

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: 12 March 2014

Time: 19:15

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

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General Purposes Committee

12 March 2014

1.	Declarations of interest	
2.	Apologies for absence	
3.	Minutes of the meeting held on 5 November 2013	1 - 4
4.	External Auditor: Review of anonymous whistleblowing statement	5 - 18
5.	External Auditor: Certification of claims and returns annual report 2012/13	19 - 30
6.	External Auditor: Merton council audit plan	31 - 52
7.	External auditor: Pension fund audit plan	53 - 68
8.	External auditor: Progress report	69 - 80
9.	Procurement: Report of the Chair of the procurement board	81 - 106
10.	Internal Audit: Plan, strategy and charter 2014/15	107 - 132
11.	Internal Audit: progress and whistleblowing update	133 - 152
12.	Review of Polling Places	153 - 160
13.	Freedom of the Borough - proposed criteria and procedures	161 - 166
14.	Work programme	167 - 168

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.

GENERAL PURPOSES COMMITTEE

5 NOVEMBER 2013

(19.15 - 20.07)

PRESENT Councillors Peter McCabe (in the Chair), Agatha Mary Akyigyina, Laxmi Attawar, John Dehaney, Lewis-Lavender, Ian Munn, Rod Scott, Debbie Shears, David Williams and Henry Nelles

1 APOLOGIES FOR ABSENCE (Agenda Item 1)

Councillor Janice Howard (Councillor Henry Nelles substituting)

2 DECLARATIONS OF INTEREST (Agenda Item 2)

None were made

3 MINUTES OF THE MEETING HELD ON 26 SEPTEMBER 2013 (Agenda Item 3)

RESOLVED: That the minutes of the meeting held on 26 September 2013 are agreed as a correct record.

4 S106 AGREEMENTS/UNDERTAKINGS - DELEGATION TO OFFICERS (Agenda Item 4)

Members agreed that the efficiency being produced should be quantified and targets reviewed as required.

RESOLVED: 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

5 REPORT OF THE EXTERNAL AUDITOR: MERTON COUNCIL ANNUAL AUDIT LETTER (Agenda Item 5)

Members discussed the letter with the External Auditors and the Director of Corporate Services.

The overprovision for bad debt on NNDR – this provision was in the collection fund and would be used to close the gap for 2013/14;
The risks previously unidentified related to older assets. The council had drawn the attention of the auditors to this;
The scope of the external auditors' work related to the statement of accounts – although they had identified some internal control issues it was a matter for Merton to determine its own internal control regime;

The letter was noted.

6 REPORT OF THE EXTERNAL AUDITOR: MERTON COUNCIL AUDIT RESULTS REPORT (Agenda Item 6)

Noted that this was an updated version of the report discussed at the September meeting.

7 REPORT OF THE EXTERNAL AUDITOR: MERTON PENSION FUND AUDIT RESULTS REPORT (Agenda Item 7)

Noted that this was an updated version of the report discussed at the September meeting.

8 PUBLIC SECTOR INTERNAL AUDIT STANDARDS (Agenda Item 8)

RESOLVED: 1) That the General Purposes Committee notes the Internal Assessment and the action plan

2) That the General Purposes Committee agrees the External Assessment

9 ANNUAL GOVERNANCE STATEMENT 2012/13 – IMPROVEMENT PLAN UPDATE (Agenda Item 9)

Members discussed the update with the Director of Corporate resources:
Management behaviours – The director agreed to circulate the themes to members
The director agreed to provide timelines and target dates for items on the plan;
Members were concerned that IT strategy issues was being scrutinised. They noted that a report was due to go to Overview and Scrutiny Commission in March/April 2014 and asked to be notified of the outcome of this;

10 WORK PROGRAMME (Agenda Item 10)

March

Constitutional issues – Financial Regulations and procedures, GP Committee terms of reference

Report of the external auditors: Audit plan

June

Update on reporting of IT issues (minutes of OSC meeting to be circulated to members)

Public sector internal audit standards – external assessment and action plan

September

Report of the external auditor: Audit results report (Merton)

Report of the external auditor: Audit results report (Pension fund)

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Private and Confidential
Mr Paul Evans
Assistant Director Corporate Governance and
Head of Merton and Richmond Shared Legal Services
London Borough of Merton
Civic Centre
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Morden

27 February 2014

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Email: dwilkinson@uk.ey.com

Dear Paul

Review of anonymous whistleblowing statement

Outline of work undertaken

In accordance with our engagement letter dated 22 November 2013 (a copy of which is attached to this letter as Appendix 1), we have carried out the work in relation to the investigation of allegations made in an anonymous and undated whistleblowing statement (the Whistleblowing Statement) submitted to the Council in November 2013. Being an anonymous document, we have been unable to contact the whistleblowers, something we would have liked to have done in order to better understand the evidential basis for their allegations. We have summarised the allegations within the Whistleblowing Statement into five main areas as follows:

- ▶ The procurement of services from Interim 1 and Interim 2
- ▶ The procurement of services from Interim 3, Interim 4 and Interim 5
- ▶ Value for Money
- ▶ Declarations of interest
- ▶ Potential misreporting

As with all investigations, the initial scope of work was intended to be a proportionate response to the matters at hand, in this case, the allegations made in the Whistleblowing Statement. A proportionate response is important in order to balance the need for robust investigation with the impact that an investigation has on the subjects of the investigation as well as the costs to the Council.

As set out in our engagement letter, we initially agreed to undertake six groups of tasks which included a review of relevant parts of the Council's constitution and standing orders, registers of interests and payments made to the individuals named in the Whistleblowing Statement and the manner in which the Council accounted for these payments. Our work also consisted of analytical procedures applied to information and data made available to us and explanations provided to us.

