

Merton Pension Fund Final Audit results report

Year ended 31 March 2021

25 October 2021

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

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Private and Confidential

25 October 2021

London Borough of Merton
Standards and General Purposes Committee
Civic Centre
Morden
SM4 5DX

Dear Committee Members
2021 Final Audit Results Report

We are pleased to attach our updated audit results report for the forthcoming meeting of the Standards and General Purposes Committee. This report summarises our audit conclusion in relation to the audit of Merton Pension Fund for 2020/21.

Subject to concluding the outstanding matters listed in our report, we anticipate issuing an unqualified audit opinion on the financial statements in the form at Section 3 of this report.

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 would like to thank your staff for their help during the engagement given the additional pressures they have faced responding to the pandemic and working remotely.

We welcome the opportunity to discuss the contents of this report with you at the Committee meeting on 4 November 2021.

Yours faithfully

E. Jackson.

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

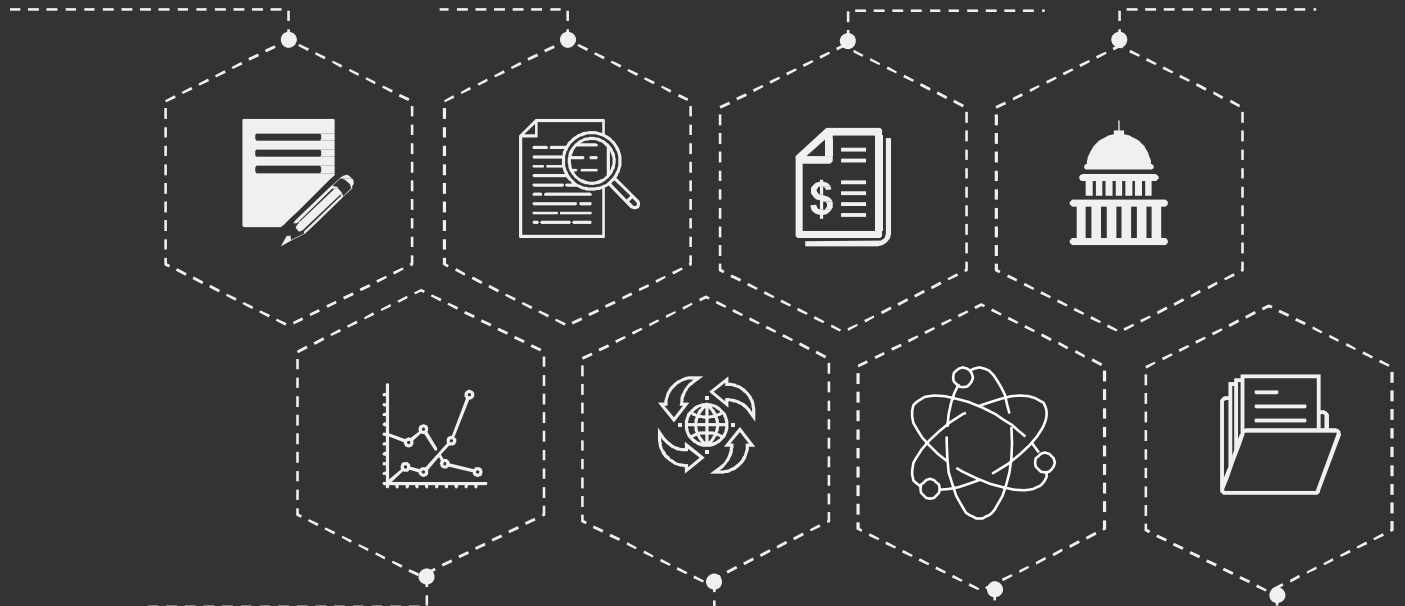
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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities 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 Standards and General Purposes Committee and management of the London Borough 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 the London Borough 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 Standards and General Purposes Committee and management of the London Borough of 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

Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the 11 March 2021 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 updates:

Auditing accounting estimates

A revised auditing standard has been issued in respect of the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we may see the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area. The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required. In addition to the valuation of level 3 investments, which we have treated as areas of audit focus in our approach, we also consider IAS 26 disclosures as a higher inherent risk estimate. We do not consider this to be an area of audit focus as entries in the Fund's financial statements are disclosure only and have no impact on the Fund's primary statements of account.

