

General Purposes Committee  
Merton Council  
Merton Council  
Civic Centre  
London Road  
Merton  
SM4 5DX

June 2013

Dear Members

## **Audit Progress Report - 2012/13**

We are pleased to attach our Audit Progress Report.

This Progress Report summarises the work we have undertaken to date since our appointment as your auditor on 1 September 2012. The purpose of this report is to provide the General Purposes Committee with an overview of the stage we have reached in your 2012/13 audit and ensure our audit is aligned with the Committee's service expectations.

Our audit will be undertaken in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Audit Commission Standing Guidance, auditing standards and other professional requirements.

Our Audit Plan for 2012/13, presented to the March 2013 meeting of the General Purposes Committee set out the work we plan to carry out on our 2012/13 audit. We have largely completed our walkthroughs of key financial systems and we have started our tests of control and have continued to update our risk assessment. We are developing efficient working arrangements to delivery of the audit with your Finance team and your internal audit function. We have also discussed our approach to the use of data analytics as part of our audit, and we met with officers in May 2013 to cover data protection and integrity issues and the logistical aspects of our work in this area. There are no issues that we are required to communicate to you at this stage in our audit.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

David Wilkinson  
For and behalf of Ernst & Young LLP  
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# 1. Work completed

## Meetings

We have held a number of meetings with key officers and other stakeholders as part of our ongoing audit process:

- Quarterly – Meeting with the Chief Executive and Director of Corporate Services to discuss the significant risks being faced by the Council and update on the various strands of our audit work;
- Monthly – Meeting with the Director of Finance and Procurement to discuss the significant risks being faced by the Council and update on the various strands of our audit work and audit approach;
- Monthly since March 2013 – meetings with key Finance staff to discuss significant risks around the account preparation process.

## Council audit - completion of walkthroughs and tests of control

We have largely completed our walkthroughs and some tests of control. We have worked with, and placed reliance on, the work of internal audit where possible. With a part-year change in your external auditors, we are developing efficient working arrangements to delivery of the audit. Our findings are set out below.

Area	Walkthrough	Observations
Financial Statements Close Process	Complete	No issues to report to those charged with governance. Our tests of controls will coincide with our year end programme of testing
Property Plant and Equipment	Complete	No issues to report to those charged with governance. We will take a substantive approach of tests of transactions as part of our year end programme of testing.
Accounts Receivable	In progress	No in-year reconciliation (see comments below). No other issues to report to those charged with governance. Our tests of controls will aim to place reliance on the work of internal audit as well as year end controls
Account Payable	Complete	No in-year reconciliation (see comments below). No other issues to report to those charged with governance.. We will review controls to assess if there is any impact on our year end programme of testing
Cash and Bank	Complete	Not all in-year reconciliations formally reviewed (see comments below). No other issues to report to those charged with governance.No other issues to report to those charged with governance. Our tests of controls will coincide with our year end programme of testing.
Payroll	In progress	Limited assurance received from internal audit and from internal audit IT review. We will therefore carry out substantive testing of individual transactions as part of our year end programme of testing

Carefirst	In progress	We are looking to obtain assurance over specific controls and are in discussion with officers over the best means to obtain assurance around these controls.
Treasury Management	Complete	No issues to report to those charged with governance. We will take a substantive approach of tests of transactions as part of our year end programme of testing as the most efficient approach.
Business Rates	Complete	No issues to report to those charged with governance. We will take a substantive approach of tests of transactions as part of our year end programme of testing .
Council tax	Complete	No issues to report to those charged with governance. We will take a substantive approach of tests of transactions as part of our year end programme of testing.
Housing Benefits	In progress – largely complete	From the work to date there are no issues to report to those charged with governance.
Education (SIMS)	Complete	No issues to report to those charged with governance. We will take a substantive approach of tests of transactions as part of our year end programme of testing.

Our work on walkthroughs identified a number of in-year reconciliations that were not completed. This is in part a reflection of the large number of individual systems operated by the Council. Not completing in-year reconciliations means unresolved issues require completion as part of the closedown process, placing additional pressures on the Finance team and may require write-offs for unresolved differences. We understand all year-end reconciliations have been carried out and we will review these as part of our year end programme of testing.

