

# Merton Council

## General Purposes Committee

### Membership

#### Councillors

Peter McCabe (Chair)

Agatha Mary Akyigyina

Laxmi Attawar

John Dehaney

Janice Howard (Vice-Chair)

Gilli Lewis-Lavender

Ian Munn BSc, MRTPI(Rtd)

Rod Scott

Debbie Shears

David Williams

#### Substitute Members:

Stan Anderson

Henry Nelles

Ray Tindle

Martin Whelton

A meeting of the General Purposes Committee will be held on:

**Date: 5 November 2013**

**Time: 7.15 pm**

**Venue: Committee rooms B & C - Merton Civic Centre, London Road, Morden SM4 5DX**

This is a public meeting and attendance by the public is encouraged and welcomed. For more information about the agenda and the decision making process contact [democratic.services@merton.gov.uk](mailto:democratic.services@merton.gov.uk) or telephone 020 8545 3616.

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# General Purposes Committee

## 5 November 2013

1	Apologies for absence	
2	Declarations of interest	
3	Minutes of the meeting held on 26 September 2013	1 - 4
4	S106 agreements/undertakings - delegation to officers	5 - 14
5	Report of the external auditor: Merton Council annual audit letter	15 - 24
6	Report of the external auditor: Merton Council audit results report	25 - 48
7	Report of the external Auditor: Merton pension fund audit results report	49 - 68
8	Public Sector Internal Audit Standards	69 - 78
9	Annual Governance Statement 2012/13 – Improvement Plan Update	79 - 84
10	Work programme	85 - 86

### **Note on declarations of interest**

Members are advised to declare any Disclosable Pecuniary Interest in any matter to be considered at the meeting. If a pecuniary interest is declared they should withdraw from the meeting room during the whole of the consideration of that matter and must not participate in any vote on that matter. If members consider they should not participate because of a non-pecuniary interest which may give rise to a perception of bias, they should declare this, withdraw and not participate in consideration of the item. For further advice please speak with the Assistant Director of Corporate Governance.

All minutes are draft until agreed at the next meeting of the committee/panel. To find out the date of the next meeting please check the calendar of events at your local library or online at [www.merton.gov.uk/committee](http://www.merton.gov.uk/committee).

## GENERAL PURPOSES COMMITTEE

26 SEPTEMBER 2013

(19.15 - 21.00)

### PRESENT

Councillors Peter McCabe (in the Chair), Laxmi Attawar, John Dehaney, Janice Howard, Lewis-Lavender, Ian Munn, Rod Scott, Debbie Shears, David Williams and Martin Whelton.

Caroline Holland (Director of Corporate Services), Paul Dale (Interim Assistant Director of Resources), Brendan Bradley (Senior Accountant), Miriam Adams (Interim Treasury & Insurance Manager), Steve Bowsher (Chief Accountant), Margaret Culleton (Head of Internal Audit), Julia Regan (Head of Democracy Services), Sean Cunniffe (Head of Customer Contact) and Colin Millar (Democracy Services).

Ernst Young auditors

Paul King, David Wilkinson, Michael Yeats and Peter O'Neill.

### 1 DECLARATIONS OF INTEREST (Agenda Item 1)

None were made

### 2 APOLOGIES FOR ABSENCE (Agenda Item 2)

Councillor Agatha Akigyina (Councillor Martin Whelton substituting)

### 3 MINUTES OF THE MEETING HELD ON 27 JUNE 2013 (Agenda Item 3)

RESOLVED: That the minutes of the meeting held on 27 June 2013 are agreed as a correct record.

### 4 AUDITED FINAL ACCOUNTS 2012/13 (Agenda Item 4)

Additional appendices and addendums were tabled.

Members discussed the final audited accounts with the external auditors and officers including the following matters:

- The collection fund reserve was an unusable reserve and was not shown with the other reserves;
- The analytical tools were not available to use because of the complexity of the systems and the late appointment of auditors – the tools should be available next year;

- Underspends which ran for more than a year were prioritised to be taken as savings;
- The underspend for 2012/13 was £1.2 m – it was anticipated that 2013/14 would be less than that;
- The capital programme was last reprofiled at September Cabinet and was kept under constant review – officers were encouraged to take a whole programme approach to their capital programme plans;
- The auditors did not make a judgement on the level of reserves and there was no benchmarking;
- The planned use of reserves was reported to Council at its budget meeting each year – Merton’s reserves level was at around the mid-level for London boroughs;
- Financial management systems needed updating to make them less complex and cumbersome – this work had been approved by Cabinet in September and was now underway;
- Short term deposits were increased as reserves were available to invest;
- The pension fund was 85% funded at the last valuation – this is in the top half of funds across London;

RESOLVED:

1. That the General Purposes Committee approve the audited Statement of Accounts, including the Pension Fund Accounts.
2. That the General Purposes Committee note any comments made by the Pensions Fund Advisory Panel in relation to the Annual Pension Fund Accounts 2012/13.
3. To note Ernst & Young’s Audit Results Report for the Council’s Pension Fund accounts under the International Standard on Auditing 260 (ISA 260).
4. To note Ernst & Young’s Audit Results Report for the Council’s main accounts under the ISA 260.
5. That the Chair signs the Letter of Representation for the Council’s 2012/13 main accounts.
6. That the Chair signs the Letter of Representation for the Council’s 2012/13 Pension Fund accounts.

5 INTERNAL AUDIT - PROGRESS ON ANNUAL AUDIT PLAN (Agenda Item 5)

Members discussed the report with officers:

Members were very concerned that some areas were subject to a second limited assurance. They asked officers to report their concerns to CMT and asked to have an emphasis placed on implementing actions agreed with internal audit. Officers would be asked to appear at committee if members felt that there was inappropriate delay in complying with these actions.

Caroline Holland said that service improvement issues including audit actions were now part of the appraisal and service objectives processes.

Sean Cunniffe was in attendance to discuss the cash collection contract which was currently unsatisfactory. The contract was currently at tendering stage and should be let by January 2014. The existing contractor was entitled to submit a bid. The emphasis on letting the contract would be on quality.

Paul Dale said that the duplicate entries were due to a failed batch process which was not reversed for some time. Monthly reconciliations had now been introduced which would allow such issues to be identified and dealt with more quickly.

Members were of the view that personal payments needed to be monitored to ensure that public money was being properly spent.

RESOLVED:

1. That Members note the report and comment upon matters arising from the Internal Audit Progress Report
2. That members approve the Internal Audit Charter

6 FREEDOM OF THE BOROUGH (Agenda Item 6)

RESOLVED:

- 1) That the General Purposes Committee recommends to Council that the three Wimbledon ladies champions Angela Mortimer, Ann Haydon-Jones and Virginia Wade be awarded the freedom of the borough.
- 2) That the General Purposes Committee recommends to Council that officers be instructed to report to General Purposes Committee on future criteria and procedures for considering nominees for the freedom of the borough with a view to making a recommendation to Council on the adoption of such criteria and procedures.

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## **Committee: General Purposes Committee**

**Date: 5 November 2013**

Wards: All

## **Subject: S106 agreements/undertakings – delegation to officers**

Lead officer: John Hill, Head of Public Protection & Development

Lead member: Cllr Andrew Judge, Cabinet Member for Environmental Sustainability and Regeneration.

Contact officer: Tim Catley, S.106 Monitoring Officer / Jonathan Lewis Team Leader (Development Control)

### **Recommendations:**

1. That the General Purposes Committee endorses the officer's recommendation to widen the scope of planning applications that can be determined under delegated powers by amending Part 3F of the Council's Constitution as set out in Appendix 2 so that certain planning applications where standard heads of terms of S106 agreements or undertakings are proposed need not be referred to the Planning Applications Committee.
2. That the General Purposes committee recommends to Council that it agrees the necessary constitutional amendments

### **1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1 The Growth and Infrastructure Act 2013 is the Government's latest attempt to reform the planning system and to foster economic growth. A key objective of the Act is to speed up the planning process. Secondary legislation flowing from the Act includes measures to allow for applicants to secure a refund of planning fees in the event of delays in determining a planning application.
- 1.2 Against this backdrop, this report is put to Committee as an initiative to help to improve performance, value for money and business effectiveness in the statutory duty of the Local Planning Authority to process and determine planning applications.
- 1.3 Officers are recommending to widen the scope of planning applications that can be determined under delegated powers by amending Part 3F of the Council's Constitution as set out in Appendix 2 so that certain cases where standard heads of terms of S106 agreements or undertakings are proposed need not be referred to the committee for decision.

- 1.4 Planning Applications Committee endorsed the recommendations at their meeting on the 10<sup>th</sup> of October 2013. Subject to Standards and General Purposes Committee endorsement of the above recommendations, or any variation to the recommendations, officers are recommending that the matter be referred to the next available meeting of Full Council for consideration
- 1.5 Standards Committee considered this proposal at their meeting held on 23 October and agreed to recommend that the proposal be adopted.

## **2. DETAILS**

- 2.1 The scheme of delegation by Full Council and committees is set out in section 3F of the Council's Constitution. Paragraph 7.2(d) of the scheme (see Appendix 2 for the full wording) requires that planning applications for development proposals that include S106 agreements or other legal agreements must be determined by Planning Applications Committee (PAC). Full Council sanctions the various parts of the scheme of delegation and would have the ultimate authority to authorise any amendments to it.
- 2.2 Reporting planning applications to PAC is a resource intensive exercise with significant additional resource applied to cases that are referred to Committee. Since the current restrictions on S106 agreements in the scheme of management were put in place, changes to Council planning policies have come into effect that have resulted in a significant increase in the number of proposals with S.106 agreements being brought to PAC. These policies include:
  - The Core Strategy Policy CS8 which was adopted in July 2011 that requires all proposals involving a new dwelling (net) to agree to pay a standard S.106 charge for affordable housing (subject to viability).
  - The Planning Obligations Supplementary Planning Document (SPD) that was adopted in August 2006 provided a framework for calculating contributions from minor development via standard formulae. Since 2009 due to the identification of the borough wide shortfall of school places/classrooms a standard education contribution charge using formulae contained in the SPD has been applied to all proposals containing additional dwellings containing two or more bedrooms.
- 2.3 The Community Infrastructure Regulations 2010 (as amended) effectively will make it unlawful for Local Planning Authorities to grant planning permission subject to a S106 agreement for funding to be pooled with other contributions for infrastructure items or projects, other than affordable housing. This restriction is due to come into effect on 1 April 2014 for Merton with the type of contributions that will no longer be lawful including (but not be limited to) sustainable transport, open space, play space, public realm and education where these monies can be pooled with other similar contributions agreed since 1 April



2010. Affordable housing and permit free obligations (a standard requirement for new dwellings in Controlled Parking Zones with insufficient off-street parking provision prohibiting holders of residential parking permits from occupying the new dwellings) are standard requirements that will continue post 1 April 2014.

- 2.4 Appendix 1 assesses PAC cases involving S106 agreements for 2012-13, 2010-11, 2009-10 and 2005-06 and demonstrates the impact of the standard charges for affordable housing and education in terms of significant additional PAC applications being brought to Committee only due to the S.106 requirement.
- 2.5 Committee is being asked to endorse the recommendation of officers to delegate the decision of cases where there have been no reason for the case to be determined by Committee other than that a standard charge or standard head of term is proposed where no negotiation has resulted in a variation of the requirement (for example affordable housing or education contribution where viability has not resulted in a reduction of contribution, or permit free development requirement). It is considered the additional work associated with taking a case to PAC can be avoided, if the recommendation was implemented, on a significant number cases.
- 2.6 It might be argued that the introduction of the Merton CIL will reduce the importance of agreeing a change to the scheme of delegation because the standard education contribution charge will no longer be lawful from 1 April 2014 under CIL Regulation 123.
- 2.7 However if the proposed changes to the scheme of delegation are not implemented there would only be a negligible drop in cases with S106 agreements requiring authorisation by PAC as applications warranting education contributions and affordable housing contributions would be unaffected.
- 2.8 There are also likely to be other benefits as follows:
- It would enable a more timely processing of applications and improved performance thereby avoiding appeals for non-determination of planning applications within the statutory period.
  - It would reduce the risk to the Council of applicants seeking refunds on undetermined applications. New statutory provisions will come into force in 1 October 2013 provide applicants with recourse to require a refund of fees paid for planning applications where those applications have not been determined within 26 weeks of a valid application being received.
  - It would help PAC to make more conclusive decisions by allowing them to scrutinise justifications for reduced contributions including where the proposed heads of terms do not fulfil the Council's policy or SPD requirements?