Having undertaken the tasks set out in our engagement letter, we concluded that it would be proportionate to hold fact finding meetings with Council officers, the individuals named in the Whistleblowing Statement, as well as contacting third parties from outside of the Council.

In summary, our work has not identified evidence of corruption, malpractice or unlawful expenditure in relation to the specific issues raised by the whistleblowers.

Our work has not involved a forensic analysis of the email accounts and electronic data held by the individuals on laptops and other electronic devices or details of personal financial information to the extent that it would be available. Such work would be appropriate particularly where well founded concerns exist with regard to the making of illicit payments.

Given that, in this case, the rates paid to the individuals are comparable with the market rates for such services and Interim 1 and Interim 2¹ are providing services to a number of senior officers in addition to Officer 1, there is insufficient evidence to suggest that there is a heightened risk that such payments have occurred. In this context, the Council should consider whether further investigation would be a reasonable and effective use of resources since, unless new evidence is brought to its attention, the cost of undertaking further investigative work would be disproportionate to the risk of such payments having been made or received. At this stage, we would not recommend that further work is undertaken.

Our procedures did not intend, or seek, to express an audit opinion on the information and, therefore, will not constitute an audit and should not be relied on as such. Our work and this letter do not constitute any legal opinion or advice. Should further information come to light we reserve the right to amend or update this letter where appropriate.

We set out below our findings in relation to each area.

The procurement of services from Interim 1 and Interim 2

The Whistleblowing Statement alleges that Officer 1 (O1 - Director of Resources) personally appointed Interim 1 (I1) to the role of Assistant Director of Finance and Interim 2 (I2) as Business Partner in the Corporate Services Department² without following Council procurement processes.

Although I2 provided services to the Council in financial year (FY) 04/05 and FY 05/06, the majority of I2's costs incurred by the Council began in FY 08/09 and she continues to provide services to the Council up to and including FY 13/14. I2's role has changed during the period from FY 08/09 when she first worked on the Council's Corporate Services' Transformation and Restructure programme, and she has been working as an interim 'Business Partner' since April 2011.

I1's initial contract ran from 3 May 2011 to 30 September 2011. I1's contract has been renewed three times and he has also continued to provide services to the Council up to and including FY 13/14.

With reference to their initial appointments (i.e. FY 08/09 for I2 and FY 11/12 for I1) O1 approached the individuals with an offer of work on a consultancy and interim basis, respectively. O1 completed a 'single

¹ As explained below, the Whistleblowing Statements makes reference to Interim 1 and Interim 2 and the procurement of their services by Officer 1 on behalf of the Council. As explained below, Officer 1 was not responsible for the procurement of services from Interim 3, Interim 4 or Interim 5

² Interim 2 has actually been covering the role of Business Partner within the Children's, Schools and Families directorate.

price quotation' form and agreed contractual terms directly with I1 and I2. Neither of the original roles was advertised externally. O1 also interviewed both I1 and I2 alone and no other candidates were interviewed.

From the time when I1 and I2 have been engaged by the Council, O1 has been responsible for authorising purchase orders for their services and authorising the payment of the majority of their invoices.³ Although they both provide support to other senior officers within the Council, I1 is line managed by O1 and both I1 and I2 report to O1.⁴

The Whistleblowing Statement refers to I1 and I2 as being consultants. I1 has been appointed to cover a permanent role and so is working on an interim basis rather than a consultancy basis. I2 was initially appointed in the capacity of a consultant. Since April 2011, I2 has been working in the capacity of one of the Council's three business partners, therefore moving from a consultancy role to filling an interim role at the Council.

We have obtained a copy of the Council's 'Consultants Code of Practice' (the Code) which sets out a process for the procurement of consultants. The document is dated 2001 and few of the people we discussed the document with had either heard of or were familiar with it. In addition, the Code was not referred to within the Standing Orders (SOs) in effect at the time when I1 and I2's services were initially procured by the Council.⁵

The Council's SOs state⁶, inter alia, that a 'Responsible Officer' must always:

- ▶ Seek value for money
- ▶ Carry out a robust options analysis before selecting the chosen procurement procedure
- ▶ Show no undue favour to any provider
- ▶ Conduct purchasing or price-testing or other procurement in accordance with the highest standards of propriety, probity and proper practices to prevent fraud and corruption.

In addition, the SOs require a minimum of three written quotations to be obtained for a contract value of between £10,000 and £75,000. A quotation is defined as a "written or oral offer following price testing".

In regard to the SOs, O1 stated in interview that due to her knowledge of the market (for example, details of other interim appointments and information received from agencies), she was aware of applicable rates for interims and consultants and was satisfied that the rates agreed with I1 and I2 were in-line with the market.

In addition, O1 also provided us with a 'Consultancy Framework Agreement' used by Croydon Council. However, this refers to the provision of services from large organisations such as Deloitte MCS Ltd and

³ The Council's finance system also shows that these have sometimes been authorised by other Council Officers, including the Chief Executive

⁴ In I2's case, she also reports to another senior member of the Council's management team

⁵ A 'Code of Practice on Consultants' is included in the Council's current SOs dated 28 March 2012

⁶ Paragraph 4.1 of the Council's SOs dated 1 February 2007, being the SOs in force at the point when I1 and I2's services were initially procured. Note that there are similar requirements listed at paragraph 4.2 of the Council's SOs dated 28 March 2012

Serco Consulting rather than self-employed consultants. We have not been provided with contemporaneous documentary evidence that formal market testing of prices was undertaken for either I1 or I2 at the time of their appointments, and as far as we can tell, a formal benchmarking process did not take place.

Both the SOs⁷ and the Code⁸ allow for exemptions from Council procurement processes. They both refer to 'single price quotation' forms which require the person who completes the form to set out why only a single quotation has been sought.