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2021 No. 263, have been published and came into force on 31 March 2021. This announced a change to publication date for final, audited accounts from 31 July to 30 September 2021 for all relevant authorities.

Changes in materiality - We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment.

| | Planning materiality | Performance materiality | Audit differences |
|---------|---|--|---|
| | Our planning materiality represents 1% of the prior year's net assets, consistent year on year. | Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year. | We will report all uncorrected misstatements relating to the primary statements (net asset statement and fund account) greater than 5% of planning materiality. |
| Planned | £6.9m | £5.2m | £0.345m |
| Final | £9.0m | £6.8m | £0.450m |



Executive Summary

Scope update (continued)

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but resulted in the following impact on our audit strategy were as follows:

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Fund's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Status of the audit

Our audit work in respect of the Fund opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

- Agreement of all final amendments to the financial statements and annual report
- Update of our subsequent events procedures to the date of our opinion
- Receipt of a signed letter of management representation

Subject to the satisfactory completion of these procedures and receipt of authorised financial statements we are proposing an unqualified opinion - see Section 3

Audit differences

At the date of this report there are no unadjusted audit differences. The Fund has agreed to adjust for a small number of differences arising from our audit, largely relating to updated valuation of investment assets. We include further details in Section 4.

Executive Summary

Areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the Authority's financial statements. We summarise below our latest findings.

| Significant risk | Findings & conclusions |
|---|---|
| Misstatement due to Fraud or Error - Posting of investment journals | We have completed our testing and found no indications of management override of controls. |
| Other area of audit focus | Findings & conclusions |
| Going concern | <p>We have completed our work, including review of the disclosure and challenge and testing of management's assessment and supporting cash flow forecast.</p> <p>We are satisfied that it is an adequate reflection of management's assessment that it remains appropriate to prepare the financial statements on a going concern basis.</p> |
| Valuation of private debt and infrastructure investments | <p>We undertook additional procedures, as described more fully in Section 2 of this report, to gain material assurance over the year-end valuation of the Fund's private debt and infrastructure investments which are disclosed as level 3 in the fair value hierarchy and therefore inherently more difficult to value.</p> <p>There was a late adjustment to the valuations of Level 3 investment assets resulting in a £1.4m understatement of the fund. Management have subsequently amended this.</p> |

This report sets out our latest observations and conclusions on the above matters, and any others identified, in the "Areas of Audit Focus" 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; and
- You agree with the resolution of the issues; and 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 your attention.



Executive Summary

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 2020 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

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error. 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.

We identify and respond to this fraud risk on every audit engagement.

We have considered where this risk manifests and we consider this to be in the manipulation of Investment income and valuation of assets (see slide 11).

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What did we do?

- To address this risk we confirm that we have performed the following procedures:
- We inquired of management about risks of fraud and the controls put in place to address those risks;
 - We obtained an understanding the oversight given by those charged with governance of management's processes over fraud;
 - We considered the effectiveness of management's controls designed to address the risk of fraud;
 - We performed mandatory procedures regardless of specifically identified fraud risks, including:
 - testing of journal entries and other adjustments in the preparation of the financial statements;
 - reviewing accounting estimates for evidence of management bias; and
 - evaluating the business rationale for significant unusual transactions.
 - We utilised our data analytics capabilities to assist with our work, including journal entry testing; and
 - We assessed journal entries for evidence of management bias and evaluate 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 Fund's normal course of business.



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.

What judgements are we focused on?

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.

What did we do?

- 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

Area of audit focus

Valuation of private debt and infrastructure investments

What is the risk?

We consider the valuation of Level 3 investments to be of a higher degree of inherent 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.

What judgements are we focused?

The Fund's private debt and infrastructure investments are categorised as being at level 3 in the fair value hierarchy. This is 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. As a result of this we undertook additional procedures to gain assurance over the carrying value of these investments disclosed in the financial statements. We set our detailed audit approach and findings on the following page.