- It could reduce the number of enforcement cases where developers have commenced work on the back of a PAC decision to grant permission subject to contribution figures to be determined on the basis of viability where the viability arguments are protracted post-committee.

### **3. ALTERNATIVE OPTIONS**

- 3.1 Members may choose to endorse the recommendation of officers in full.
- 3.2 Members may propose to widen the scope of planning applications that can be determined under delegated powers to include those applications requiring the completion of a S106 agreement or that are subject to a S106 unilateral undertaking where no objections have been raised as a result of consultation irrespective of the type of obligations that are proposed with no caveats; or
- 3.3 Members may propose alternative caveats, such as limiting powers of delegation to certain types of applications or number of dwellings, or additional caveats.
- 3.4 Opting for alternative or no caveats is not recommended on the basis that members may wish to scrutinise non-standard obligations particularly where negotiations have occurred surrounding viability or site specific issues. Members should carefully consider whether any proposed additional caveats would unnecessarily limit the scope for delegation and the associated efficiency savings.
- 3.5 Members may choose not to support the proposals and fail to make the associated efficiency savings.

### **4. CONSULTATION UNDERTAKEN OR PROPOSED**

- 4.1 Planning Applications Committee endorsed the recommendations at their meeting on the 10th of October 2013. Members are consulted by virtue of the impact of this item on their responsibilities.

### **5. TIMETABLE**

- 5.1 The proposed changes would take effect on those applications with officer recommendations from the date the scheme of management is amended. The target date for a final decision authorising the changes is the 20th November 2013 being the next scheduled meeting of Full Council. The meetings that this proposal has been/is likely to be taken to are as follows:

- 10 October 2013 Planning Applications Committee
- 23 October 2013 Standards Committee
- 5 November 2013 General Purposes Committee

- 20 November 2013 Full Council

## **6. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

- 6.1 This report is put to Committee as an initiative to help to improve performance, value for money and business effectiveness in the statutory duty of the Local Planning Authority to process and decide planning applications.
- 6.2 The recommended proposal would if implemented reduce the amount of resource and the costs associated with taking planning application cases to Planning Applications Committee.

## **7. LEGAL AND STATUTORY IMPLICATIONS.**

- 7.1 Contained within the body of the report.

## **8. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

- 8.1 None

## **9. CRIME AND DISORDER IMPLICATIONS**

- 9.1 None.

## **10. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

- 10.1 There are no risk implications with this proposal as the types of proposals that would no longer be taken to PAC would be determined on pre-determined criteria by way of standard clauses or criteria that already do not trigger the need to take cases to PAC. Where negotiations on an individual application have changed the principle of an obligation or have resulted in the contributions being reduced then the cases would need to go to the committee.

## **11. APPENDICES**

- 11.1 Appendix 1 – PAC cases involving S106 agreements for 2012-13, 2010-11, 2009-10 and 2005-06
- 11.2 Appendix 2 – Proposed revisions to the scheme of delegation

## **12. BACKGROUND PAPERS**

- 12.1 The following documents have been relied upon in compiling this report but do not form part of this report.
- London Borough of Merton Constitution.
  - London Borough of Merton Core Strategy (July 2011)

- London Borough of Merton Planning Obligations SPD (August 2006)
- The Community Infrastructure Regulations 2010 statutory instrument no. 948 (as amended).
- The Town and Country Planning (Fees for Applications, Deemed Applications, Requests and Site Visits) (England) (Amendment) Regulations 2013

**Appendix 1 - PAC cases involving S106 agreements for 2012-13, 2010-11, 2009-10 and 2005-06**

Month (total pa cases)	2012-13				Month (total pa cases)	2010-11			
	S106 total	S106 only total	S106 only			S106 total	S106 only	S106 only	
			<10 units	standard HoT only				<10 units	standard HoT only
Apr (8)	4	3	3	3	Apr (11)	5	0	0	0
May (12)	5	4	4	2	May (na)	0	0	0	0
Jun (8)	4	3	2	1	Jun (17)	9	8	6	5
Jul (14)	9	7	7	5	Jul (12)	5	2	2	2
Aug (na)	0	0	0	0	Aug (9)	7	5	3	2
Sep (13)	12	9	8	6	Sep (4)	4	2	0	0
Sep (8)	7	6	5	3	Oct (13)	8	4	4	3
Nov (8)	6	3	3	3	Nov (1)	1	0	0	0
Dec (16)	10	6	6	5	Dec (11)	6	1	1	1
Jan (12)	7	4	4	3	Jan (10)	7	2	2	2
Feb (11)	7	7	6	4	Feb (8)	4	1	1	1
Mar (12)	9	5	5	5	Mar (10)	8	4	2	2
<b>year total</b>	<b>80</b>	<b>57</b>	<b>53</b>	<b>40</b>	<b>year total</b>	<b>64</b>	<b>29</b>	<b>21</b>	<b>18</b>
% of S106 total		71%	66%	50%	% of S106 total		45%	33%	28%
% of 2010-11		197%	252%	222%					
% of 2009-10		190%							
% of 2005-06		438%	408%						

Month (total pa cases)	2009-10				Month (total pa cases)	2005-06			
	S106 total	S106 only	S106 only			S106 total	S106 only	S106 only	
			<10 units	standard HoT only				<10 units	standard HoT only
Apr ()	9	5			Apr (9)	2	0	0	0
May ()	5	1			May (12)	5	1	1	0
Jun ()	6	6			Jun (8)	5	1	1	0
Jul ()	5	4			Jul (8)	2	2	2	0
Aug ()	4	2			Aug (11)	2	0	0	0
Sep ()	6	1			Sep (14)	6	2	2	0
Oct ()	1	0	0		Oct (6)	4	1	1	0
Nov ()	4	0	0		Nov (15)	6	4	4	0
Dec ()	7	3			Dec (12)	4	0	0	0
Jan ()	6	3			Jan (na)	0	0	0	0
Feb	7	2			Feb (9)	4	1	1	0
Mar	7	3			Mar (11)	6	1	1	0
<b>year total</b>	<b>67</b>	<b>30</b>			<b>year total</b>	<b>46</b>	<b>13</b>	<b>13</b>	<b>0</b>
% of S106 total		45%			% of S106 total		28%	28%	0%

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## **Appendix 2 – Proposed revisions to the scheme of delegation**

The wording of paragraph 7.2 (d) of Part 3F of the Council's Constitution will be amended as follows (proposed new wording in bold):

"[...the Chief Executive is authorised to determine all planning applications, Listed Building Consent applications and Conservation Area Consent applications except the following which are reserved to Committee: -]

...(d) proposals which are subject to Section 106 agreement **that would contain any heads of terms or contributions that are not a standard requirement of the local plan or (for proposals where a standard requirement has been subject to modification through negotiation or otherwise) depart significantly from the standard requirement of the Local Plan;**  
or applications for release or significant modification/variation from such obligations"

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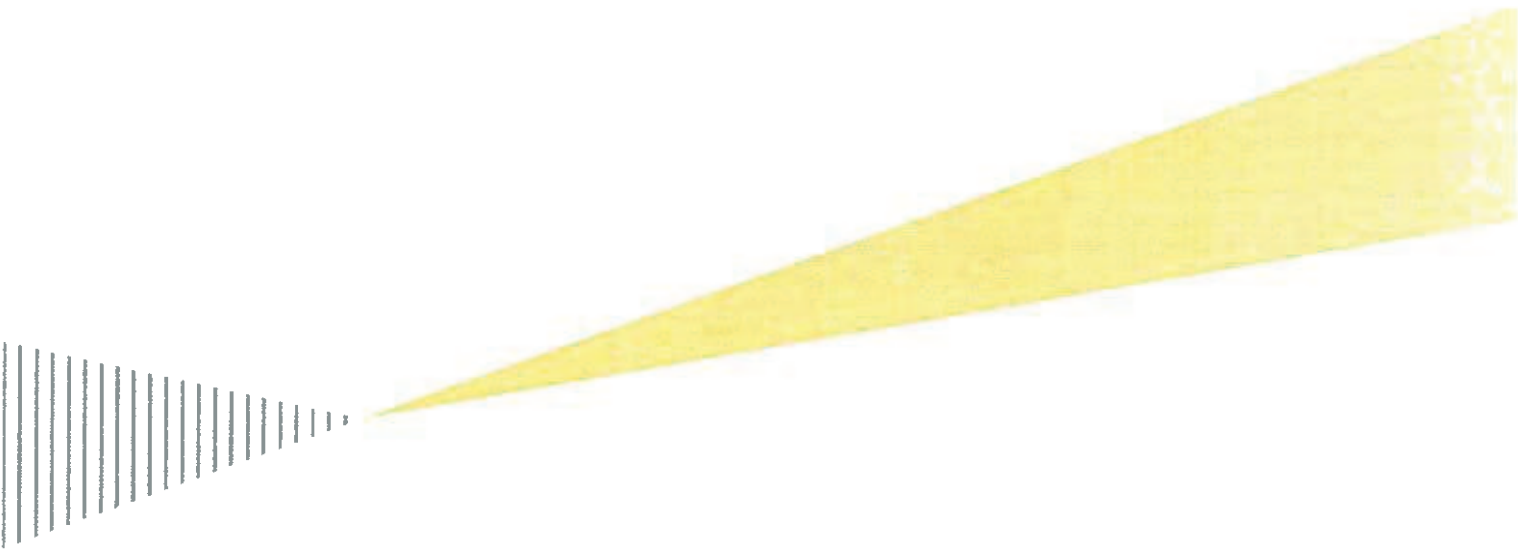


# Merton Council Annual Audit Letter

Year ending 31 March 2013

October 2013

Ernst & Young LLP



**Private and confidential**  
Members of Merton Council  
Merton Civic Centre  
London Road  
Morden  
SM4 5DX

4 October 2013

Dear Members,

## Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Merton Council and external stakeholders, including members of the public, the key issues arising from our work which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with the governance of Merton Council in the following reports:

2012/13 Audit results report for Merton Council                      Issued 18 September 2013

2012/13 Audit results report for Merton Pension Fund                      Issued 18 September 2013

The matters reported here are the most significant for the Council.

I would like to take this opportunity to thank the officers of Merton Council for their friendliness, cooperation and assistance during the course of our work.

Yours faithfully



David Wilkinson  
For and behalf of Ernst & Young LLP  
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## Contents

<b>1. Executive summary .....</b>	<b>1</b>
<b>2. Key findings .....</b>	<b>3</b>
<b>3. Control themes and observations .....</b>	<b>6</b>

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 Annual Audit Letter 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.

## 1. Executive summary

Our 2012/13 audit work has been undertaken in accordance with the Council Audit Plan issued on 4 March 2013 and the Pension Fund Audit Plan issued on 12 April 2013. Our work was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement, in which it reports publicly on the extent to which it complies with its own code of governance. This includes how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period. It is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements;
- ▶ reviewing the Annual Governance Statement;
- ▶ forming a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Merton Council and its Pension Fund for the financial year ended 31 March 2013 in accordance with International Standards on Auditing (UK & Ireland)	On 27 September 2013 we issued an unqualified audit opinion for the Council.
	On 27 September 2013 we issued an unqualified audit opinion for the Pension Fund.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 27 September 2013 we issued an unqualified value for money conclusion.
Issue a report to those charged with the governance of the Authority (the Audit Committee) communicating significant findings from our audit.	On 18 September 2013 we issued our report for the Authority.
	On 18 September 2013 we issued our report for the Pension Fund.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 27 September 2013.
Consider the completeness of disclosures in the Annual Governance Statement, identify any inconsistencies with other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.

