

Merton Pension Fund

Audit planning report

Year ended 31 March 2022

26 May 2022

26 May 2022



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

Dear Committee Members

Audit planning report

We are pleased to attach our audit planning report for the forthcoming meeting of the Standards and General Purposes Committee. The purpose of this report is provide the Committee with a basis to review our proposed audit approach and scope for the 2021/22 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 Standards and General Purposes 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 July 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

E. Jackson.

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

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Standards and General Purposes Committee and management of Merton Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Standards and General Purposes Committee, and management of Merton Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Standards and General Purposes 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 2021-22 audit strategy



Overview of 2021/22 audit strategy

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

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatement due to Fraud or Error - Posting of investment journals	Fraud risk / Significant risk	No change in risk or focus	<p>As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>There is a specific risk that, due to fraud or error, investment journals posted into the general ledger are incorrect, which could result in a misstatement of year-end investment value and/or investment income.</p>
Valuation of Level 3 investments	Significant risk	Increase in risk from prior year	<p>The Fund's Level 3 investments (£68.9m at 31 March 2021) include unquoted pooled property and private debt funds. The Fund will make judgements when valuing those investments whose prices are not publicly available. The material nature of investments means that any error in judgement could result in a material valuation error.</p> <p>Current market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year-end. Such variations could have a material impact on the financial statements.</p> <p>As these investments are more complex to value, we have identified the valuation of the Fund's Level 3 investments as a significant risk.</p>

Overview of 2021/22 audit strategy

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

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
IAS26 disclosure - Actuarial Present Value of Promised Retirement Benefits Page 8	Inherent risk	No change in risk or focus	<p>The Actuarial Present Value of Promised Retirement benefits is an actuarial estimate of the pension fund liability to pay future pensions calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on a roll-forward of data from the previous triennial valuation in 2019/20, updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation and investment yields when calculating the liability.</p> <p>Within the calculation for the disclosure note, the valuation may use inappropriate assumptions to value the liability as at the 31 March 2022.</p>
Going concern disclosure	Area of focus	No change in risk or focus	<p>The financial landscape for the Fund's admitted and scheduled bodies remains challenging and as a result, the Fund will need to undertake a going concern assessment covering a period up to 12 months from the expected date of final authorisation.</p> <p>It will also need to make an appropriate disclosure in the financial statements. In addition, the revised auditing standard on going concern requires additional challenge from auditors on the assertions being made by management.</p>

Overview of our 2021/22 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 2022 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 Standards and General Purposes Committee Members on the results of our work in these areas in our report to those charged with governance which we currently expect to issue in November 2022.

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.



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

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.

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.
- Test accounting entries have been correctly processed in 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 2020/21 was £68.9m.

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)

The Pension Fund's IAS 26 calculation estimates the present value of promised retirement benefits amount to £1.266 billion as at 31 March 2021.

The figure is material and subject to complex estimation techniques and judgements by the Actuary. The estimate is based on a roll forward of data from the previous triennial valuation in 2019/20, updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation and investment yields when calculating the liability.

Within the calculation for the disclosure note, the valuation may use inappropriate assumptions to value the liability as at the 31 March 2022.

Going Concern Disclosure (Area of focus)

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 during 2021/22 there is a need for the Fund to ensure its going concern assessment, including its cashflow forecast, is robust and appropriately comprehensive.

The financial landscape for the Fund remains challenging and it will again need to undertake a going concern assessment covering a period up to 12 months from the expected date of final authorisation. It will also need to make an appropriate disclosure in the financial statements. In addition, the revised auditing standard on going concern requires additional challenge from auditors on the assertions being made by management.

What will we do?

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

- Assessing the competence of management experts;
- Engaging with the NAO's consulting actuary and our EY Pensions Advisory Team to review the IAS26 approach applied by the actuary and assess whether they are reasonable and compliant with IAS26; and
- Ensuring that the IAS26 disclosure is in line with the relevant standards and consistent with the valuation provided by the Actuary.

We will meet the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Fund's going concern assessment and its disclosure in the accounts by:

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



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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.

Net Assets
£927.7m

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

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Planning materiality
£9.2m

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

Performance materiality
£6.9m

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

Audit differences
£0.46m

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

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

Purpose and evaluation of materiality

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

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

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

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

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



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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 objective is to form an opinion on the financial statements under International Standards on Auditing (UK). We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error; Significant disclosures included in the financial statements and 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.

Procedures required by the Code

Reviewing, and reporting on as appropriate, other information published with the financial statements.

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 2021/22 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 Standards and General Purposes 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.



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Audit team



Audit team

Audit team structure:

Elizabeth Jackson
Associate Partner

Ian Young
Senior Manager

Marco Buys
Senior



07 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 2021/22. 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 Standards and General Purposes 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.