For I1, the reason for obtaining a single price, as shown on the single price quotation form, was:

"[Interim 1] – Recently retired London Treasurer in the process of registering with Executive Search Agencies & more than fits the relevant criteria for the post. By a single price quotation omits the 16-20% mark [up] rates from our preferred suppliers."

For I2, the reason for obtaining a single price, as shown on the single price quotation form, was:

"[Interim 2] has experience in this area and delay to the corporate services TOM⁹ will lead to delays in other departments and the overall corporate TOM."

The SOs include example reasons for using an exemption.¹⁰ Although these are examples only and are not, therefore, comprehensive, none of the examples specifically cover the reasons used by O1. However, both single price quotations were authorised by the Chief Executive. On that basis, the procedures required by the Council's SOs for the exemption to be valid have been followed.

In addition, 'Recruitment Authorisation Forms' for the consultancy appointments of I2 were approved in 2009 and 2010 by a Cabinet member of the 'Outstanding Council Programme Board' at the time of I2's appointment.¹¹

Whilst I1 and I2's contracts and contract extensions have been formally documented¹², the Council has not undertaken formal market testing of rates, nor did it advertise the vacant posts externally¹³ prior or subsequent to filling them with interim appointments. By undertaking the application/interview process solely herself, and by being responsible for authorising the majority of payments to I1 and I2, O1 has made herself vulnerable to allegations of corruption and has created a situation where I1 and I2 could be seen to be beholden to her for their roles. There is also a heightened risk that I1 and I2 could be perceived to be acting in O1's interests to the detriment of the Council, although no evidence of this has been brought to our attention.

The procurement of services from Interim 3, Interim 4 and Interim 5

It has been alleged that I1 procured services on behalf of the Council from Interim 3, Interim 4 and Interim 5 and did not declare a personal interest in these appointments.

⁷ Paragraph 6 of the Council's SOs dated 1 February 2007 and 28 March 2012

⁸ Paragraph 6 of the Code dated 14 March 2002

⁹ Target Operating Model

¹⁰ Appendix 2 of the Council's SOs dated 1 February 2007 and 28 March 2012

¹¹ I2's consultancy work was covered by the transformation work required as part of the Outstanding Council programme.

¹² O1 emailed a Council Member, in April 2012 in order to explain why she had been looking to extend I1's period of service

¹³ With the exception of I2's role as a Business Partner which began in April 2011 and which, we understand, has been advertised in January 2014

Our work has shown that the services of Interim 3 had been procured by the Council before I1 first started work at the Council. I1 could not, therefore, have procured Interim 3's services. Our work has also shown that although I1 was one of two people who interviewed Interim 4 and Interim 5, he was not responsible for engaging their services and did not know Interim 4 or Interim 5 before they were recruited.¹⁴

Value for Money

The Whistleblowing Statement alleges that the Council has not achieved value for money through the use of long standing interims and that 'mates rates' have been applied in agreeing the daily rates with I1 and I2.

We address the issue of market rates and value for money separately below.

Market rates

We sought independent confirmation of market rates from a recruitment agency which has placed interim staff at the Council to compare the daily rates paid to I1 and I2 with those prevailing in the market. The agency told us that rates have remained constant for at least the last three years and that they would expect the following rates to apply:

- ▶ I1's role to attract a daily rate in excess of £800, compared with the rate paid by the Council of £750.
- ▶ I2's role to attract a daily rate in the region of £500 to £800 per day, compared with the initial rate paid by the Council of £700, and the current rate of £650.

The rates paid by the Council for I1 and I2's services are comparable with market rates.

Comparison with permanent employees

The table below shows a comparison of the estimated annualised costs of the four people named in the Whistleblowing Statement whose procurement involved O1 or I1.¹⁵

The table compares the cost of a full time equivalent compared to the cost of an interim staff member where the agreed daily rates of the interims are multiplied by the available working days in a year.¹⁶ This amount is then compared to the equivalent gross annual salary (including employers' national insurance (NI) and pension costs) for a permanent employee in the same role.

The annual salaries provided to us by the Council's HR team were exclusive of NI and Pensions contributions. For the purposes of this comparison, we added a flat rate of 12% for NI contributions and

¹⁴ Due to long term absence, we have not been able to discuss the procurement of Interim 4 and Interim 5 with the officer responsible for their appointment

¹⁵ We note I1's involvement was only as a second interviewer.

¹⁶ Available working days is assumed as 226, being 260 available working days, less 8 bank holidays and less 26 days annual leave. We have not accounted for sickness absence. This number represents the notional number of days a permanent staff member is expected to work in one year

Pensions contributions of an additional 14.1%. The daily rate for Interim 4¹⁷ and Interim 5¹⁸ includes the agency mark-up being paid by the Council (17.5% and 15% respectively).¹⁹

Person	Daily Rate (ex VAT) £	Estimated annualised cost £	Permanent equivalent (inc. NI and Pensions) £	Difference £
Interim 1	750	169,500	109,783 – 114,719	54,781 – 59,717
Interim 2	650 ²⁰	146,900	75,180 – 80,124	66,776 – 71,720
Interim 4	460	103,960	62,855 – 64,655	39,305 – 41,105
Interim 5	470	106,220	66,604 – 70,666	35,554 – 39,617

The above differences demonstrate that the Council has been paying more for interim staff than it would have done had it appointed permanent members of staff to these posts.

