

Merton Council Pension Fund

Pension Fund Advisory Committee / General Purposes Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

17th September 2014

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Executive summary

Key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

We regard Merton Council's General Purposes Committee as the member for ultimately responsible for governance of the Merton Pension Fund; however we also report our findings to the Pension Fund Advisory Panel ahead of the General Purposes Committee meeting.

This report summarises the findings from the 2013/14 audit which is substantially complete. As of 10 September 2014, we expect to issue an unqualified opinion on the financial statements.

Our audit results demonstrate that while there were few changes in the financial disclosures in the Pension Fund financial statements, there were a number of areas where additional information and improvements in presentation were required to ensure the Pension Fund has prepared its financial statements appropriately.

Extent and purpose of our work

The Council's responsibilities

Merton Council as the administering authority of the Pension Fund is responsible for preparing and publishing its Statement of Accounts, which includes the financial statements of the Pension Fund.

The Council is also required to prepare a separate Annual Report and Statement of Accounts for the Pension Fund.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2013/14 financial statements of the Pension Fund
- Report on any exception in the Annual Report

In addition, where appropriate this report contains our findings related to the areas of audit emphasis, our views on the Pension Fund's accounting policies and judgments and significant deficiencies in internal control.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

Addressing audit risks

Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
<p>Significant audit risks (including fraud risks)</p> <p>As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p> <p>We reviewed the nature of the risk during the audit and concluded the risk was covered through our programme of work.</p>	<ul style="list-style-type: none"> • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • Reviewed accounting estimates for evidence of management bias; and • Evaluated the business rationale for any significant unusual transactions. 	<p>All our planned procedures are complete. We have no matters to bring to your attention from our testing.</p>

Financial statements audit

Issues and misstatements arising from the audit

Progress of our audit

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the Pension Fund Advisory Panel and General Purposes Committee meetings:
 - ▶ Final review of the financial statements
 - ▶ Receipt of a Letter of Representation
 - ▶ Final audit closing and review procedures.
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected Misstatements

- Our audit has not identified any uncorrected misstatements within the financial statements.

Corrected Misstatements

■ Our audit identified a number of disclosure errors which were highlighted to management for amendment. These are in Appendix 1 of this report. All of these have been corrected during the course of our work. Any further disclosure changes will be reported on in our final report.

■ These amendments are to more closely align the Fund's financial statements with the CIPFA example as best practice and to be internally consistent.

Other Matters

■ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Pension Fund's financial reporting process including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest,

We encountered delays in receipt of information from your general ledger to support our work on completeness and review of journals. We will work with your Finance team to integrate this work earlier into the overall closedown process in future.

We have no other matters we wish to report.

Financial statements audit (continued)

Internal Control and Written Representations

Internal Control

It is the responsibility of the Council and the Pension 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 Council and Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Council and the Pension Fund only to the extent necessary for us to complete our audit of the Fund. We are not expressing an opinion on the overall effectiveness of internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Pension Fund's financial statements of which you are not aware.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters. We are not requesting any specific representations in addition to the standard representations.

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 28 February 2014.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.
- ▶ If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meetings of the Pensions Fund Advisory Panel and General Purposes Committee.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of 28 February 2014.

Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
Total audit fee - Code work	£ TBA (*)	£ 21,000	n/a

(*) We have experienced difficulties with our data analytics work as part of our final accounts audit and will discuss a scale fee variation with the Council at the conclusion of the audit.

- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

Appendix 1 - Corrected audit misstatements

- The following corrected misstatements have been identified during the course of our audit and warrant communicating to you.
- These items have been corrected by management within the revised financial statements. These items refer to those affecting the core statements and those for the supporting disclosure notes

Net Assets Statement and Fund Account

Item of Account	Nature	Type	Balance Sheet Debit/(Credit)	Statement of Comprehensive Income & Expenditure Debit/(Credit)
Fund Account				
Gains and losses on disposal and change in the market value of investments	Consolidation of figures into a single line entitled 'gains and losses on disposal and change in market value of investments'	F, P, J		
	Additional narrative to show how the net increase in the Fund Account agrees to the closing balance on the Net Assets Statement	F	0	0
Cumulative effect of uncorrected misstatement	No effect		0	0

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

Appendix 1 (contd) - Corrected audit misstatements

- The following misstatements have been identified during the course of our audit and in our professional judgement warrant communicating to you.
- These items have been corrected by management within the revised financial statements.

Disclosures

These disclosures do not affect the figures in the core statements.

Disclosure	Description of misstatement
Admitted bodies	Inclusion of note on status of Moat Housing Association Additional narrative to clarify reference range of contribution rates
Note 2 - Basis of preparation	Inclusion of reference to all relevant legislation for the accounts
Note 3 - Accounting policies	Inclusion of note to show actuarial present value of promised retirement benefits rather than within Net Assets Statement Additional narrative on the disclosure of derivatives under 3.1 investments Clarification in Note 3.7 that contributions on an accruals basis Inclusion of policy on interest income Alignment of Note 3.13 taxation narrative with CIPFA Example Accounts Remove reference to fund managers, custodians and service organisation
Note 6 - Events after balance sheet date	Include reference to LGPS Regulations coming into effect from 1/4/14
Note 12 - Investment income	Restatement of figures to align with analysis of investments in Note 15
Note 14 - Investment expenses	Alignment of disclosure narrative with CIPFA Example Accounts Narrative to explain reason for year-on-year increase in expenses
Note 15 - Analysis of investments	Reanalysis of investments to tie in with disclosures in Note 16 Alignment of disclosure narrative with CIPFA Example Accounts

Appendix 1 (contd) - Corrected audit misstatements

Disclosure	Description of misstatement
Note 16 - Financial instruments	Reanalysis of investments to tie in with disclosures in Note 15 and to ensure figures disclosed remain internally consistent Inclusion of narrative to explain level 1, 2 and 3 investments in Note 16.3
Note 17 - Nature and extent of risk	Reanalysis for consistency of headings and classification with other notes and Net Assets Statement Narrative confirmation that no internally managed investments in Note 17.5
Note 18 - Funding arrangements	Inclusion of most recent (2013) valuation
Note 19 - Actuarial present value of promised retirement benefits	Fuller disclosure of financial assumptions used in the overall calculation of benefits
Note 23 - Related parties	Removal of reference to fund managers, custodians and service organisations

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.