Audit phase	Timetable	Committee Meeting timetable	Deliverables
Planning: Risk assessment and setting of scopes Walkthrough of key systems and processes	May		Audit Planning Report issued
	May/June	Standards and General Purposes Committee	Delivery of the year-end audit and Audit Planning Update (if required)
Year end audit	July	Standards and General Purposes Committee	Audit Planning Report to be presented to the 30 June Pensions Committee and the 12 July meeting of the Standards and General Purposes Committee.
	November	Standards and General Purposes Committee	Audit Results Report to be presented to the November Pensions Committee. Audit opinions and completion certificates
Audit Completion procedures	November	Standards and General Purposes Committee	Auditor's Annual Report which will include commentary on key reporting themes for the Fund to be presented to the November Pensions Committee.

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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%.

A 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

EY Transparency Report 2021

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 2021 and can be found here:

[EY UK 2021 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 2022 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 2021/22	Final Fee 2020/21	Final Fee 2019/20
	£	£	£
Scale Fee – Code work	16,170	16,170	16,170
Final 2019/20 scale fee variation as determined by PSAA (See Note 1)	N/A	N/A	21,800
Proposed 2020/21 scale fee variation yet to be determined by PSAA (see Note 2)	N/A	39,100	N/A
2021/22 scale fee variation not yet quantified (see Note 3)	35,397	N/A	N/A
Total Fees	TBC	55,270	37,970

Note 1 - 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 2019/20 and in future years of £28,290. We also estimated an additional non-recurrent fee of £16,750 relating to specific risk based fee variations of the Pension Fund in 2019/20. PSAA ultimately determined that an additional 2019/20 fee of £21,800 should be paid by the Fund on a non-recurrent basis.

Note 2 - Our proposed 2020/21 scale fee variation of £39,100 has been shared with the Pension Fund and submitted to PSAA, but not yet determined. Of the total proposed scale fee variation we consider that approximately £35,397 is for recurring issues and the cost of regulatory compliance, and approximately £3,703 relates to the specific audit risks of the Fund in 2020/21.

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

Appendix B

Required communications with the Standards and General Purposes Committee

We have detailed the communications that we must provide to the Standards and General Purposes Committee.



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	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, July 2022 meeting of the Standards and General Purposes Committee and June 2022 Pensions Committee.
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, November 2022 meeting of the Standards and General Purposes Committee and November 2022 meeting of the Pensions Committee.

Appendix B

Required communications with the Standards and General Purposes Committee (continued)

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <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 	Audit Results Report, November 2022 meeting of the Standards and General Purposes Committee and November 2022 meeting of the Pensions Committee.
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management 	Audit Results Report, November 2022 meeting of the Standards and General Purposes Committee and November 2022 meeting of the Pensions Committee.
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 entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud 	Audit Results Report, November 2022 meeting of the Standards and General Purposes Committee and November 2022 meeting of the Pensions Committee.
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <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 entity 	Audit Results Report, November 2022 meeting of the Standards and General Purposes Committee and November 2022 meeting of the Pensions Committee.

Required communications with the Standards and General Purposes Committee (continued)

Required communications	 What is reported?	 When and where
Independence	<ul style="list-style-type: none"> • Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence • Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <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>Audit Planning Report, July 2022 meeting of the Standards and General Purposes Committee and June 2022 Pensions Committee.</p> <p>Audit Results Report, November 2022 meeting of the Standards and General Purposes Committee and November 2022 meeting of the Pensions Committee.</p>
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 	<p>Audit Results Report, November 2022 meeting of the Standards and General Purposes Committee and November 2022 meeting of the Pensions Committee.</p>
Consideration of laws and regulations	<ul style="list-style-type: none"> • 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 • Enquiry of the Standards and General Purposes 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 	<p>Audit Results Report, November 2022 meeting of the Standards and General Purposes Committee and November 2022 meeting of the Pensions Committee.</p>
Internal controls	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit 	<p>Audit Results Report, November 2022 meeting of the Standards and General Purposes Committee and November 2022 meeting of the Pensions Committee.</p>
Representations	<ul style="list-style-type: none"> • Written representations we are requesting from management and/or those charged with governance 	<p>Audit Results Report, November 2022 meeting of the Standards and General Purposes Committee and November 2022 meeting of the Pensions Committee.</p>

Appendix B

Required communications with the Standards and General Purposes Committee (continued)

Our Reporting to you

Required communications	 What is reported?	  When and where
Material inconsistencies and misstatements	<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, November 2022 meeting of the Standards and General Purposes Committee and November 2022 meeting of the Pensions Committee.
Auditors report	<ul style="list-style-type: none"> Key audit matters that we will include in our auditor's report Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report, November 2022 meeting of the Standards and General Purposes Committee and November 2022 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 Standards and General Purposes 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.