Consider whether, in the public interest, we should make a report on any matter coming to our notice during the audit.

No issues to report.

Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.

No issues to report.

Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

On 27 September 2013 we issued our audit completion certificate.

Issue a report to those charged with the governance of the Authority summarising our certification (grant claims and returns) work.

We will issue our annual certification report for 2012/13 to those charged with governance in December 2013 on completion of the housing and council tax subsidy claim.

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## 2. Key findings

### 2.1 Financial statement audit

We audited the Authority's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 27 September 2013.

In our view, the quality of the process for producing the accounts, including the supporting working papers was good. We have held very constructive discussions with the Finance team to secure further improvements in the quality of working papers and arrangements for managing the audit process for the 2013/14 audit.

The main issues identified as part of our audit were:

#### Significant risk 1: Property, plant and equipment

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- ▶ Errors in PPE valuation can lead to material misstatements. The valuation of PPE is a specialist area requiring complex estimation techniques. It is also highly material to the financial statements. We are aware of some areas for improvement identified in the 2010/11 audit with the Council's valuation process and documentation procedures.

##### Findings

- ▶ The Council carried out a prior period adjustment to account for investment properties not previously identified of £4.4million, and additional finance leases for properties of £3.97million. We reviewed and agreed these adjustments.
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#### Significant risk 2: Pension Fund liability

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- ▶ Errors on pension fund valuations can lead to material misstatement. Pension fund valuation is highly material to the financial statements. During the inter-valuation period the funding level fell from 91% as at March 2007 to 84% at the last valuation date of 2010, resulting in a deficit of £67 million. The Pension Fund deficit, on an IAS19 basis, rose from £103 million to £190 million.

##### Findings

- ▶ Our review of the Council's pension liability did not identify any issues. The above position reflected the economic conditions in 2010; the Fund's next actuarial valuation will be based on the position in April 2013.
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#### Significant risk 3: Private Finance Initiative (PFI) schemes

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- ▶ The London Borough has a net book value of £63.7 million of PFI assets disclosed in its accounts as at 31 March 2012. It also has a range of liabilities associated with its PFI schemes. These amounts are material and are based on a number of important assumptions. Small changes in these assumptions can lead to material changes in the values disclosed.

##### Findings

- ▶ The Council needed to remove Bishopsford School from its property, plant and equipment assets following the school becoming an academy during 2012/13, an adjustment of £11.74 million.
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#### Other key findings:

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##### Transfer of a PFI school to academy status

- ▶ Bishopsford School which is a PFI scheme school will become an academy during 2012/13. The transfer will require expert advice in order to agree valuation and accounting treatments.

##### Findings

- ▶ The financial statements presented for audit included Bishopsford School as an asset within property, plant and equipment in the balance sheet. We questioned this accounting treatment and

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the Council subsequently removed the school from the balance sheet. The adjustment was £11.74 million, and we were content with the revised accounting treatment in the core financial statements and notes to the accounts.

**Classification of revenue and capital expenditure**

- ▶ The Council has undertaken a review of the appropriateness of the classification of its capital and revenue expenditure and identified some errors and scope for improved awareness in this area.

**Findings**

- ▶ Our review identified £0.66million of expenditure funded by Transport for London incorrectly treated as revenue expenditure charged to capital when it was merely revenue expenditure. The Council adjusted the notes to the financial statements to reflect this. There was no effect on the expenditure disclosed in the income and expenditure statement.

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**Overprovision for non-domestic rates and council tax bad and doubtful debts**

The Council over-provided for bad debt provisions in 2012/13 by £2 million on non-domestic rates (NDR) and £1.2million on council tax. The Council adjusted for council tax in the revised financial statements. Given the uncertainty of the new non-domestic rating regime and the lack of clarity in accounting guidance, no NDR adjustment is planned until 2013/14 when the position on collection rates and bad debts will become clearer.

The Council set out its position in its letter of representation and we accepted this approach. We will review the outturn position as part of our 2013/14 audit work.

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## 2.2 Value for money conclusion

We are required to carry out enough work to conclude whether the Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2012/13 our conclusion was based on two criteria:

- ▶ The organisation has proper arrangements for securing financial resilience; and
- ▶ It has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 27 September 2013.

We noted the following improvement areas that the Council is addressing in 2013/14:

- ▶ Keep core budgets under review and ensure there is a process of internal challenge as part of budget setting that challenges assumptions and supports robust revised in-year forecasting
- ▶ Ensure in-year review of budgets identifies early changes that are reported to management and those charged with governance
- ▶ Re-profile the capital programme in the light of consistent slippage on individual schemes and build realistic expectations into the medium term financial strategy and other shorter-term spending plans.

## **2.3 Objections received**

We received no objections to the 2012/13 accounts from members of the public.

We considered, and responded to, questions raised by one member of the public during 2012/13.

## **2.4 Whole of government accounts**

The Authority is required to prepare a consolidation pack for the whole of government accounts. On 27 September 2013 we reported to the National Audit office the results of our work on its accuracy and identified no issues.

## **2.5 Annual governance statement**

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA/SOLACE guidance. We completed this work and did not identify any areas of concern.

## **2.6 Certification of grants claims and returns**

We will present our Annual Certification Report for 2012/13 to those charged with governance. We are required to certify three claims and returns with a combined value in excess of £200million. We certified the Council's National Non-Domestic Rates Return on 25 September 2013; there were no issues arising. We will issue the Annual Certification Report for 2012/13 in December 2013 as our work on the housing and council tax benefit subsidy claim is due for completion in late November.



### 3. Control themes and observations

As part of our audit of the financial statements, we obtained sufficient understanding of internal control to plan our audit and determine the nature, timing and extent of testing. Although our audit was not designed to express an opinion on the effectiveness of internal control, we communicated significant deficiencies to those charged with governance at the Authority as required.

The matters reported are shown below and are limited to those we identified during the audit and that we concluded are important enough to report.

Description	Impact
<p>Our work identified that, due to the large number of financial systems currently operated by the Council, monthly or quarterly reconciliations between many of the Council's main financial systems are not carried out.</p> <p>These include accounts receivable, accounts payable, Carefirst and a full reconciliation of bank and cash to the general ledger. These are reconciled instead at the financial year end only.</p>	<p>Problems with reconciliations place additional pressure on the financial closedown process. The Council's Finance team are carrying out monthly reconciliations and formal quarterly reviews of major financial systems in 2013/14.</p> <p>A more integrated suite of financial systems would reduce the number of reconciliations required.</p>
<p>There is a complex reconciliation required from the Cabinet Report on budget to outturn to the Note 29 subjective analysis in the financial statements.</p>	<p>The reconciliation of the financial position shown in the financial statements to Cabinet reports is not straightforward. The Council should develop the presentation of reports to make clearer the financial movements from internal reporting to that disclosed in the Financial Statements (Income and Expenditure Statement and Note 29) and review presentation of service analysis.</p>
<p>We identified errors in bank reconciliations in six of 17 school bank reconciliations sampled.</p>	<p>Refresher training is required for those who prepare and review the school bank reconciliations to ensure accurate reconciliations.</p>
<p>We were unable to place reliance on the controls operating in your payroll system. This was due to issues identified by Internal Audit in a review of the implementation of the new payroll system introduced in April 2012.</p>	<p>We carried out a programme of substantive testing to obtain assurance over the disclosure of payroll costs in your financial statements. There were no issues arising from our work.</p>

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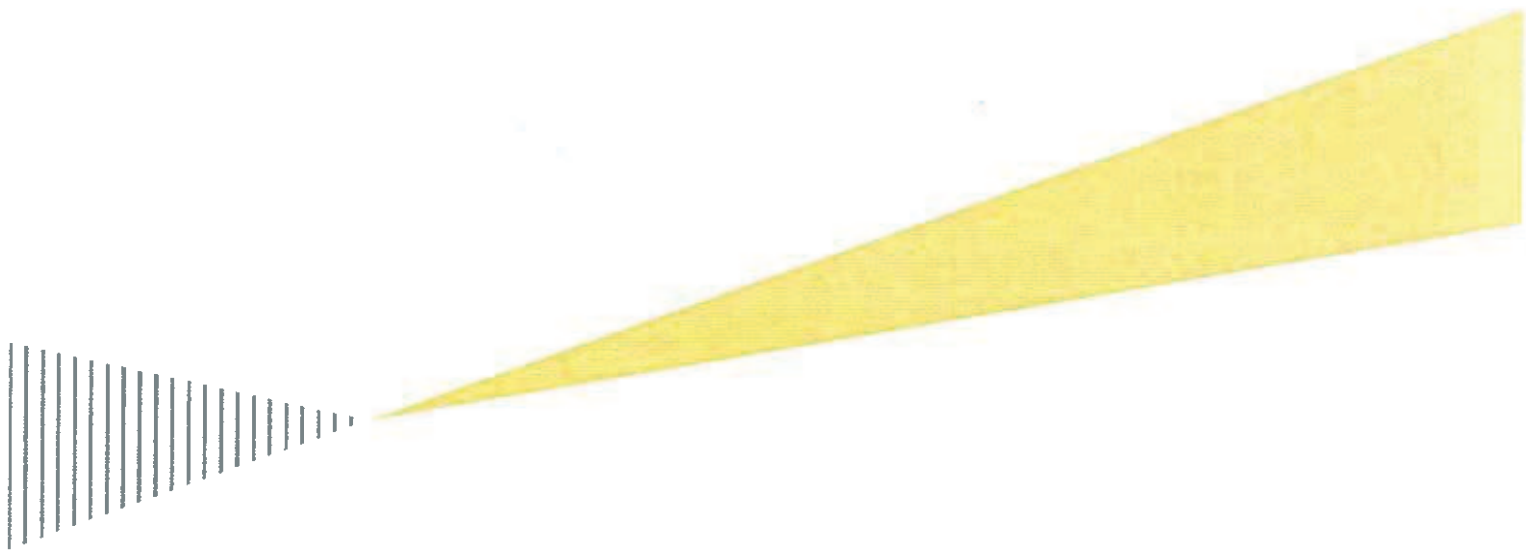
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# Merton Council

Audit results report for the year ended 31 March 2013

FINAL October 2013

Ernst & Young LLP



**Private and confidential**  
Members of the General Purposes Committee  
Merton Council  
Civic Centre  
London Road  
Morden  
SM4 5DX

Dear Members

## **Audit results report**

We are pleased to attach our audit results report presented to the meeting of the General Purposes Committee on 26 September 2013. This report summarises our audit conclusion in relation to Merton Council's financial position and results of operations for 2012/13. We issued our final conclusion and opinion on 27 September 2013.

The audit is designed to express an opinion on the 2012/13 financial statements, reach a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and material internal control findings.

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

A copy of this report will be sent to the Audit Commission in accordance with the requirements of its Standing Guidance.

We discussed the contents of this report with you at the General Purposes Committee meeting on 26 September 2013.

Yours faithfully



David Wilkinson  
Partner  
For and on behalf of Ernst & Young LLP

## Contents

<b>1. Overview of the financial statement audit</b> .....	<b>1</b>
<b>2. Scope update</b> .....	<b>2</b>
<b>3. Significant findings from the financial statement audit</b> .....	<b>3</b>
<b>4. Economy, efficiency and effectiveness</b> .....	<b>5</b>
<b>5. Control themes and observations</b> .....	<b>7</b>
<b>6. Status of our work</b> .....	<b>9</b>
<b>7. Fees update</b> .....	<b>10</b>
<b>8. Summary of audit differences</b> .....	<b>11</b>
<b>9. Independence confirmation: update</b> .....	<b>13</b>
<b>Appendix A Required communications with the General Purposes Committee</b> .....	<b>14</b>
<b>Appendix B Letter of representation</b> .....	<b>16</b>

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.