What are our conclusions?

We have noted that management made a late adjustment to the financial statements to increase the value of Level 3 investments by £1.4m.

This was to ensure the financial statements agreed to updated information received from Private market investments.

No other issues noted.



Areas of Audit Focus

Area of audit focus



Valuation of level 3 investments - further details on procedures/work performed

We:

- Triangulated the valuation reports from the fund managers and custodians to the entries in the financial statements.
- Obtained audited financial statements supporting the investments, controls assurance reports and bridging letters for the controls reports to year end.
- Considered 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.
- Challenged the key assumptions used by the fund managers in valuations and considered further whether specialist support is needed to support our work in this area. We concluded no such further support was necessary.
- Tested accounting entries had been correctly processed in the financial statements.

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Audited financial statements supporting valuations were only available to 31 December 2020. We evaluated those financial statements to gain assurance that:

- The audit report was not qualified or otherwise modified.
- The audit report did not contain material uncertainties in respect of going concern and that there were no other matters emphasised that would impact valuation.
- The audit report was issued by a reputable auditor.

We also evaluated controls assurance reports to gain assurance they were not qualified and there were no specific control failures that could impact the valuation of investments.

To gain assurance over the valuation of level 3 investments at the Net Asset Statement date of 31 March 2021, we:

- Agreed the net asset value of private debt and infrastructure investments to underpinning audited financial statements as at 31 December. We then adjusted the 31 December 2020 valuation for known calls and puts in the final quarter of the year assuming they occurred at the start of the quarter.
- Used available quarter 3 to 4 indices relevant to the type of investment to create a high/low range of movements for quarter 4 and applied that to the valuation derived for each investment. We confirmed that the range established was not greater than our performance materiality.
- We compared the valuation in the financial statements to the range established to gain assurance investments values in the financial statements were not materially outside the expected range.



Areas of Audit Focus

Area of audit focus

Going concern

What is the risk?

There is a presumption that the Fund will continue as a going concern for the foreseeable future. However, the Fund is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 there is a need for the Fund to ensure its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.

The Fund is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.

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

We:

- Challenged management's identification of events or conditions impacting going concern.
- Tested management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- Reviewed the Fund's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern.
- Undertook a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.
- Challenged the disclosure made in the accounts in respect of going concern and any material uncertainties.

What are our conclusions?

We are satisfied with management's assessment that it is appropriate for the financial statements to be prepared on a going concern basis which is reasonable and supported by evidence, including a cashflow forecast, for the foreseeable future.

We are also satisfied that the disclosure in the financial statements meets the requirements of the revised auditing standard.



03 Audit Report



Audit Report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON

Our opinion on the financial statements

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2021 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 2020/21.

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 2021 and the amount and disposition of the fund's assets and liabilities as at 31 March 2021, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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

In auditing the financial statements, we have concluded that the Director of Corporate Services' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Corporate Services with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

Other information

- The other information comprises the information included in the London Borough of Merton Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon. The Director of Corporate Services is responsible for the other information contained within the Statement of Accounts 2020/21.
- 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.



Audit Report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON

Our opinion on 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 course of 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 themselves. 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

Responsibility of the Director of Corporate Services

As explained more fully in the Statement of the Director of Corporate Services Responsibilities set out on page 188, 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 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.



Audit Report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON

Our opinion on the financial statements

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant are the Local Government Pension Scheme Regulations 2013 (as amended), and The Public Service Pensions Act 2013.

We understood how the London Borough of Merton Pension Fund is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, internal audit and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of minutes, review of policies and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and opportunities for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures we identified the manipulation of investment income and valuation to be our fraud risk.

To address our fraud risk we tested the consistency of the investment asset valuation from the independent sources of the custodian and the fund managers to the financial statements. We also undertook a review of reconciliations to the fund manager and custodian reports and assessed journal entries for evidence of management bias and evaluated for business rationale using specific criteria we considered to be relevant to the risk. We evaluated significant transactions and estimates for evidence of management bias.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business.

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.