In interview, O1 offered the following reasons why the additional expenditure incurred in respect of the long-term interim basis appointments of I1 and I2 should not be considered as the Council having failed to achieve value for money:

- ▶ I1 and I2 provide consultancy services on top of the interim roles they are undertaking, thereby saving the Council the cost of appointing consultants in addition to a permanent staff member.
- ▶ The Council finds it difficult to recruit some permanent posts due to Merton paying less than comparable Councils. The Council could not afford for any of these roles to have been left vacant for an extended period of time.
- ▶ The budget for permanent employees has been used to cover the expenditure on temporary employees; therefore the Council is not overspending against budget.
- ▶ Appointing both I1 and I2 directly, rather than through an agency, avoided paying a mark-up to agencies. O1 had checked with the Head of HR before the appointment of I1 that agency mark-ups could be between 13% and 20%.²¹
- ▶ With specific reference to I1, O1 also explained that at a time of reducing resources, the role undertaken by I1 is not one upon which you can 'cut your teeth', i.e. it required someone of experience.

¹⁷ Interim 4 started work at the Council in August 2011

¹⁸ Interim 5 started work at the Council in June 2011

¹⁹ A mark-up is not applicable to I1 and I2 as their services were not procured via an agency.

²⁰ We have only compared the daily rate of I2 whilst she was acting as an interim to provide for maximum comparability with a permanent staff member

²¹ We note that the single price quotation form refers to mark ups between 16% and 20%. Furthermore, our comparison of costs does not include a mark-up for I1

None of these comments adequately evidence value for money being achieved through the incremental payment for the services being provided by interims for an extended period of time rather than permanent employees.

Interim staff will typically cost more than permanent staff due to the need to compensate these staff for the absence of employment rights, or pension contributions. However, the Council has not actively sought to minimise this additional expenditure by recruiting permanently to the posts being covered by interims. This has created a situation where some interim appointments have been in place at the Council for close to three years.²²

Whilst the responsibility for recruiting permanently rests with the relevant budget holder²³, the Council's HR team has not provided challenge to the length of I1 and I2's interim appointments, nor has it encouraged a return to the market to recruit permanent replacements.

We understand from O1 that the Council is currently in the process of advertising internally and externally to fill I2's current role. However, prior to January 2014, we understand that the Council had not sought to replace either I1 or I2 with a full time appointment from outside of the Council. No such advertisement of I1's role has taken place.

Declarations of interests

The Whistleblowing Statement made a number of allegations regarding the relationship O1 has with I1 and I2. We address each relationship in turn.

O1 and I1

The Whistleblowing Statement alleges that O1 was personal friends with I1 and did not declare this during the recruitment process. O1 explained to us that she was not a personal friend of I1 but had known of I1 via the Society of London Treasurers and they had met through this forum.

O1 and I2

The Whistleblowing Statement alleges:

- ▶ a close personal friendship between O1 and I2
- ▶ I2 gave gifts and hospitality to O1
- ▶ O1 attended I2's wedding as a 'guest of honour' and
- ▶ O1 and I2 attended Epsom and Kempton Park races together.

In interview, both O1 and I2 acknowledged that they knew of each other prior to I2 starting work at the Council as they had been introduced through a colleague when they both worked at Westminster

²² Note that I2 initially started working for the Council as a consultant, rather than on an interim basis
²³ As stated by HR

Council.²⁴ O1 and I2 also confirmed that subsequent to I2's appointment, they have met socially on a number of occasions.

I2 denied having offered or given gifts or hospitality to O1 and O1 stated she had not received any gifts or hospitality from I2.

Both O1 and I2 confirmed that O1 had attended I2's wedding in 2012, but not as a 'guest of honour'. We understand that four other council officers also attended the wedding.

O1 and I2 have been to Epsom race course together (the first time being June 2011) with a group of friends during the periods in which I2 has provided services to the Council but not on Council time. We have been informed by O1 and I2 that they pay for their own costs associated with these events. Neither O1 nor I2 has attended Kempton Park races.

The Council's Constitution in effect at the time of the appointments of I1 and I2, stated at part 4G, paragraph 8.2 that:

"Conflict of interest means conflict of private interest and public duty and /or conflict of public duty to a public body and duty to The Council. It is important that a person's judgement of the public (Council) interest is not impaired by their private interest or duty to another public body. It is not just about actual conflict but also an appearance of conflict."

In addition, part 4H required familial relationships with existing council officers to be declared by people seeking employment by the Council.

Neither parts 4G or 4H explicitly extend to declarations in relation to friendships, either at the time of appointment or which develop after an employee and/or interim appointment has first begun. We note that no declarations as to friendships were made by O1, I1 or I2 at the time of appointment. This is consistent with their statements regarding their relationships at the time of the appointments.

However, paragraph 6.2 of the Council's constitution states that:

"If you engage or supervise contractors/consultants or have any other official relationship with contractors/consultants and have previously had or currently have a relationship in a private or domestic capacity with contractors/consultants, you should declare that relationship to the appropriate manager. Details should be recorded in the 'Declaration of Interests Register' that is kept by Directors."

Had the friendship between O1 and I2 been interpreted by the Council to fall within the scope of paragraph 6.2 (i.e. a relationship in a private capacity with contractors/consultants) then it should have been declared on an on-going basis. We were provided with the declaration of interest forms completed by O1 in 2011, 2012 and 2013, and no declarations of friendship were made.

²⁴ O1 had been Director of Finance at Westminster Council and I2 had undertaken some consultancy work at Westminster during that time. We understand that O1 was not involved in the procurement of I2 whilst at Westminster and the two never worked directly with each other.

Potential misreporting

We address below the allegations of potential misreporting in relation to reporting to committees, publication of expenditure over £500 and declarations made on the consultants registers.

Reporting to committees

The Whistleblowing Statement alleged that the Council has overspent as the result of the appointment of 'consultants' and this has not been reported to full Council.

We note above that the Council is paying more in relation to the appointment of each of the interim staff members when compared with the annual salaries provided by the Council's HR team for the corresponding posts.