## 1. Overview of the financial statement audit

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ Forming an opinion on the financial statements;
- ▶ Forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ Undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

### **Financial statements**

We issued an unqualified opinion on the Council's financial statements. Our main findings in relation to the areas of risk included in our Audit Plan are set out in Section 3 of the report.

### **Economy, efficiency and effectiveness**

We issued an unqualified value for money conclusion.

### **Whole of Government accounts**

We completed our report to the National Audit Office on the accuracy of the consolidation pack the Council is required to prepare for the Whole of Government Accounts. We had no issues to report.

### **Control themes and observations**

Our audit identified areas for improvement in: reconciliations between financial systems, linkage of budget monitoring reports to disclosures in the financial statements and monitoring school bank reconciliations. These are covered in Section 5.1 of this report.

There were no changes to the scope of our audit.

### **Summary of audit differences**

Our audit identified a number of misstatements in the accounts presented for audit, with the key items summarised below. Full details are in Section 8 of this report.

- 
- ▶ Removal of Bishopsford Academy from the Council's financial statements – reduction in assets of £11.74million. The Council has adjusted for this difference in the revised financial statements.
  - ▶ Transfer from usable reserves to unusable reserves of £2.465million due to incorrect treatment of the minimum revenue provision for the partial exemption element of two of the PFI-funded schools. The Council has adjusted for this difference in the revised financial statements.
  - ▶ The Council over-provided for bad debt provisions by £2 million on non-domestic rates (NDR) and £1.2million on council tax. The Council adjusted for council tax in the revised financial statements. No NDR adjustment is planned until 2013/14 when the position on collection rates and bad debts will become clearer. The Council sets out its position in the letter of representation at Appendix B.
-

## 2. Scope update

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan issued on 4 March 2013 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Our work comprises a number of elements. In our Audit Plan, we provided an overview of our audit scope and approach for the audit of the financial statements, our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, and the work we are required to perform on the Whole of Government Accounts return.

We carried out our work in accordance with our Audit Plan.

### **Publication on electronic media**

The Council is responsible for the accurate presentation of the financial statements, audit report thereon and other reports submitted in relation to the audit and for establishing security and controls over them in order to ensure the continued integrity of the information presented. The examination of the controls over electronic presentation of audited financial information and reports by the auditor on the Council's web-site is beyond the scope of the audit of the financial statements.

### 3. Significant findings from the financial statement audit

In this section of our report we outline the main findings from our audit, including our conclusions on the areas of risk outlined in our Audit Plan.

#### Significant risks

##### Property, Plant and equipment (PPE)

- ▶ Errors in PPE valuation can lead to material misstatements. The valuation of PPE is a specialist area requiring complex estimation techniques. It is also highly material to the financial statements. We are aware of some areas for improvement identified in the 2010/11 audit with the Council's valuation process and documentation procedures.

##### Findings

- ▶ The Council carried out a prior period adjustment to account for investment properties not previously identified of £4.4million, and additional finance leases for properties of £3.97million. We reviewed and agreed these adjustments.

##### Pension fund liability

- ▶ Errors on pension fund valuations can lead to material misstatement. Pension fund valuation is highly material to the financial statements. During the inter-valuation period the funding level fell from 91% as at March 2007 to 84% at the last valuation date of 2010, resulting in a deficit of £67 million. The Pension Fund deficit, on an IAS19 basis, rose from £103 million to £190 million.

##### Findings

- ▶ Our review of the Council's pension liability did not identify any issues. The above position reflected the economic conditions in 2010; the next actuarial valuation will be based on the position in April 2013.

##### Private Finance Initiative (PFI) schemes

- ▶ The London Borough has a net book value of £63.7 million of PFI assets disclosed in its accounts as at 31 March 2012. It also has a range of liabilities associated with its PFI schemes. These amounts are material and are based on a number of important assumptions. Small changes in these assumptions can lead to material changes in the values disclosed.

##### Findings

- ▶ As set out below, the Council needed to remove Bishopsford School from its property, plant and equipment assets following the school becoming an academy during 2012/13, an adjustment of £11.74 million.

#### Other financial statement risks:

##### Transfer of a PFI school to academy status

- ▶ Bishopsford School which is a PFI scheme school will become an academy during 2012/13. The transfer will require expert advice in order to agree valuation and accounting treatments.

##### Findings

- ▶ The financial statements presented for audit included Bishopsford School as an asset within property, plant and equipment in the balance sheet. We questioned this accounting treatment and the Council subsequently removed the school from the balance sheet. The adjustment was £11.74million, and we are content with the revised accounting treatment.

##### Classification of revenue and capital expenditure

- ▶ The London Borough has undertaken a review of the appropriateness of the classification of its capital and revenue expenditure and identified some errors and scope for improved awareness in this area.

##### Findings

- ▶ Our review identified £0.66million of expenditure funded by Transport for London incorrectly treated as revenue expenditure charged to capital rather than as revenue expenditure. The Council adjusted the notes to the financial statements to reflect this. There is no effect on the expenditure disclosed in the income and expenditure statement.

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we include the following findings.



Other findings from our work

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**Non domestic rates provision for bad and doubtful debts**

- ▶ Based on previous collection rates, the Council over-provided for bad debt provisions by £2 million on non-domestic rates (NDR) and £1.2million on council tax. The Council has adjusted for council tax in the revised financial statements. However, given the uncertainty of the new non-domestic rating regime and the lack of clarity in accounting guidance, no NDR adjustment is planned until 2013/14 when the position on collection rates and bad debts will become clearer. The Council sets out its position in the letter of representation at Appendix B.

**Use of analytics tools for journal entry testing**

- ▶ We were unable to use our analytics tools to ensure the financial statements included all the Council's financial transactions and to direct our testing of journal entries raised in production of the financial statements.
  - ▶ We adopted alternative approaches to obtain assurance over the completeness of the financial statements and testing of journals.
- 

**Housing and council tax benefit parameters**

- ▶ Our review of the parameters set for housing and council tax benefit subsidy identified two not been updated since 2010. These errors had not been identified in prior periods.
  - ▶ These errors do not affect the financial statements. The Council is assessing the impact of these errors on its housing and council tax benefit subsidy claim.
-

## 4. Economy, efficiency and effectiveness

The Code of Audit Practice 2010 sets out our responsibility to satisfy ourselves that Merton Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements we consider the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position to enable it to continue operating for the foreseeable future; and
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and improving efficiency and productivity.

The table below presents the findings of our work in response to the risk areas or areas of focus in our Audit Plan.

Significant risks:	Impacts arrangements for securing:	Key findings:
<p><b>2012/13 financial outturn and delivery of savings</b></p> <p>As at January 2013, the London Borough is forecasting an under spend of approximately £4.8 million for 2012/13, after transfers of £1.19 million to capital financing reserves. Last year auditors reported a major area of focus for the London Borough over the coming year would be to ensure more consistent budgeting and financial monitoring across service departments, as in some cases there were significant under spends.</p>	<p>Financial resilience</p>	<ul style="list-style-type: none"> <li>▶ We did not identify any areas which would lead to qualifying the financial resilience criterion.</li> <li>▶ <b>Improvement areas:</b></li> <li>▶ Keep core budgets under review, ensure there is a process of internal challenge as part of budget setting that challenges assumptions and supports robust revised in-year forecasting</li> <li>▶ Ensure in-year review of budgets identifies early changes that are reported to management and those charged with governance</li> <li>▶ Re-profile the capital programme in the light of consistent slippage on individual schemes and build realistic expectations into the medium term financial strategy and other shorter-term spending plans</li> </ul>
<p><b>Financial settlement 2013-15 and medium term financial plans (MTFPs)</b></p> <p>The full implications of the provisional local government finance settlement 2013-15 are still being assessed in detail by officers. Current estimates (January 2013) are that there is a potential £1 million gap (net of savings) for 2013/14. By 2016/17 this gap increases to £15 million. Robust savings plans will need to be developed to address the gaps identified to 2016/17.</p>	<p>Economy, efficiency and effectiveness</p> <p>Financial resilience</p>	<ul style="list-style-type: none"> <li>▶ We did not identify any areas which would lead to qualifying the economy, efficiency and effectiveness and financial resilience criteria</li> </ul>

**Transfer of Public Health (PH) role**

The Borough has been provided with some £8.7 million to provide PH for Merton from 1 April 2013. Currently, the roles and responsibilities associated with this transfer of role from the NHS to local government are not clear. There are therefore potential financial risks associated for 2013/14 and beyond.

Financial resilience

- ▶ We did not identify any areas which would lead to qualifying the financial resilience criterion.

## 5. Control themes and observations

As part of our work, we obtained sufficient understanding of internal control to plan our audit and determine the nature, timing and extent of testing. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you any significant deficiencies.

We have only reported here deficiencies we identified during the audit that we concluded are significant.

### 5.1 Current year observations

Description	Impact and Council's response
Our work identified that, due to the large number of financial systems currently operated by the Council, monthly or quarterly reconciliations between many of the Council's main financial systems are not carried out. These include accounts receivable, accounts payable, Carefirst and a full reconciliation of bank and cash to the general ledger. These are reconciled instead at the financial year end only.	Problems with reconciliations place additional pressure on the financial closedown process. The Council's Finance team are carrying out monthly reconciliations and formal quarterly reviews of major financial systems in 2013/14. A more integrated suite of financial systems would reduce the number of reconciliations required.
There is a complex reconciliation required from the Cabinet Report on budget to outturn to the Note 29 subjective analysis in the financial statements.	The reconciliation of the financial position shown in the financial statements to Cabinet reports is not straightforward. The Council should develop the presentation of reports to make clearer the financial movements from internal reporting to that disclosed in the Financial Statements (CIES and Note 29) and review presentation of service analysis.
We identified errors in bank reconciliations in six of 17 school bank reconciliations. All errors related to overstatement of cash due to cash inflows recognised on the Council's cashbook but not recognised in the bank statements.	Refresher training is required for those who prepare and review the bank reconciliations to ensure that they have the necessary skills to create accurate reconciliations. Carry out a review of a sample of school bank reconciliations by internal audit until such time that schools' finance teams are more effective at preparing the reconciliations.
We were unable to place reliance on the controls operating in your payroll system. This was due to issues identified by Internal Audit in a review of the implementation of the new payroll system introduced in April 2012.	We carried out a programme of substantive testing to obtain assurance over the disclosure of payroll costs in your financial statements. There were no issues arising from our work.

### 5.2 Challenges for the coming year

Description	Impact
The Council will need to manage the financial and activity consequences of taking on increased public health responsibilities.	The respective responsibilities for the Council and healthcare providers in the local economy, and financial impact for the Council, are evolving. The Council will need to work closely with healthcare providers and other partners to ensure financial spending is matched to available resources.
The implications of the changes in the implementation of new arrangements for council tax benefit (localisation of council tax support) and the localisation of business rates could produce greater volatility and subsequent pressure on the Council's financial resources.	The Council will need to review its provisions to assess whether coverage is sufficient and adapt budgeting and forecasting accordingly.

The Council acknowledges it has a larger number of individual financial systems than equivalent councils and intends to move to a more integrated suite of systems.

This should improve efficiencies in the connectivity of systems and the processes for reconciliation of information flows.

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## **6. Status of our work**

### **6.1 Financial statement audit**

Our audit work for our opinion on the Authority's financial statements is complete. The annual accounts were approved by the General Purposes Committee and recertified by the Director of Corporate Services on 26 September 2013.

We issued an unqualified auditor's report on the Authority's financial statements on 27 September 2013.

### **6.2 Economy, efficiency and effectiveness**

Our work in respect of our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is complete.

We issued an unqualified value for money conclusion in regard to the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

### **6.3 Objections and other questions received from members of the public**

We received no objections to the 2012/13 accounts from members of the public. We considered, and responded to, questions raised by one member of the public during 2012/13.