Our work on the testing of IT general controls is in progress and we will report our findings as part of our audit results report to the September 2013 General Purposes Committee. Based on our work to date, we are able to place reliance on the overall IT environment.

We piloted the use of data analytics to direct our programme of year end testing. We intend to apply this to our programme of testing for accounts receivable, accounts payable, payroll and journal testing. We have discussed the approach with your Finance staff to ensure we can carry out the work to meet our audit requirements and to ensure your data security and integrity requirements.

We contacted management and those charged with governance requesting assurances in a number of areas. These responses form a separate agenda item to this General Purposes Committee meeting.

#### **Value for money assessment**

We have completed our initial risk assessment for our value for money work, and have not identified any specific risks that we need to undertake additional local risk based work to address.

Our work to support the overall value for money conclusion is in progress and we will consider this in the light of our work on the financial statements.

**Pension Fund audit - completion of walkthroughs and programme of testing**

We have carried out our initial planning and have not identified any significant risks. We have completed our walkthroughs of the main systems and there are no issues we wish to bring to the attention of the Committee. We will take a substantive approach of tests of transactions as part of our year end programme of testing.

## 2. Timetable

### General Purposes Committee (as those charged with governance) Timeline

We have set out below a timetable showing the key stages of the audit, including the value for money work and the whole of government accounts, and the deliverables we have agreed to provide to you through the 2012/13 General Purposes Committee cycle.

We will provide formal reports to the General Purposes Committee throughout our audit process as outlined below. Where required, we will issue an Interim Report, summarising the findings from our audit at that stage. From time to time matters may arise that require immediate communication with the Committee and we will discuss them with the Committee Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter in order to communicate to the Council and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	Deliverables
High level planning:	<b>November</b>	
Risk assessment and setting of scopes	<b>November/ January</b>	
Testing of routine processes and controls	<b>January - March</b>	Fee Letter (to March 2013 Committee) Audit Plan (to March 2013 Committee)
Value for money conclusion	<b>February - April</b>	
Year-end audit	<b>Late June - end August</b>	Report to those charged with governance
	<b>By 30 September</b>	Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources).
	<b>By 4 October</b>	Whole of Government Accounts Submission to NAO based on their group audit instructions
	<b>By 30 September</b>	Audit completion certificate (subject to no queries or objections to the financial statements)
Reporting	<b>September</b>	Annual Audit Letter (including our work on Whole of Government Accounts)
Certification of claims and returns	<b>By end September</b>	Claims other than housing benefit and council tax subsidy
	<b>By end November</b>	Housing benefit and council tax subsidy Certification report to those charged with governance

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters through our Sector Briefings.

### Liaison with auditors of service organisations

Once we have concluded our initial planning discussions we will issue letters seeking assurance from auditors of relevant service organisations to ensure the efficient co-ordination of audit effort, based on the Audit Commission standing guidance. We plan to issue these letters shortly.

## Appendix 1: Audit Progress

<i>Progress against key deliverables</i>			<i>Council and Pension Fund audits</i>
<b>Key deliverable</b>	<b>Timetable in plan</b>	<b>Status</b>	<b>Comments</b>
<b>Fee Letter</b>	by January 2013	Completed	Reported to 13 March General Purposes Committee (Council and Pension Fund)
<b>Audit Plan</b>	March 2013	Completed	Report to 13 March General Purposes Committee (Council)  Report to 17 April Pension Fund Advisory Panel (Pension Fund)
<b>Report to Those Charged with Governance</b>	by 30 September 2013		Report to 26 September General Purposes Committee (Council and Pension Fund)
<b>Audit Report (including opinion and vfm conclusion) - Council</b>	by 30 September 2013		
<b>Audit Report – Pension Fund</b>			
<b>Audit Certificate</b>	by 30 September 2013		Council - Audit certificate will be issued on completion of our work and subject to no objections by local taxpayers to the financial statements
<b>WGA Submission to NAO</b>	by 4 October 2013		
<b>Annual Audit Letter</b>	October 2013		Report to next scheduled General Purposes Committee

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