanced requirements of ISA (UK) 315 (Revised).

Note 5 - In 2021/22 we charged an additional £8,500 for IAS 19 assurance work, we expect the cost of this work in 2022/23 to be in the range of £9,500 to £10,000. We expect to charge a higher amount in 2022/23 as we have been required to test membership data informing the 2022 triennial valuation of the Fund which will provide IAS19 assurance for scheduled body audits across a number of years, we anticipate this will be in the range of £5,000 to £7,500. We will report relevant control observations arising from our membership data testing as part of our Audit Results Report.

## Required communications with the Pensions Committee




We have detailed the communications that we must provide to the Pensions Committee.

 Our Reporting to you

| Required communications             |  What is reported?   | When and where   |
|-------------------------------------|---|--|
| Terms of engagement                 | Confirmation by the Pensions 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  | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Planning and audit approach         | <p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>   | Audit Planning Report, October 2023 meeting of the Pensions Committee  |
| 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> | Audit Results Report, January 2024 meeting of the Pensions Committee.  |

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## Required communications with the Pensions Committee

|                         |   |  Our Reporting to you  |   |
|-------------------------|---|---|---|
| Required communications |  What is reported? |  When and where  |   |
| Page<br>160             | 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> | Audit Results Report, January 2024 meeting of the Pensions Committee. |
|                         | Misstatements   | <ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Corrected misstatements that are significant</li> <li>• Material misstatements corrected by management</li> </ul>   | Audit Results Report, January 2024 meeting of the Pensions Committee. |
|                         | Fraud   | <ul style="list-style-type: none"> <li>• Enquiries of the Pensions Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• A discussion of any other matters related to fraud</li> </ul>  | Audit Results Report, January 2024 meeting of the Pensions Committee. |
|                         | Related parties   | <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the entity</li> </ul>                  | Audit Results Report, January 2024 meeting of the Pensions Committee. |


## Required communications with the Pensions Committee





Our Reporting to you

| Required communications               |  What is reported?  |  When and where   |
|---------------------------------------|--|--|
| Independence                          | <ul style="list-style-type: none"> <li>• Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</li> <li>• Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:               <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> </li> </ul> | Audit Planning Report, October 2023 meeting of the Pensions Committee<br><br>Audit Results Report, January 2024 meeting of the Pensions Committee. |
| 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>   | Audit Results Report, January 2024 meeting of the Pensions Committee.  |
| Consideration of laws and regulations | <ul style="list-style-type: none"> <li>• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>• Enquiry of the Pensions Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of</li> </ul>   | Audit Results Report, January 2024 meeting of the Pensions Committee.  |
| Internal controls                     | <ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit</li> </ul>  | Audit Results Report, January 2024 meeting of the Pensions Committee.  |
| Representations                       | <ul style="list-style-type: none"> <li>• Written representations we are requesting from management and/or those charged with governance</li> </ul>   | Audit Results Report, January 2024 meeting of the Pensions Committee.  |

## Required communications with the Pensions Committee

 Our Reporting to you

| Required communications                    |  What is reported?   |  When and where |
|--|---|--|
| Material inconsistencies and misstatements | <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>                                      | Audit Results Report, January 2024 meeting of the Pensions Committee.                              |
| Auditors report                            | <ul style="list-style-type: none"> <li>Key audit matters that we will include in our auditor's report</li> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul> | Audit Results Report, January 2024 meeting of the Pensions Committee.                              |



## Additional audit information

### Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Pensions Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

### 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.

# Impact of ISA (UK) 315 (Revised)

The graphic below indicates where we have anticipated that the audit of Merton Pension Fund falls on the spectrum of effort as it applies to the new requirements of the revised standard relating to understanding the effect of the entity's use of IT. The level of effort is displayed relative to the circumstances applicable to Merton Pension Fund, and why that level of effort may differ to that required on the audits of entities with different circumstances.