## 7. Fees update

A breakdown of our agreed fee is shown below.

	Proposed final fee 2012/13 £	Planned fee 2012/13 £	Scale fee 2012/13 £	Explanation of variance
<b>Total Audit Fee – Code work</b>	<b>£188,730(**)</b>	<b>£188,730</b>	<b>£188,730</b>	
Certification of claims and returns(**)	(**)	£42,450	£42,450	
Non-audit work (provide details)	0	0	0	See below

*(\*) - Fees for the auditor's consideration of correspondence from the public and formal objections are charged in addition to the planned fee. There will be an additional fee in respect of our consideration and response to questions raised by a member of the public, which we will discuss and agree with the Council.*

*(\*\*) - Our fee for certification of grants and claims is yet to be finalised for 2012/13 and will be reported to those charged with governance in December 2013 within the Audit Certification Report for 2012/13.*

## 8. Summary of audit differences

In the normal course of any audit, we identify differences between amounts we believe should be recorded in the financial statements and amounts actually recorded. These differences are classified as either '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.

We have included all amounts greater than £240,000 relating to Merton Council in our summary of misstatements below.

We highlight in particular the following misstatements identified during the course of our audit that have been corrected by management:

- ▶ exclusion of Bishopsford School from property, plant and equipment - £11.74million reduction
- ▶ movement of £2.465million of usable reserves to the Capital Adjustment Account in unusable reserves to adjust for the minimum revenue provision for the partial exemption element for two of the PFI-funded schools
- ▶ overstatement of GLA precept of £1.1million
- ▶ overstatement of the provision for bad and doubtful debts for council tax of £1.2million, of which £0.941 relates directly to the Council
- ▶ removal of £661,000 of grant under Revenue Expenditure Funded Covered Under Statute to revenue expenditure and removal from notes to the financial statements
- ▶ increase in debtor and creditor balances from incorrect inclusion of a Pension Fund debtor within creditors of £377,000
- ▶ amendment of Note 39 - grant income to include correct treatment of relevant grants.

The Council also amended the analysis of financial instruments in Notes 16, 19 and 22 of the revised financial statements. These amendments were presented to the General Purposes Committee on 26 September 2013. We reviewed and agreed these changes.



We also highlight the following misstatements which were not corrected by management:

- ▶ based on previous collection rates, the Council over-provided for bad debt provisions by £2 million on non-domestic rates (NDR). Given the uncertainty of the new non-domestic rating regime and the lack of clarity in accounting guidance, no NDR adjustment is planned until 2013/14 when the position on collection rates and bad debts will become clearer. The Council sets out its position in the letter of representation at Appendix B. The impact of this is shown in the table below;
- ▶ the Council has also not adjusted the prior year figure (as at 31/3/2012) for the overstatement of provision for bad and doubtful debt in relation to council tax. The Council sets out its position in the letter of representation at Appendix B

	Assets current	Assets non- current	Liabilitie s current	Liabilitie s non- current	Income	Expense s
	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit) Current period	Debit/ (Credit) Current period
Uncorrected misstatements	£000	£000	£000	£000	£000	£000
<b>Known differences:</b>						
▶ None						
<b>Judgemental differences:</b>						
▶ No amendment to the bad and doubtful debt provision for non-domestic rates	2000		2000			
<b>Balance sheet totals</b>	<b>2000</b>		<b>2000</b>			
<b>Income effect of uncorrected misstatements</b>						
Cumulative effect of uncorrected misstatements before turnaround effect	2000		2000			
Turnaround effect. See note 1 below	0	0	0	0	0	0
Cumulative effect of uncorrected misstatements, after turnaround effect	2000	0	2000	0		0

We identified no amounts - individually or in aggregate - material to the presentation and disclosures of the financial statements for the year ended 31 March 2013.

Note 1: turnaround effect is the impact of uncorrected misstatements identified in the prior period, on results of the current period.

## 9. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 4 March 2013. We complied with the Ethical Standards for Auditors and the requirements of the Standing Guidance and 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 consider that our independence in this context is a matter that should be reviewed by both you and us. 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 meeting of the General Purposes Committee on 26 September 2013. No issues were raised at that meeting.

## Appendix A Required communications with the General Purposes Committee

We must provide certain communications to the General Purposes Committee. These are:

Required communication	Reference
<b>Terms of engagement</b>	The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies.
<b>Planning and audit approach</b> Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
<b>Significant findings from the audit</b> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters, if any, significant to the oversight of the financial reporting process</li> <li>▶ Findings and issues regarding the opening balance on initial audits</li> </ul>	Audit results report
<b>Misstatements</b> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements relating to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected significant misstatements</li> </ul>	Audit results report
<b>Fraud</b> <ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Any fraud we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Audit results report
<b>Related parties</b> Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	Audit results report
<b>External confirmations</b> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report

Required communication	Reference
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ 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 committee may be aware of</li> </ul>	Audit results report
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on Ernst &amp; Young's 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"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Audit Plan and update in section 8 of this report
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	Audit results report
<p><b>Opening Balances (initial audits only)</b></p> <ul style="list-style-type: none"> <li>▶ Findings and issues regarding the opening balance of initial audits</li> </ul>	Audit results report
<p><b>Fee reporting</b></p> <ul style="list-style-type: none"> <li>▶ Final, planned and scale fee broken down into the headings of Code audit work; certification of claims and returns; and any non-audit work (or a statement to confirm that no non-audit work has been undertaken for the Authority).</li> </ul>	Audit Plan and Audit results report
<p><b>Summary of certification work undertaken</b></p> <ul style="list-style-type: none"> <li>▶ Annual report to those charged with governance summarising the certification work undertaken</li> </ul>	Annual Certification Report – to be issued December 2013.

## Appendix B Letter of representation

[To be prepared on the entity's letterhead]

*[Date]*

Ernst & Young LLP  
Apex Plaza  
Forbury Road  
Reading  
Berkshire RG1 1YE

This representation letter is provided in connection with your audit of the financial statements of Merton Council ("the Council") for the year ended 31 March 2013. 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 position of Merton Council as of 31 March 2013 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), 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:

### **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 (England) 2011 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.
2. We acknowledge 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 of its expenditure and income of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. We believe that the Council 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 2012/13 that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to

the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because

- We have reviewed the position on NNDR collection and provisions. While we note the view of the External Auditor, we feel that this is based upon a backward look at the old collection regime and does not reflect the potential impact of the new NNDR system. A new series of reliefs have to be introduced, collection rates have systematically fallen for the last few years, the provision required for valuation appeals is still uncertain and the accounting treatment for the collection fund remains unclear. On this basis it is proposed to leave the bad debt provision unchanged in 2012/13 and review the entire treatment of the NNDR collection fund and accounting in 2013/14”
- On the Council Tax bad debt provision our position is that the adjustment of the Council Tax bad debt provision was made in 2012/13 rather than 2011/12 because the amounts involved were not sufficient (or material) to justify a prior period adjustment.

### **Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. 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.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by “whistleblowers”) which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

### **Compliance with Laws and Regulations**

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

### **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 as agreed in terms of the audit engagement.
  - Additional information that you have requested from us for the purpose of the audit and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have made available to you all minutes of the meetings of the Council, and General Purposes Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 27 June 2013.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council'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 year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We have disclosed to you, and the Council 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.

#### **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 litigation and claims, both actual and contingent, and have disclosed in Note 49 to the financial statements all guarantees that we have given to third parties.

#### **Subsequent Events**

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

#### **Accounting Estimates**

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:
  - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
  - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
  - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
  - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

### **Retirement benefits**

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

### **Comparative information – when the comparative information has been restated (in the form of a prior year adjustment)**

The Council has restated the Balance Sheet and Notes 8, 10, 14, 16, 19, 22, 25 and 29 to the statements to reflect adjustment to investment properties and finance leases held by the Council. The comparative amounts have been correctly restated to reflect the above matters and appropriate note disclosure of these restatements have also been included in the current year's financial statements.

### **Segmental reporting**

1. I have reviewed the operating segments reported internally to the Authority and I am satisfied that it is appropriate to aggregate these as, in accordance with IFRS 8: Operating Segments, they are similar in each of the following respects:
  - The nature of the services
  - The nature of the processes
  - The type or class of customer for the services

### **Environmental Liabilities**

2. We have disclosed to you all liabilities or contingencies arising from environmental matters. These liabilities or contingencies have been recognised, measured and disclosed, as appropriate, in the financial statements. The environmental liability(ies) included in the balance sheet(s) represents our best estimate of the potential loss(es) using assumptions that we believe represent the expected outcomes of the uncertainties. With respect to the valuation of related assets, we have considered the effect of environmental matters, and the carrying value of the relevant assets is recognised, measured and disclosed, as appropriate, in the financial statements. Any commitments related to environmental matters have been measured and disclosed, as appropriate, in the financial statements.

### **Ownership of Assets**

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral, other than those that are disclosed in Note 12 to the financial statements. All assets to which the Council has satisfactory title appear in the balance sheet(s).
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
3. We have no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realizable value.
4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in the Notes to the financial statements, we have no other line of credit arrangements.



**Reserves**

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

**Purchase and Sales Commitments and Sales Terms**

1. Losses arising from purchase and sales commitments have been properly recorded and adequately disclosed in the financial statements.
2. At the year end, the Council had no unusual commitments or contractual obligations of any sort which were not in the ordinary course of business and which might have an adverse effect upon the company (e.g., contracts or purchase agreements above market price; repurchase or other agreements not in the ordinary course of business; material commitments for the purchase of property, plant and equipment; significant foreign exchange commitments; open balances on letters of credit; purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices; losses from fulfilment of, or inability to fulfil, sales commitments, etc.).

**Income and Indirect Taxes**

1. We acknowledge our responsibility for the tax accounting methods adopted by the Council which have been consistently applied in the current period.

**Use of the Work of an Expert**

1. We agree with the findings of the experts engaged to evaluate the IAS19 disclosures of the Pension Fund and disclosure of property, plant and equipment and have adequately considered the qualifications of the experts 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 experts 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 experts.

*Yours Faithfully,*

\_\_\_\_\_  
Director of Corporate Services

I confirm that this letter has been discussed and agreed at the General Purposes Committee on 26 September 2013

\_\_\_\_\_  
Chairman of General Purposes Committee

Ernst & Young LLP

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## Merton Pension Fund

Audit results report for the year ended 31 March 2013

FINAL October 2013

Ernst & Young LLP



**Private and confidential**  
General Purposes Committee  
Merton Council  
Civic Centre  
London Road  
Morden  
SM4 5DX

Dear Members

## **Audit results report**

We are pleased to attach our audit results report presented to the General Purposes Committee on 26 September 2013. This report summarises our audit conclusion in relation to Merton Pension Fund's (the Fund's) financial position and results of operations for 2012/13. We issued our final conclusion and opinion on 27 September 2013.

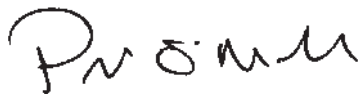
Our audit is designed to enable us to express an opinion on financial statements taken as a whole. This report contains our comments and observations related to the areas of audit emphasis, our views on the Pension Fund's accounting policies and judgments and material internal control findings. These comments are provided to inform and assist those charged with governance of the Pension Fund.

This report is intended solely for the information and use of the General Purposes Committee and the Pension Fund. It is not intended to be and should not be used by anyone other than these specified parties.

A copy of this report will be sent to the Audit Commission in accordance with the requirements of its Standing Guidance.

We discussed the contents of this report with you at the General Purposes Committee meeting scheduled on 26 September 2013.