The Council's reporting process is such that expenditure on employees is reported at an aggregated level (i.e. total expenditure on employees within a directorate) and does not separately identify expenditure between permanent and interim staff.

Whilst departments monitor expenditure at a cost centre level, reports to Council and its sub-committees report at a divisional level, not a cost centre level. This is standard practice within local government reporting. The position for the corporate resources department, which includes the costs of I1 and I2, was as follows:

- ▶ FY 11/12 overspend of £1.5m (Cabinet report 2 July 2012 attributes this overspend to redundancy costs and repairs and maintenance)
- ▶ FY12/13 overspend of £393k (due largely to a £460k overspend in Customer Services which does not include the costs of I1 or I2)
- ▶ FY 13/14 underspend of £1.4m (forecast)

Expenditure over £500

The Whistleblowing Statement further alleges that payments to I1 and I2 have been deliberately excluded from publication on the Council's expenditure over £500 listing, which it publishes on a quarterly basis on its website. We note that payments to I1 and I2 are disclosed on the payments over £500 list but their names have been redacted. This is a Council policy to prevent publication of information which would allow individuals to be identified.

Consultant's registers

The Whistleblowing Statement also alleges a failure by O1 to declare the consultants on the Consultant's Register. As noted above, only I2 has operated as a consultant when she first worked at the Council in FY 08/09. We have reviewed the Consultants Register for FY 08/09 and confirm that I2 is disclosed on the register as the 'Transformation Project – CS TOM Lead'.

Errors in the whistleblowing statement

In undertaking our work, we have identified a number of inaccuracies in the Whistleblowing Statement, including incorrect references to names, job titles and involvement in recruitment processes. It should also be noted that when comparing annual salaries with payments made to interims, the payments to interims should not include VAT if the comparison is to be on a like for like basis. We have further identified a number of errors in the value of payments listed within the Whistleblowing Statement.

Conclusion

In summary, our work has not identified evidence of corruption, malpractice or unlawful expenditure in relation to the specific issues raised by the whistleblowers.

Moreover, given that the rates paid to the individuals are comparable with the market rates for such services, and I1 and I2 are providing services to a number of senior officers in addition to O1, there is insufficient evidence to suggest that there is a heightened risk that illicit payments have occurred. In this context, the Council should consider whether further investigation would be a reasonable and effective use of resources since unless new evidence is brought to its attention, the cost of undertaking further investigative work would be disproportionate to the risk of such payments having been made or received. At this stage, we would not recommend that further work is undertaken.

We note that both I1 and I2 provide support to senior officers within the Council in addition to O1, and their invoices have sometimes been authorised by officers other than O1. Nonetheless, the ability to exempt procurement of interim staff from the Council's standing orders, coupled with responsibility for the appointment of those interim staff/consultants, gives rise to a lack of transparency and absence of appropriate oversight and scrutiny in the selection process. In addition, the appointment of interim or consultancy staff, on a long term basis, should regularly be challenged to ensure it is an appropriate use of Council resources.

Recommendations

- ▶ The Council should review the use of single price quotation forms, particularly in respect of the justifications required to be documented and the approval process for their use.
- ▶ Council officers should report all prospective interim positions to the Council's HR function, and the Council's HR function should be responsible for maintaining a central database of all prospective and live roles filled by interim appointments.
- ▶ HR should challenge departments on their use of long term interim appointments, the rates which are being paid and ensure that external recruitment is considered.
- ▶ HR should be involved in any recruitment process, including the recruitment of interim managers.
- ▶ The Council should review its interview process and its policy on the number of interviewers required, including in relation to the appointment of interim managers.

- ▶ The Council should review its policy on declarations of interest to include personal friendships.
- ▶ The Council should communicate to all Council officers any revisions it makes to its procurement procedures.

Yours sincerely



David Wilkinson
Partner
Ernst & Young LLP
United Kingdom

Private and confidential

Mr Paul Evans
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22 November 2013

Your ref:
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Dear Paul

Merton LBC – Review of whistleblower allegations

This letter is supplemental to our engagement agreement for the statutory audit Merton Council (“the Council”). All terms and conditions in that letter remain unchanged except that the scope of the work that we are required to perform is expanded to include the following work. Such additional work will be covered by all the terms and conditions contained in our engagement agreement, including the limitation of liability provisions. For the avoidance of doubt, the aggregate liability of our firm contained in the limitation of liability provisions will not be increased as a result of this additional work.

Additional scope

On Thursday 14 November 2013, a letter was sent to various council officers and members raising a number of allegations against certain council officers. Merton Council has requested that Ernst and Young investigate the allegations set out in that letter (“the Matter”).

In accordance with our discussions with you on 18 November 2013, our scope of work for this investigation will cover the following:

1. Identification of payments made to two named consultants, including a review of the nature and purpose of those payments and whether the payments were made in accordance with Council policies regarding appointment of consultants
2. Review of the appointment of the named consultants and whether their appointments were in accordance with Council policies
3. Review of the appointment of three other consultants and whether these appointments were in accordance with Council policies
4. Review of any declarations made by the Council's s151 officer in relation to the appointment of the named consultants on the Council's consultants register
5. Review of any declarations made by the Council's s151 officer, in relation to the named consultants, on the Council's hospitality register and register of interests

6. Review of the reporting of expenditure on consultants taken to Cabinet and Council and approval of budgets for the appointment of the above named consultants

Our scope of work does not include formal interviews of any of the Council officers named in the whistleblower's letter²⁵, nor does it include capture of electronic data such as emails and server data. Depending on the findings from our work, we will discuss with the Council appropriate next steps in the investigation. Those steps will then be subject to a separate statement of work.