Audit Report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON

Our opinion on the financial statements

Use of our report

This report is made solely to the members of the London Borough of Merton, 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 Authority and the Authority'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 and uncorrected differences

There were no audit differences greater than £6.8m which have been corrected by management or other specific misstatements identified during the course of our audit which we wish to draw to your attention.

Two lower value audit differences above relating to amendments to valuation of investment assets, and a number of disclosure amendments were made as a result of our work.

There were no uncorrected audit differences.



05 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the London Borough of Merton Pension Fund Annual report and the audited Financial Statements 2020/21 included within the London Borough of Merton Financial Statements 2020/21.

We are satisfied that the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of the London Borough of Merton for the year ended 31 March 2021.

Our work in this area is ongoing.

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 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 have had no reason to exercise these duties.

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 the Fund's financial reporting process. We have no matters to report.



06

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the 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 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 internal control.



07

Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Fund, and its members and senior management and its affiliates, including all services provided by us and our network to the Fund, its members 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 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table below sets out a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

| | Planned fee 20/21 | Final Fee 2019/20 |
|---|-------------------|-------------------|
| | £ | £ |
| Scale Fee - Code work (1) | 16,170 | 16,170 |
| Significant risk relating to US currency hedge | - | 2,250 |
| Going concern and PBSE assessments and disclosures including EY consultations (2) | 2,000 - 6,000 | 5,500 |
| IAS 19 work on the 2019 triennial valuation of the Fund (3) | 5,500 | 9,000 |
| Total | TBC | 32,920 |

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.
2. The 2019/20 additional fees have been agreed with management but are subject to PSAA approval.
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.

Other communications

EY Transparency Report 2020

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 end 30 June 2020:

[EY UK Transparency Report 2020 | EY UK](#)



08 Appendices

Audit approach update

We summarise below our approach to the audit of the net asset statement and any changes to this approach from the prior year audit.




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

Page 50 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

There were no significant changes to our audit approach, but we did undertake more granular procedures to gain assurance over the valuation of both level 3 investments and the IAS 26 disclosure of the actuarial present value of promised retirement benefits disclosed as a note to the accounts.

Summary of communications




| Date  | Nature  | Summary  |
|--|--|---|
| March 2021 | Meeting | Agreement of the significant risks, planned scope, timing of the audit and indicative audit plan with the Director of Corporate Services. |
| September 2021 | Meeting | Discussion regarding the key findings from our audit of the financial statements and agreement of the audit results report with the Assistant Director of Resources. |
| Throughout the year | Meetings, calls and emails. | The Associate Partner and Senior Manager has been in regular contact with the Director of Corporate Services and the in respect of the Fund's risks, accounts closedown and the audit approach. |
| Throughout the year | Meetings, calls and emails. | <p>The Associate Partner has met the Director of Corporate Services on an ad hoc basis throughout the year to discuss key audit findings and reporting up to the date of issue of this report.</p> <p>Additionally two meetings were held to facilitate the handover of the engagement to the new Associate Partner and Senior Manager.</p> |
| All Standards and General Purposes Committee meetings held in the year | Committee attendance | <p>The Associate Partner and/or Senior Manager have attended those meetings of the Standards and General Purposes Committee held throughout the financial year and to the date of issue of this report.</p> <p>Specific reports issued and communications with the Committee are detailed in Appendix C.</p> |

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.

Appendix C

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. | Audit Plan – dated February 2021 |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit Plan – dated February 2021 |
| Significant findings from the audit | <ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process | Audit Results Report – dated September 2021 |



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"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements | No conditions or events were identified, either individually or together to raise any doubt about Merton Pension Fund’s ability to continue for the 12 months from the date of our report |
| Misstatements | <ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management | Audit Results Report – September 2021 |
| Subsequent events | <ul style="list-style-type: none"> • Enquiry of the Standards and General Purposes Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial | Audit Results Report – September 2021 and up to date of our report. |
| Fraud | <ul style="list-style-type: none"> • Enquiries of the Standards and General Purposes Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Pension Fund • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Fund, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Standards and General Purposes Committee responsibility. | Audit Results Report – September 2021 |