Yours faithfully



Peter O'Neill  
Partner  
For and on behalf of Ernst & Young LLP

## Contents

<b>1. Overview of the financial statement audit .....</b>	<b>2</b>
<b>2. Scope update .....</b>	<b>3</b>
<b>3. Significant findings from the financial statement audit .....</b>	<b>4</b>
<b>4. Control themes and observations .....</b>	<b>5</b>
<b>5. Status of our work .....</b>	<b>6</b>
<b>6. Fees update .....</b>	<b>7</b>
<b>7. Summary of audit differences .....</b>	<b>8</b>
<b>8. Independence confirmation: update .....</b>	<b>9</b>
<b>Appendix A Required communications with the General Purposes Committee .....</b>	<b>10</b>
<b>Appendix B Letter of representation .....</b>	<b>13</b>

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.

# 1. Overview of the financial statement audit

The Fund is responsible for preparing and publishing its Statement of Accounts, the Annual Report and its Governance Compliance Statement.

As auditors we are responsible for:

- ▶ Forming an opinion on the financial statements;
- ▶ Reviewing the Annual Report for consistency; and
- ▶ Undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

## **Financial statements**

Following the performance of the procedures outlined in our Audit planning report, we issued an unqualified opinion on the Fund's financial statements.

We identified no significant risks to our opinion. Our discussions with management and those charged with governance identified specific issues which are covered in Section 3. We did not identify any specific concerns in relation to these in our audit.

## **Review of the Annual Report**

We reviewed the Annual Report for consistency with the financial statements. We asked for inclusion of the Statement of Responsibilities of the Council and Director of Corporate Services. We have no other matters to raise with you.

## **Control themes and observations**

Our audit identified control issues around use of the Council's bank account rather than solely using the Pension Fund bank account and late payments of pension fund contributions by specific employers. These are covered in Section 4.1 of this report.

## **Scope update**

There has been no change in the scope of our work since we issued our Audit planning report.

## **Summary of audit differences**

Our audit did not identify any numerical errors in the financial statements. However we identified a number of changes required to narrative and presentation in the statements and supporting notes. The Finance team also amended the analysis of financial instruments in the notes to the financial statements to ensure consistency with the disclosures in Merton Council's accounts. These amendments were presented to the General Purposes Committee on 26 September 2013. These are set out in Section 7 of this report.

## 2. Scope update

Our 2012/13 audit work has been undertaken in accordance with the Audit planning report issued on 12 April 2013 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

We carried out our work in accordance with our Audit planning report. There were no changes to the scope of our work.

### **Publication on electronic media**

The Council is responsible for the accurate presentation of the financial statements, audit report thereon and other reports submitted in relation to the audit and for establishing security and controls over them in order to ensure the continued integrity of the information presented. The examination of the controls over electronic presentation of audited financial information and reports by the auditor on the Council's web-site is beyond the scope of the audit of the financial statements.

### **3. Significant findings from the financial statement audit**

In this section of our report we outline the main findings from our audit, including our conclusions on the areas of risk outlined in our Audit planning report.

We identified no significant risks or other financial statement risks in planning our audit.

Our letter of representation is in Appendix B.

Our discussions with officers and those charged with governance on past issues for the Pension Fund identified the importance of obtaining robust investment valuations. Our audit work did not identify any issues in this area.



## 4. Control themes and observations

As part of our work, we obtained sufficient understanding of internal control to plan our audit and determine the nature, timing and extent of testing. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you any significant deficiencies.

We have only reported here deficiencies we identified during the audit that we concluded are significant.

### 4.1 Current year observations

Description	Impact
<p>Regulations require employers to pay contributions to the Pension Fund by the 19th day of the following month.</p> <p>The Fund's contributions schedule shows late payments involving three employers in the financial year.</p> <p>Those for the Council and Ursuline school occurred as a result of issues with implementing the Council's new hosted payroll system which did not make the correct charges to the Pension Fund:</p> <ul style="list-style-type: none"> <li>• LB Merton - April and May 2012</li> <li>• Ursuline School – April 2012</li> <li>• Wimbledon and Putney Commons Conservators – April and August 2012 and February 2013</li> </ul>	<p>Failure to comply with regulations to support the full and prompt payment of pensions. (It is noted that this was as a result of implementing the new payroll system rather than from omission on the part of the Pension Fund).</p>
<p>The Pension Fund is required to operate its own bank account. This came into effect from 1/4/2011.</p> <p>In the 2012/13 financial year, due to issues with the implementation of the new payroll system, the pension fund only fully stopped using the Council's main account for transactions involving the pensioner payroll from February 2013.</p>	<p>The Fund did not fully meet the requirements for separate bank accounts until February 2013.</p> <p>As there is the associated risk of omission of transactions associated with the Fund, and inclusion of those for the Council, Council staff put in place appropriate arrangements to offset this risk. This involved additional officer time and resources.</p>
<p><b>Other findings from our work</b></p>	
<p><b>Use of analytics tools for journal entry testing</b></p>	
<ul style="list-style-type: none"> <li>▶ We were unable to use our analytics tools to ensure the financial statements included all the Council's financial transactions and to direct our testing of journal entries raised in production of the financial statements.</li> <li>▶ We adopted alternative approaches to obtain assurance over the completeness of the financial statements and testing of journals.</li> </ul>	

### 4.2 Challenges for the coming year

There are no specific challenges for the coming year that we wish to bring to your attention.

## **5. Status of our work**

### **5.1 Financial statement audit**

Our audit work for our opinion on the Fund's financial statements is complete.

We issued an unqualified auditor's report on the Pension Fund's financial statements on 27 September 2013.

## 6. Fees update

A breakdown of our agreed fee is shown below.

	Proposed final fee 2012/13 £	Planned fee 2012/13 £	Scale fee 2012/13 £
<b>Total Audit Fee – Code work</b>	<b>21,000</b>	<b>21,000</b>	<b>21,000</b>

Our actual fee is in line with the agreed fee.

## 7. Summary of audit differences

In the normal course of any audit, we identify differences between amounts we believe should be recorded in the financial statements and amounts actually recorded. These differences are classified as either '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.

We have identified no amounts - individually or in aggregate - material to the presentation and disclosures of the financial statements for the year ended 31 March 2013.

### Summary of audit differences

Our work identified a number of changes to the narrative and presentation of the financial statements and supporting notes which have been corrected by management. The main changes are set out below.

#### Amendments to the narrative and presentation of the Pension Fund financial statements and accounts

---

##### Description and conclusion

- ▶ Note 15.7 – omission from table of one fund exceeding 5% of total net assets and removal of one fund not exceeding 5%
  - ▶ Note 23 – related parties - clarification of wording of where the reader access to officer remuneration information in the Council's financial statements: 'The relevant senior officers in the financial management of Merton Pension Fund are the Director of Corporate Services. They are remunerated by Merton Council as the administering authority. They are not paid directly by the Merton Pension Fund. Further information on remuneration is available within the financial statements of Merton Council.'
- 

We have not identified any differences that management have not corrected.

Subsequent to our review, the Finance team also amended the analysis of financial instruments in Note 16 to the financial statements to ensure consistency with the disclosures in Merton Council's accounts. These amendments were presented to the General Purposes Committee on 26 September 2013. These did not change the Fund Account or Net Assets Statement. We reviewed and accepted these changes.

## 8. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit planning report dated 12 April 2013. We complied with the Ethical Standards for Auditors and the requirements of the Standing Guidance and 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 consider that our independence in this context is a matter that should be reviewed by both you and us. 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 meeting of the General Purposes Committee on 26 September 2013. No issues were raised at that meeting.

## Appendix A Required communications with the General Purposes Committee

We must provide certain communications to the General Purposes Committee. These are:

Required communication	Reference
<p><b>Terms of engagement</b></p>	The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies.
<p><b>Planning and audit approach</b> Communication of the planned scope and timing of the audit including any limitations.</p>	Audit planning report
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters, if any, significant to the oversight of the financial reporting process</li> <li>▶ Findings and issues regarding the opening balance on initial audits</li> </ul>	Audit results report
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements relating to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected significant misstatements</li> </ul>	Audit results report
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Any fraud we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Enquiries of management and those charged with governance – no issues arising
<p><b>Related parties</b> Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	Audit results report

Required communication	Reference
<p><b>External confirmations</b></p> <ul style="list-style-type: none"> <li>▶ Management’s refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report - but no issues arising
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ 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 committee may be aware of</li> </ul>	Enquiries of management and those charged with governance and review as part of our work on the financial statements - - but no issues arising
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on Ernst &amp; Young’s 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"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Audit planning report and update in section 8 of this report
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Enquiries of management and those charged with governance and review as part of our work on the financial statements - but no issues arising
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	Audit results report
<p><b>Group audits</b></p> <ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team’s planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team’s evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor’s work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team’s access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements</li> </ul>	Not applicable
<p><b>Opening Balances (initial audits only)</b></p>	Audit results report - but no issues arising

Required communication	Reference
<ul style="list-style-type: none"> <li>▶ Findings and issues regarding the opening balance of initial audits</li> </ul>	
<p><b>Fee reporting</b></p>	<p>Audit planning and Audit results report</p>
<ul style="list-style-type: none"> <li>▶ Final, planned and scale fee broken down into the headings of Code audit work; certification of claims and returns; and any non-audit work (or a statement to confirm that no non-audit work has been undertaken for the Authority).</li> </ul>	
<p><b>Summary of certification work undertaken</b></p>	
<ul style="list-style-type: none"> <li>▶ Annual report to those charged with governance summarising the certification work undertaken</li> </ul>	<p>Not applicable</p>



## Appendix B Letter of representation

[To be prepared on the entity's letterhead]

*[Date]*

**Ernst & Young LLP**  
Apex Plaza  
Forbury Road  
Reading  
Berkshire RG1 1YE

This representation letter is provided in connection with your audit of the financial statements of Merton Pension Fund ("the Pension Fund") for the year ended 31 March 2013. 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 show a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2013, and of the amount and disposition at the end of the year of its assets and liabilities, in accordance with applicable law and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013.

We understand that the purpose of your audit of the Pension Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), 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:

### **Financial Statements and Financial Records**

We have fulfilled our responsibilities for the preparation of the financial statements in accordance with Accounts and Audit (England) Regulations 2011 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and for keeping records in respect of contributions received in respect of active members of the Pension Fund and for making accurate representations to you.

We confirm that the Pension Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Pension Fund should change.

We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above show a true and fair view of the financial position and the financial performance of the Pension Fund in accordance with Accounts and Audit (England) Regulations 2011 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, and are free of material misstatements, including omissions. We have approved the financial statements

The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

We believe that the Pension Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with Accounts and Audit (England) Regulations 2011 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 that are free from material misstatement, whether due to fraud or error.

There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

### **Fraud**

We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

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.

We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Pension Fund's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Pension Fund.

### **Compliance with Laws and Regulations**

We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

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.

We confirm that we are not aware of any breaches of the Payment Schedule/Schedule of Contributions or any other matters that have arisen which we considered reporting to the Pensions Regulator.

There have been no other communications with The Pensions Regulator or other regulatory bodies during the Pension Fund year or subsequently concerning matters of non-compliance with any legal duty. We have drawn to your attention all correspondence and notes of meetings with regulators.

### **Information Provided and Completeness of Information and Transactions**

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 as agreed in terms of the audit engagement.
- ▶ 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.

You have been informed of all changes to the Pension Fund rules.

All material transactions have been recorded in the accounting records and are reflected in the financial statements.

We have made available to you all minutes of the Pension Fund Advisory Committee and General Purposes Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date list date.

We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Pension Fund's related parties and all related parties and related party 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 year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

We have disclosed to you, and the Pension 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.

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

### **Liabilities and Contingencies**

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.

We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

We have recorded and/or disclosed, as appropriate, all liabilities related 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.

### **Subsequent Events**

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

### **Advisory Reports**

We have not commissioned advisory reports which may affect the conduct of your work in relation to the Pension Fund's financial statements and schedule of contributions / payment schedule

### **Independence**

We confirm that no trustee 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.