²⁵ The scope of our work was subsequently amended as agreed with the Council in December 2013 to include interviews

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INVESTOR IN PEOPLE

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28 February 2014

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Dear Member

Certification of claims and returns annual report 2012-13 Merton Council

We are pleased to report on our certification work. This report summarises the results of our work on Merton Council's 2012-13 claims and returns.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require certification from an appropriately qualified auditor of the claims and returns submitted to them.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. When such arrangements are made, certification instructions issued by the Audit Commission to appointed auditors of the audited body set out the work they must undertake before issuing certificates and set out the submission deadlines.

Certification work is not an audit. Certification work involves executing prescribed tests which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

In 2012-13, the Audit Commission did not ask auditors to certify individual claims and returns below £125,000. The threshold below which auditors undertook only limited tests remained at £500,000. Above this threshold, certification work took account of the audited body's overall control environment for preparing the claim or return. The exception was the housing and council tax benefits subsidy claim where the grant paying department set the level of testing.

Where auditors agree it is necessary audited bodies can amend a claim or return. An auditor's certificate may also refer to a qualification letter where there is disagreement or uncertainty, or the audited body does not comply with scheme terms and conditions.

Statement of responsibilities

In March 2013 the Audit Commission issued a revised version of the 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities). It is available from the Chief Executive of each audited body and via the Audit Commission 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.

This annual certification report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Summary

Section 1 of this report outlines the results of our 2012-13 certification work and highlights the significant issues.

We checked and certified three claims and returns with a total value of £197,155,118. We met all submission deadlines. For one of these claims, the Council did not meet the submission deadline of the draft return (the Teachers' superannuation final return). We issued two qualification letters - for one claim and one return. Details of the qualification matters are included in section 2.

Our certification work found errors in the housing and council tax benefits subsidy claim which the Council amended where the full effect of these was known. We carried out extended testing in 16 areas as a result of errors found in our initial testing. In addition the Council also carried out further work in one area where we had carried out extended testing. We reviewed that work and reported our findings separately to the Department for Work and Pensions (DWP). The Teachers' superannuation final return did not require amendment but we reported on errors in the interim returns made by the Council during the year. The National non-domestic rates return did not require amendment.

The Council has implemented some of the recommendations from last year. Details are included in section 1. However, further improvements in the arrangements for submission of one return and in supporting the underlying accuracy of information in another are required. We have made three recommendations this year. These are set out in section 3.

Fees for certification work are summarised in section 2. The Audit Commission applied a general reduction of 40% to certification fees in 2012-13. We have included the actual fees for 2011-12 and their values after the 40% reduction to assist year on year comparisons.

We welcome the opportunity to discuss the contents of this report with you at the General Purposes Committee meeting on 12 March 2014.

Yours faithfully



Paul King
Director
Ernst & Young LLP

Enc.

Certification of claims and returns annual report 2012-13

Contents

1. Summary of 2012-13 certification work.....	1
2. 2012-13 certification fees.....	5
3. Looking forward.....	6
4. Summary of recommendations.....	7

1. Summary of 2012-13 certification work

We certified three claims and returns in 2012-13. The main findings from our certification work are provided below.

Housing and council tax benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£104,074,612
Limited or full review	Full
Amended	Amended – subsidy reduced by £435 (although there will be a much larger reduction in subsidy to the Council due to extrapolation of errors and uncertainties in the qualification letter)
Qualification letter	Yes
Fee - 2012-13	£42,910 (under discussion due to additional work carried out on extended testing compared to previous years; and specifically including £350 agreed with the Council for completion of work on modified schemes and £750 for the review and reporting of the additional testing on child tax credits).
Fee - 2011-12	£57,679 total* * Note - £40,952 paid to the Audit Commission in respect of their initial work on the 2011-12 claim, and £16,727 paid to Ernst & Young LLP to complete work on the claim and its certification
Recommendations from 2011-12:	Findings in 2012-13
Maintain targeted training for officers in areas where persistent issues remain.	Further targeted training is still required for officers preparing subsidy claims in those areas identified in the 2012-13 and prior year qualification letters.
Increase the sample review of cases for those areas where there is a higher potential risk of loss of subsidy in advance of submission of the claim.	We identified errors in 2012-13 in a more areas where there is a higher risk of loss of subsidy. Formal implementation of a sample review of cases did not occur during the year. A rolling review of a sample of cases will be implemented to ensure quality and consistency standards are met - recommendations in section 4.
Reduce to nil the un-reconciled differences in the reconciliation to the systems used to compile the claim.	Minor differences remained in the reconciliation to systems used to provide elements of the subsidy claim.
Introduce procedures to review all manual adjustments before submission of the claim for audit.	We reviewed manual adjustments to the claim; some of these were incorrect and required further testing. Procedures required to review all manual adjustments before submission of the claim and ensure there is supporting documentation to explain these amendments.

Councils run the Government's housing and council tax benefits scheme for tenants and council taxpayers. Councils responsible for the scheme claim subsidies from the DWP towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' testing (extended testing) if initial testing identifies errors in the calculation of benefit or compilation of the claim. We found errors and carried out extended testing in 16 areas (in 2011-12 extended testing was carried out in five areas). We have reported underpayments, uncertainties and the extrapolated value of other errors to the DWP in a qualification letter. We produced the qualification letter in accordance with the requirements of the DWP. This identified errors in the areas of rent rebates, rent allowances and council tax benefit. The claim was also adjusted for specific errors identified and agreed as part of the work. These amendments had a small net impact on the claim. The extrapolation of other errors and uncertainties is likely to have a larger impact on the level of subsidy due to the Council.