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 Fund’s related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Pension Fund | Audit Results Report – September 2021 |
| 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"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <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 2019:</p> <ul style="list-style-type: none"> • Relationships between EY, the company and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors’ objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit | Audit Plan – dated February 2021 and Audit Results Report – September 2021 |

Appendix C

| Required communications |  What is reported? |  When and where |
|---|---|---|
| | <ul style="list-style-type: none"> • Details of any inconsistencies between the Ethical Standard and the Fund's policy for the provision of non-audit services, and any apparent breach of that policy • Details of any contingent fee arrangements for non-audit services • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The audit committee should also be provided an opportunity to discuss matters affecting auditor independence | |
| External confirmations | <ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures. | We have received all requested confirmations |
| Consideration of laws and regulations | <ul style="list-style-type: none"> • 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 • 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 | We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations |
| Significant deficiencies in internal controls identified during the audit | <ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit. | Audit Results Report - September 2021 |

Appendix C

| | |  Our Reporting to you |
|--|--|--|
| Required communications |  What is reported? |   When and where |
| Written representations we are requesting from management and/or those charged with governance | <ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance | Audit Results Report – September 2021 |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | <ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit Results Report – September 2021 |
| Auditors report | <ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor’s report | Audit Results Report – September 2021 |
| Fee Reporting | <ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work | Audit Plan – dated February 2021 and Audit Results Report – September 2021 |

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Draft management representation letter

Management Rep Letter

This letter of representations is provided in connection with your audit of the financial statements of the London Borough of Merton Pension Fund (“the Fund”) for the year ended 31 March 2021. 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 2020 to 31 March 2021 and of the amount and disposition of the Fund’s assets and liabilities as at 31 March 2021, 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 2020/21.

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 2020/21.
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 2020/21, and are free of material misstatements, including omissions. We have approved the financial statements.

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 2020/21 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

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.

Draft management representation letter

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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 all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.

4. We have made available to you all minutes of the meetings of members of the management of the Fund and committees of members of the management of the Fund held throughout 2020/21 to the most recent meeting.

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 the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

6. We confirm the completeness of information provided regarding annuities held in the name of the members of the management of the Fund.

7. 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.

8. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.

9. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Draft management representation letter

Management Rep Letter

10. From the date of our last management representation letter at 5 November 2020 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

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 related 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. Going Concern

1. Note 2.1 to the financial statements discloses all the matters of which we are aware that are relevant to the Company's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. Other than described in Note 6 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. 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 2020-21.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

I. Derivative Financial Instruments

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto.
2. 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.

Draft management representation letter

Management Rep Letter

J. 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.

K. Actuarial valuation

1. The latest report of the actuary Barnett Waddingham as at 31 March 2019 and dated 27 March 2020 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.

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value the fund and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

M. Valuation of Fair Value Hierarchy Level 3 Investment Assets Estimate

1. We confirm that the significant judgments made in making the fair value hierarchy level 3 investment asset valuation estimate have taken into account all relevant information and the effects of the COVID-19 pandemic on the valuation of fair value hierarchy level 3 investment assets of which we are aware.

2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the fair value hierarchy level 3 investment asset valuation estimate.

3. We confirm that the significant assumptions used in making the fair value hierarchy level 3 investment asset estimate appropriately reflect our intent and ability to carry out the valuation on behalf of the entity.

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic on the valuation of fair value hierarchy level 3 investment assets, are complete and are reasonable in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

5. We confirm that appropriate specialised skills or expertise has been applied in making the valuation of fair value hierarchy level 3 investment asset estimate.

6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

N. Estimation of IAS26 present value of promised retirement benefits

1. We confirm that the significant judgments made in making the IAS26 estimate have taken into account all relevant information and the effects of the COVID-19 pandemic on the present value of promised retirement benefits of which we are aware.

2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the IAS26 estimate.

3. We confirm that the significant assumptions used in making the IAS 26 estimate appropriately reflect our intent and ability to carry out the valuation on behalf of the entity.

Caroline Holland, Director of Corporate Services

Councilor Peter McCabe, Chair of the 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.

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