### **Derivative Financial Instruments**

We confirm that all investments in derivative financial instruments have been made after due consideration by the Pension Fund Committee of the limitations in their use imposed by The Occupational Pension Schemes (Investment) Regulations 2005; namely that they contribute to a reduction in scheme risk, facilitate efficient portfolio management, and that any such investment has been made so as to avoid excessive risk exposure to a single counterparty and to other derivative operations. The Pension Fund's statement of investment principles 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 trustees at the scheme year end and the terms and conditions relating thereto.

The trustees have duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Pension Fund is holding, and these have been communicated to you.

### **Actuarial valuation**

The latest report of the actuary Barnett Waddingham LLP as at 31 March 2010 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/her report.

### **Accounting Estimates**

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:
  - ▶ We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
  - ▶ The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
  - ▶ The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
  - ▶ No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

### **Investment managers' control reports ISAE 3402**

The latest reports available do not cover the whole of the 2012/13 audit year. We can confirm that we are not aware of any issues at the respective investment managers that indicate a reduction in control procedures.

Yours Faithfully,

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Director of Corporate Services

I confirm that this letter has been discussed and agreed at the General Purposes Committee on 26 September 2013.

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Chairman of General Purposes Committee

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## **Committee: General Purposes Committee**

**Date: 5<sup>th</sup> November 2013**

Agenda item:

Wards:

**Subject:** Public Sector Internal Audit Standards

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Mark Allison, Cabinet Member for Finance

Forward Plan reference number:

Contact officer: Margaret Culleton Head of Internal Audit

Tel. 020 8545 3149 [margaret.culleton@merton.gov.uk](mailto:margaret.culleton@merton.gov.uk)

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### **Recommendation:**

- A. That Members note the report and comment upon matters arising from the Internal Assessment and the action plan
- B. That Members agree the External Assessment

## **1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1 The Council has, for a number of years, managed its Internal Audit function in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit.
- 1.2 This code has now been replaced by the Public Sector Internal Audit Standards which came as a result of collaboration between CIPFA and the Chartered Institute of Internal Auditors (CIIA) which aims to develop the internal audit profession in the public sector.
- 1.3 The PSIAS came into force from 1st April 2013 and consists of the following:
  - Definition of Internal Auditing;
  - Code of Ethics; and
  - Standards for the Professional Practice of Internal Auditing.
- 1.4 In local government, the PSIAS are mandatory for all principal Local Authorities and other relevant bodies subject to the Accounts and Audit (England) Regulations 2011.
- 1.5 The role of the board (General Purposes Committee) under PSIAS is to:

- Approve the Internal Audit Charter (agreed by GP Committee in September 2013).
- Approve the risk based Internal Audit Plan (Approved annually by GP Committee – March).
- Approve the Internal Audit budget and resource plan (budgeted days are included in audit plan – approved by GP Committee).
- Receive communications from the Head of Audit on internal audit's activity performance relative to its plan, and other matters (progress reports issued twice yearly to GP Committee).
- Making appropriate enquiries of management and the Head of Audit to determine whether there is inappropriate scope to the plan or individual audits, or resource limitations (Internal Audit Plan and progress report)

1.6 Although the above role has been undertaken by the General Purposes Committee. Consideration needs to be given to reviewing the terms of reference of this committee to reflect the requirements of the PSIAS. (see Action Plan A2).

## **2. DETAILS**

2.1 In accordance with the Accounts and Audit Regulations 2011 the Council is required to make arrangement for, and conduct, at least an annual review of its systems of Internal Audit. One of the requirements of the PSIAS is that the results of this review are reported to GP Committee

2.2 The new Standards are very comprehensive consisting of over 345 separate criteria all of which have been considered. This has shown that the Internal Audit Service is mainly compliant with the requirements of the new Standards but has identified a relatively small number of areas where action is required. The findings of the self-assessment are in Appendix 1 and 2 for the Committee to consider

2.3 The main areas of change identified are as follows:

- Audit Charter has been agreed by GP Committee and now needs to go to senior managers with audit plan for 14/15 and to be available on the intranet.
- The Director of Corporate Services is to seek comments from the Chair of General Purposes in relation to the completion of the Head of Audits appraisal.
- Improvements to quality assurance processes, including the adoption of a formal Quality Assurance and Improvement Programme incorporating the need for an external inspection every 5 years;



- Revisions to the current Internal Audit manual to align it fully with the new Standards;
- The Terms of Reference of the Council's General Purposes Committee are to be reviewed and consideration given to ensuring their compliance with the PSIAS.
- Policies in respect of document confidentiality, retention requirements and the release to internal and external sources as to be documented.

### **3. EXTERNAL ASSESSMENT**

- 3.1 One of the fundamental changes introduced by the Standards is a requirement for Local Authorities to be subject to an independent external assessment at least once every five years.
- 3.2 The Council participates in the London Audit Group and it is recommended that an external assessment is completed by a peer London Authority. This is currently being co-ordinated by the London Borough of Croydon. The proposal is that Merton's review will be carried out in January/February 2014.
- 3.3 Consideration has been given to the different types of external assessment (i.e. 'full' or self-assessment plus 'independent validation') and it has been decided that a Internal Assessment with independent validation is the most appropriate way forward. The scope of the external assessor has been agreed with the sponsor, the Director of Corporate Services.
- 3.4 The review will cover compliance with the standard and will include interviews with the Chair of GP Committee, Chief Executive, Section 151 and Monitoring Officer and members of CMT. The review will include the effectiveness of the GP Committee in progressing Internal Audit issues.
- 3.5 The results of External and Internal assessments and the degree of conformance and ongoing monitoring will be reported back to GP Committee at least annually.
- 3.6 Progress against any agreed improvement plans, following an external assessment, will also be included in the Internal Audit annual report.

### **4. ALTERNATIVE OPTIONS**

- 4.1 None for the purposes of this report.

### **5. CONSULTATION UNDERTAKEN OR PROPOSED**

- 5.1. None for the purposes of this report.

### **6. TIMETABLE**

6.1. None for the purposes of this report.

## **7 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

7.1 The planned work and unplanned work is undertaken within the budget allocated.

## **8 LEGAL AND STATUTORY IMPLICATIONS**

8.1 This report sets out the Internal Assessment of Merton's Internal Audit Service. The Local Government Act 1972 and subsequent legislation sets out a duty for Merton and other councils to make arrangements for the proper administration of their financial affairs. The provision of an Internal Audit service is integral to the financial management at Merton and assists in the discharge of these statutory duties.

## **9. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

9.1 Effective and timely auditing and advice enables Departments, Voluntary Organisations and Schools to provide quality services to their clients. These client groups are often vulnerable members of the community, e.g. elderly people, disabled people, asylum seekers, members of staff and voluntary organisations. The audit service helps to identify weak financial management and sometimes reflects weaknesses in other operational systems such as quality and ethnic monitoring. Audit, therefore, has a crucial role in ensuring that Council resources are used to enable a fair access to quality services.

## **10 CRIME AND DISORDER IMPLICATIONS**

10.1 There are no specific crime and disorder implications arising from this report.

## **11 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

11.1. The PSIAS set out the 'proper practices' for Internal Audit for the purpose of the Regulations and are intended to ensure that the Council has in place an adequate and effective Internal Audit of the system of internal controls. The Standards provide a comprehensive framework for an effective Internal Audit service for the Council and, by complying with the Standards; the Council will ensure that its Internal Audit service is professional, independent and objective.

11.2 The annual Internal Assessment, and this resulting report to the General Purposes Committee, assists the Committee in fulfilling its governance role by providing assurance that the Council's Internal Audit is complying with professional standards, best practice and regulatory requirements, and that any aspects of the service requiring further development are identified so that appropriate management action can be undertaken. An effective Internal Audit enables the

organisation to identify and mitigate risks that may otherwise arise as the result of failure to maintain satisfactory internal controls.

**APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT**

- Appendix 1 – Internal Assessment results 13/14
- Appendix 2 - Action Plan

**BACKGROUND PAPERS**

- i. Documents held in Internal Audit Files

## Internal Assessment 13/14

### 1. INTRODUCTION

1.1 The internal Assessment has been completed using the Local Government Application Note and checklist produced by CIPFA. This report provides details of any areas of non-compliance which have been identified and actions to address them.

### 2 KEY ISSUES

2.1 The new Public Sector Internal Audit Standards (PSIAS) are primarily based on the International Standards set by the Institute of Internal Auditors and seek to provide a universal standard for internal audit which cuts across both the private and public sector.

2.2 There is much commonality between the former CIPFA standards and the new PSIAS and compliance has helped to ensure that the need for further change/development is minimal. In relation to the overall number of criteria involved the degree of noncompliance is considered minimal with many being concerned with minor changes to existing arrangements. The most significant changes to current practices required are in the following areas:

- To include the Audit Charter with the Audit plan for 14/15 and circulate it to senior managers. To add Audit Charter to the intranet.
- The Director of Corporate Services to seek comments from the Chair of General Purposes in relation to the completion of the Head of Internal Audits appraisal.
- Improvements to quality assurance processes, including the adoption of a formal Quality Assurance and Improvement Programme incorporating the need for an external assessment every 5 years;
- Revisions to the current Internal Audit manual to align it fully with the new Standards;
- The Terms of Reference of the Council's General Purposes Committee to be reviewed and consideration given to ensuring their compliance with the PSIAS.
- Policies in respect of document confidentiality, retention requirements and the release to internal and external parties to be developed.

## Internal Assessment results 13/14

Ref	ref	Details	Fully Compliant	Partially Compliant	Not Compliant	Action Plan
1.		Definition of Internal Auditing	Y			
2.		Code of Ethics	Y			
3.		Attribute Standards				
3.1	1000	Purpose, Authority and Responsibility		Y		A1/A2
3.2	1100	Independence and Objectivity	Y			
	1110	Organisational Independence		Y		A3
	1111	Direct Interaction with the Board	Y			
	1120	Individual Objectivity	Y			
	1130	Impairment to Independence or Objectivity	Y			
3.3	1200	Proficiency and Due Professional Care				
	1210	Proficiency	Y			
	1220	Due Professional Care	Y			
	1230	Continuing Professional Development	Y			
3.4	1300	Quality Assurance and Improvement Programme		Y		A4
	1310	Requirements of the Quality Assurance and Improvement Programme		Y		A4
	1311	Internal Assessments	Y			
	1312	External Assessments	Y			A4
	1320	Reporting on the Quality Assurance and Improvement Programme	Y			A4
	1321	Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'		Y		A4
	1322	Disclosure of Non-conformance	Y			
4		Performance Standards				
4.1	2000	Managing the Internal Audit Activity	Y			
	2010	Planning	Y			
	2020	Communication and Approval	Y			
	2030	Resource Management	Y			
	2040	Policies and Procedures		Y		A5/A6
	2050	Co-ordination	Y			

	2060	Reporting to Senior Management and the Board				
	2070	External Service Provider and Organisational Responsibility for Internal Auditing				
4.2	2100	<b>Nature of Work</b>				N/A
	2110	Governance		Y		
	2120	Risk Management		Y		
	2130	Control		Y		
4.3	2200	<b>Engagement Planning</b>		Y		
	2210	Engagement Objectives		Y		
	2220	Engagement Scope		Y		
	2230	Engagement Resource Allocation		Y		
	2240	Engagement Work Programme		Y		
4.4	2300	<b>Performing the Engagement</b>		Y		
	2310	Identifying Information		Y		
	2320	Analysis and Evaluation		Y		
	2330	Documenting Information		Y		
	2340	Engagement Supervision		Y		
4.5	2400	<b>Communicating Results</b>		Y		
	2410	Criteria for Communicating		Y		
	2420	Quality of Communications		Y		
	2421	Errors and Omissions		Y		
	2430	Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'		Y		
	2431	Engagement Disclosure of Non-conformance		Y		
	2440	Disseminating Results		Y		
	2450	Overall Opinion		Y		
4.6	2500	<b>Monitoring Progress</b>		Y		
4.7	2600	<b>Communicating the Acceptance of Risks</b>		Y		