We identified errors and uncertainties in a number of areas and included these in our qualification letter:

- ▶ overstatement of housing and council tax benefit due to miscalculation of private pension allowances, calculation of claimants' main earnings and capital, and miscalculation of allowances for regulated tenancies. With the exception of main earnings, these areas were not reported in last year's qualification letter. Officers will focus on accuracy in these areas to ensure these income calculation errors will not occur in the future;
- ▶ errors in housing and council tax benefit awarded resulting from self-employed earnings calculated incorrectly. This is a more complex area and further training and peer review are proposed to reduce the level of errors;
- ▶ miscalculation of working tax credits (WTCs) and child tax credits (CTCs) in benefit calculations. The Council did not consider the extrapolation that we calculated based on the errors identified on CTCs as representative and carried out their own further testing in addition to the initial and extended testing that we carried out. We then reviewed and reported separately to the DWP on the overall findings and results, including the further testing undertaken by the Council. The Council has since written to the DWP as it considers there are existing and known systems issues with the interface with central government systems that provide the figures for the claim in this area, and asked that these are reflected in any decision made on the extrapolation of errors and resulting loss of subsidy;
- ▶ errors in more technical areas of the claim relating to council tax and rent rebates that can be claimed and treated as overpayments under current regulations. Some of these were areas covered in last year's qualification letter. These are more complex areas and further training and peer review are proposed to reduce the level of errors – and the loss of subsidy and direct costs to the Council for administering these benefits.

The Council needs to ensure the overall accuracy of claim review is improved as the overall number of areas where errors were identified has increased – and some of these were also identified in previous years. Improving communication, and accuracy of transfer of information, between officers working in the benefits, council tax and housing needs departments would reduce errors. Our extended testing identified cases where the changes in council tax and rents were notified but not updated, or updated incorrectly, in the benefits system.

We will discuss our approach for future years with the Council. This could include moving directly to extended testing in those areas where failures are likely to be identified in initial testing, rather than making the decision on whether to extend testing only after completion of the initial testing. The advantage of this approach would be that we and the Council would be able to plan more effectively for carrying out all the work likely to be required.

Teachers' superannuation return

Scope of work	Results
Value of return presented for certification	11,145,651
Limited or full review	Full
Amended	No
Qualification letter	Yes – see below
Fee - 2012-13	£2,371
Fee - 2011-12	£1,867
Recommendations from 2011-12:	Findings in 2012-13
None	Return not submitted to auditor by due date and in correct format with incorrect contributions figure.

The Teachers' Pension Scheme is a contributory pension scheme run separately from the local government pension scheme and administered by Teachers' Pensions on behalf of the Department for Education. Councils must complete a return setting out what they have collected under the scheme and how much they need to pay over to the Government. Auditors are required to carry out checks on the return made.

We issued a qualification letter on the return for the following reasons:

- ▶ The Council did not submit the original return for certification by the deadline of 30 June 2013; we received the return on 14 October 2013. The return as presented was also on the incorrect form;
- ▶ The return included an incorrect pre-populated figure for 'Contributions Paid'. The explanation provided by the Council was that, with the movement to a shared service payroll provider at the beginning of the 2012-13 financial year, there were changes in the personnel responsible for the Council's returns to Teachers' Pensions. These returns included a number of errors in the 'Contributions Paid' figure, including a school that was not the responsibility of the Council. The officers responsible for the year end return identified these errors and amended the claim accordingly. Our programme of work to support certification of the claim supported the revised, annotated figure as being fairly stated.

There were no other issues identified from our programme of work.

National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£81,934,855
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2012-13	£3,750
Fee – 2011-12	£6,246
Recommendations from 2011-12:	Findings in 2012-13
None	None

The Government runs a system of non-domestic rates using a national uniform business rate. Councils responsible for the scheme collect local business rates and pay the rate income over to the Government. Councils have to complete a return setting out what they have collected under the scheme and how much they need to pay over to the Government.

We found no errors on the national non-domestic rates return and we certified the amount payable to the pool without qualification.

2. 2012-13 certification fees

For 2012-13 the Audit Commission replaced the previous schedule of maximum hourly rates with a composite indicative fee for certification work for each body. The indicative fee was based on actual certification fees for 2010-11 adjusted to reflect the fact that a number of schemes would no longer require auditor certification. There was also a 40 per cent reduction in fees reflecting the outcome of the Audit Commission procurement for external audit services.

The indicative composite fee for Merton Council for 2012-13 was £42,450. The actual fee for 2012-13 is under discussion and subject to determination by the Audit Commission and is £50,597. This compares to a charge of £67,492 in 2011-12.

Claim or return	2011-12	2012-13	2012-13
	Actual fee	Indicative fee	Actual fee
	£	£	£
Housing and council tax benefit subsidy claim	57,679#	35,560	42,910*
Teachers' superannuation return	1,867	1,450	2,371
National non-domestic rates return	6,246	3,171	3,750
Certification of claims and returns - annual report	1,700	2,269	1,566
Total	67,492	42,450	50,597

- not disclosed in last year's certification of claims report as subject to discussion with the Council and Audit Commission. Fee is as agreed with the Council and Audit Commission in July 2013.

* - fee under discussion and subject to determination by the Audit Commission.

Fees fell overall compared to 2011-12 because of the Audit Commission's 40% reduction. However after allowing for the 40% reduction there was an increase in fees for the following claims and returns:

► **Housing and council tax benefit subsidy**

The actual fee for the 2011-12 work was agreed in July 2013 following discussion with the Council and the Audit Commission due to part-completion of the claim by the outgoing Commission auditors, and completion of the work and certification of the claim by Ernst & Young LLP. The Audit Commission indicative fee for 2012-13 was based on the actual fee in 2010-11, reduced by 40%. This included extended testing in 11 areas. The actual fee for 2012-13 increased compared to the 2012-13 indicative fee as we undertook extended testing in 16 areas. We also carried out further work to review the Council's further testing and report our findings to the DWP in one area (child tax credits).