## PUBLIC SECTOR INTERNAL AUDIT STANDARDS ACTION PLAN

No	Findings	Risk	Recommendations	Responsible Officer	Target Date For implementation
A1	The internal audit Charter has been approved by the GP Committee. It now needs regularly review, and communication to all senior management and other relevant people	Senior Management and other relevant people may not be aware of the responsibility and scope of Internal Audit	To include Audit Charter with audit plan for 14/15 to be circulated to senior managers. To add audit charter to the intranet.	Head of Internal Audit	January 2014
A2	The Terms of Reference of the Council's General Purposes Committee do not currently make reference to the PSIAS standard.	The General Purposes Committee terms of reference may not be clear on its role	A review of the terms of reference for the GP Committee will be undertaken to ensure compliance with PSIAS	Head of Democratic Services	March 2014
A3	The PSIAS states that it is good practice for the Chair of the GP Committee's to provide feedback for the appraisal process for the Head of Internal Audit. This does not currently occur.	Less assurance that Internal Audit is providing an effective service to the GP Committee and specifically to the Chair of the Committee	The Director of Corporate Services to seek comments from the Chair of General Purposes in relation to the completion of the Head of Audits appraisal	Director of Corporate Services	June 2014

A4	<p>The PSIAS requires the quality and assurance programme (QAIP) to include internal and external assessment This is the first annual Internal Assessment the external assessment is scheduled for January 2014.</p>	<p>The current absence of a QAIP, as defined by the new Standards, reduces the ability of the service to demonstrate that it is complying with the Standards and increases the risk that aspects of the Internal Audit service may fail to meet the required Standards</p>	<p>Improvements to quality assurance processes, including the adoption of a formal Quality Assurance and Improvement Programme incorporating the need for an annual assessment and an external inspection every 5 years</p>	<p>Head of Internal Audit</p>	<p>Internal Assessment – November 2013. External Assessment by March 2014</p>
A5	<p>The Audit Manual has not been updated to ensure it is aligned to the PSIAS</p>	<p>The current guidance for Internal Auditors as detailed in the audit manual may not be consistent with the requirements of the new standards. This leads to a risk that audits may be less effective</p>	<p>Revisions to the current Internal Audit manual to align it fully with the new Standards</p>	<p>Head of Internal Audit</p>	<p>January 2014</p>
A6	<p>Policies in respect of document confidentiality, retention requirements and the release to internal and external parties have not yet been developed.</p>	<p>Data Protection and other requirement may not be adhered to.</p>	<p>A policy detailing the confidentiality, retention and release of information to internal and external parties will be prepared to ensure consistency with the organisation's guidelines and any pertinent regulatory or other requirements</p>	<p>Head of Internal Audit</p>	<p>January 2014</p>



## **Committee: General Purposes Committee**

**Date: 5th November 2013**

Agenda item:

Wards:

### **Subject: Annual Governance Statement 2012/13 – Improvement Plan Update**

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Mark Allison, Cabinet Member for Finance

Contact officer: Margaret Culleton, Head of Internal Audit, 0208 545 3149

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#### **Recommendations:**

- A. That the General Purposes Committee discuss and comment on that progress achieved to date against the 2012/13 Annual Governance Improvement Plan (set out in Appendix 1).
- 

## **1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1. Corporate governance comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.
- 1.2. The Annual Governance Statement is the formal statement that recognises, records and publishes an authority's governance arrangements. It was published with the Council's financial statements in June relating to 2012/13 to ensure compliance with the Accounts and Audit (Amendment) Regulations 2011. These Regulations require authorities to "conduct a review at least once a year of the effectiveness of its system of internal control" and to prepare a statement on internal control in accordance with "proper practice" defined as the requirement for an Annual Governance Statement, as set out in the CIPFA/SOLACE Framework.
- 1.3. The Annual Governance Statement Improvement Plan is a statement of the actions to be taken by the Council in order to remedy any weaknesses that it has identified in the Council's governance arrangements.
- 1.4. This report sets out progress against each of the items in the 2013/14 Improvement Plan which was included in the Annual Governance Statement for 2012/13. This will allow Members to understand the progress that has been made against the actions

and to ensure that the appropriate action is being taken to remedy weaknesses in the Council's governance processes.

## **2 DETAILS**

- 2.1. Appendix 1 sets out achievements to date against each of the objectives.
- 2.2. Each of the improvement areas have made progress and the majority should be completed by the year end. The AGS working group meets regularly throughout the year, which helps to ensure that progress is made on these areas and to identify other areas where improvements are needed. The AGS for 13/14 will report on those areas that improvement is required.

## **3 ALTERNATIVE OPTIONS**

- 3.1. None for the purposes of this report.

## **4 CONSULTATION UNDERTAKEN OR PROPOSED**

- 4.1. None for the purposes of this report.

## **5 TIMETABLE**

- 5.1. The results of this report will be included in the Annual Governance Statement for 2013/14, which will be completed by 30 June 2014, in accordance with the deadline for the Statement of Accounts.

## **6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

- 6.1. There are no specific financial implications.

## **7 LEGAL AND STATUTORY IMPLICATIONS**

- 7.1. There are no specific legal implications.

## **8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

- 8.1. There are no specific human rights, equalities or community cohesion implications.

## **9 CRIME AND DISORDER IMPLICATIONS**

- 9.1. There are no specific crime and disorder implications.

## **10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

- 10.1. The risk management process is included in the improvement plan in Appendix 1. There are no health and safety implications.

**11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT**

11.1 Appendix 1 – update on progress on AGS Improvement programme 2013/14

**12 BACKGROUND PAPERS**

12.1. The Annual Governance Statement 2012/13 was reported to General Purposes Committee on 27 June 2013. These documents do not form part of the report.

**Significant governance issues (Improvement Programme 2013/14)**

Details	Officer responsible	Update on progress
<p><b>Business Continuity Plans and Business Impact Assessments</b> To update all Business Continuity Plans and to ensure that Business Impact assessments have been completed</p>	<p>Head of Safety</p>	<p>All Business impact assessments have been reviewed, revised and challenged with Business Partners at departmental management team meetings. From this work critical services have been identified and business continuity plans drawn up for critical services to ensure service delivery is met. Alongside this plans are being aligned to the Disaster Recovery plans being developed by the AD (I&amp;T) which forms the basis of service loss and recovery planning. The strategic business continuity plan and corporate services business continuity plan has been revised and has been submitted to the Director Corporate Services for approval prior to being signed off at CS DMT and on to CMT. Disaster recovery arrangements with LB Wandsworth, first stage completed, which is a manual process. Now planning to move to a 2<sup>nd</sup> stage, which is a more automated approach, this went to Cabinet for funding approval in October.</p>
<p><b>Financial regulations and procedures</b> To review and update</p>	<p>Head of Business Planning</p>	<p>These amendments will go as part of the constitution amendments in March to GP committee for approval.</p>
<p><b>Scheme of Delegations</b> To develop and implement a new template and guidance to simplify, streamline and ensure consistency</p>	<p>Head of Democracy Services</p>	<p>CMT, at its meeting on 1 October, agreed a new approach and template for the departmental schemes of management so that these are shorter, simpler and standardised. All departments to produce and publish revised new-look schemes departments by end November. There will be communication so that staff are aware of requirements.</p>

<p><b>Declaration of Interests On-Line form</b> New on-line form for staff to complete their annual returns. This will include declaration of staff relationships</p> <p><b>Establish a Partnership Register for the Council</b> Build on the partnership review that was last carried out in 2009, to compile a partnership register for the council that encompasses the key strategic partnership arrangements the council engages in.</p> <p><b>Policy Register/metacompliance</b> Guide the way the new policy management software (metacompliance) will be structured to provide a policy register for the council and populate with the dataset of policies that has been established through the policy review.</p> <p><b>Performance and Risk Management System</b> To implement a new performance management system to improve the monitoring of targets</p>	<p>Head of HR</p> <p>Head of Policy, Strategy &amp; Partnerships</p>	<p>New on-line form has been designed and is currently being tested. Guidance has been issued to Directors and staff guidance has been revised and will be issued when the on-line form is ready.</p> <p>A revised Partnership Register was established in July 2013 building on the last review in 2009. This has now been published on the Council's intranet pages under Plans and Strategies. The Policy, Strategy and Partnerships Team will update the Register again in July 2014</p> <p>Metacompliance is currently in progress. There has been some delay due to the non compatibility with Wyse terminals. This is currently being investigated.</p>
<p><b>Performance Management System</b> To implement a new performance management system to improve the monitoring of targets</p>	<p>Head of Business Planning</p>	<p><b>Performance Management – Corporate Indicators including Service Plans - Implementation of a cloud based system for the management and governance of performance and risk information known as Covalent is now complete.</b> The new system provides an efficient method for data collection, reporting and on-line management dashboards, allowing instant drill down on data for both performance and risk that will enable decision making. The system will enable consistency of reporting and provide audit trails. The initial implementation phase of the performance module is now complete, and the system is used for the collection of data across the organisation relating to business plan performance</p>

		<p>indicators, corporate measures and Merton Partnership PI's. End and super user training is now complete and we are currently designing the reports and dashboards to be used for reporting performance. Discussions are taking place with some departments for further roll out of the system.</p> <p><u>Departmental Indicators</u> - The system will now be rolled out to encompass departmental indicators</p> <p><b>Risk Management</b> - Risk registers to the system. To date, covalent have adapted the risk module to reflect our risk matrix so that risk will continue to be calculated using the corporate methodology. It is anticipated that the transfer of the registers and use of this module will be complete by the end of 2013/14.</p>
<p><b>Management behaviours</b> To roll out the management behaviour system for all managers to ensure a consistent and suitable level of competency</p>	<p>Head of HR</p>	<p>Management behaviours will be rolled out across the organisation for the first 3 tiers of management and this will be linked to appraisals from Autumn 2013. The Council is using 360-degree feedback for these tiers in order to identify strengths and gaps to inform the 2014 appraisal process.</p>
<p><b>Transparency Agenda</b> To publish the remaining requirements of the DCLG Code of Recommended Practice for Local Authorities on Data Transparency</p>	<p>Head of Information Governance/Head of HR</p>	<p>The organisational charts have been prepared and put onto the council's intranet. There are however, some errors identified which need to be corrected, prior to publication on the internet.</p>
<p><b>Workforce Development Strategy</b> To complete the strategy in relation to succession planning</p>	<p>Head of HR</p>	<p>The Workforce Strategy Board has been created to develop the document. CMT have approved the PID, project plan documentation and are currently agreeing the priorities for the strategy. It is anticipated that there will be a draft strategy produced by the Board in December for CMT's consideration to include career paths/succession planning</p>

## Work Programme General Purposes Committee

### 05 November 2013

- Internal Audit self assessment of the Public Sector Internal Audit Standards
- External Auditor: annual audit letter
- External Auditor: Audit results reports
- Annual Governance Statement update on improvement plan
- Amendment to the constitution: S106 delegations

### 12 March 2014

- Procurement
- External Auditor: certification of 2012/13 claims report
- External Auditor: fee letters for 2014/15 audit for the Council and Pension Fund
- Internal Audit plan, strategy and terms of reference
- Whistleblowing policy and annual update
- Internal audit progress report

### Work programme – unscheduled and regular items

- Internal audit progress report (MARCH)
- Internal audit plan, strategy and terms of reference - (MARCH)
- Whistleblowing policy and annual update (MARCH)
- External Auditor: certification of claims report (MARCH)
- External Auditor: fee letters for audit for the Council and Pension Fund (MARCH)
- Annual Governance Statement, and annual Internal Audit report - (JUNE)
- Internal Audit Annual Report - (JUNE)
- Draft accounts - (JUNE)
- Final accounts - (SEPTEMBER)
- Internal audit - progress on annual audit plan - (SEPTEMBER)
- External Auditor: annual audit letter (NOVEMBER)
- Annual Governance Statement update on improvement plan - (NOVEMBER)
- External Auditor: audit results report (NOVEMBER)
- Polling places (as required)
- Constitutional amendments - as required

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