► **Teachers' superannuation**

The Audit Commission indicative fee for 2012-13 was based on the fee for the full review done in 2010-11, reduced by 40%. An increase in the 2012-13 actual fee compared to the indicative fee was due to the delays in submission, use of the incorrect return and additional work to confirm the correct contributions paid as an incorrect figure was used on interim returns.

3. Looking forward

For 2013-14, the Audit Commission has calculated indicative certification fees based on the latest available information on actual certification fees for 2011-12, adjusted for any schemes that no longer require certification. The Audit Commission has indicated that the national non-domestic rates return will not require certification from 2013-14.

The Commission set the Council's indicative certification fee for 2013-14 as £54,500. This was based on the 2011-12 estimated position at the beginning of February 2013, prior to the subsequent agreement of the additional work carried out on the housing benefit and council tax subsidy claim (as set out on page 6). Therefore this indicative fee may be subject to change by the Audit Commission. The actual certification fee for 2013-14 may be higher or lower than the indicative fee, if we need to undertake more or less work than in 2011-12 on individual claims or returns. Details of individual indicative fees are available at the following link:

[<http://www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-and-work-programme/individual-certification-fees/>]

We must seek the agreement of the Audit Commission to any proposed variations to indicative certification fees. The Audit Commission expects variations from the indicative fee to occur only where issues arise that are significantly different from those identified and reflected in the 2011-12 fee.

The Audit Commission has changed its instructions to allow appointed auditors to act as reporting accountants where the Commission has not made or does not intend to make certification arrangements. This removes the previous restriction saying that the appointed auditor cannot act if the Commission has declined to make arrangements. This is to help with the transition to new certification arrangements, such as those DCLG will introduce for business rates from 1 April 2013.

4. Summary of recommendations

This section highlights the recommendations from our work and the actions agreed.

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer
Housing and council tax benefits subsidy claim Implement a rolling programme of peer review of a sample of new and existing claims to drive up overall accuracy and completeness of claims and further improve the level of expertise among claims officers.	High	Agreed – implementation of a monthly peer review of new and existing claims from the previous month, using a validation spreadsheet tool to check that calculation of entitlement is correct and agrees to sufficient supporting evidence. This will involve all officers looking at 5 new and 5 existing claims, with team managers checking all ‘fails’ and a sample of ‘passes’.	In place by 31 March 2014	Caroline Holland Director of Corporate Services David Keppler Head of Revenues and Benefits
Continue with an ongoing programme of targeted training in those areas identified in this year’s work as ‘easy wins’ and refresher training in those areas of greater complexity and where errors occurred in this and previous years.		Agreed – training in place to address those areas where ‘easy wins’ are available in application of standards. For more complex areas – and where recurrent issues in this and prior year claims – will tie in training with the rolling review programme above to embed correct approach and drive up levels of expertise among claims officers.		
Ensure review of all manual adjustments to the claim prior to submission. Teachers’ Superannuation Return		Agreed – recommendation made last year and will ensure this is carried out.		
Ensure future returns are completed on the correct form, in accordance with the required timescales and are based on the correct information for ‘contributions paid’	High	Agreed - the late return, incorrect use of the final claim form and error in the initial contributions paid figure resulted from changes in the payroll provider function. These will not occur in future	In place for 2013-14 return	Dean Shoesmith Joint Head of Human Resources (Merton and Sutton) David Coates Interim Payroll Client Team Manager

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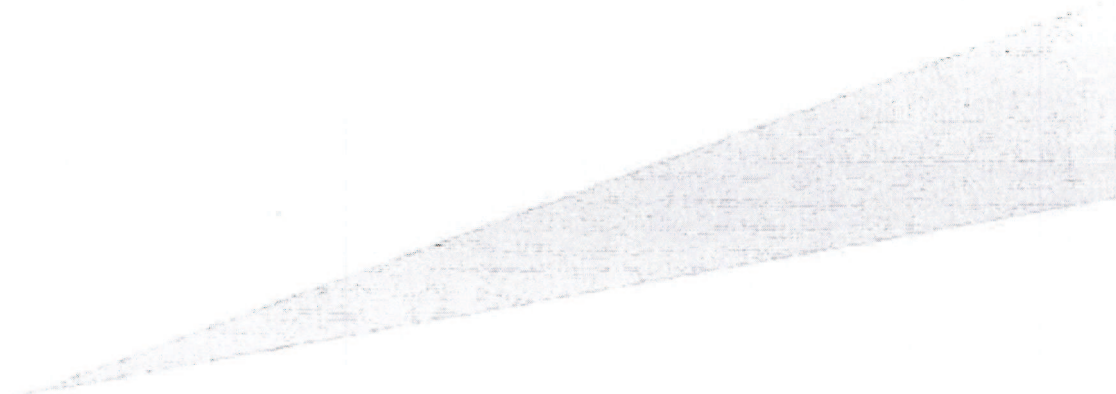
Audit Plan

Year end 31 March 2014

Merton Council

March 2014

Ernst & Young LLP



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General Purposes Committee
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3 March 2014

Dear Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide the General Purposes Committee with a basis to review our proposed audit approach and scope for the 2014 audit, in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key risks which drive the development of an effective audit for Merton Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you on 12 March 2014 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

David Wilkinson
For and behalf of Ernst & Young LLP
Enc

Contents

1. Overview	2
2. Financial Statement Risks	4
3. Economy, Efficiency & Effectiveness	6
4. Our audit process and strategy	7
5. Independence	12
Appendix A Fees	15
Appendix B UK required communications with those charged with governance...	16
Appendix C Detailed Scopes	19

1. Overview

Context for the audit

This audit plan covers the work that we plan to perform in order to provide you with:

- ▶ Our audit opinion on whether the financial statements of Merton Council give a true and fair view of the financial position as at 31 March 2014 and of the income and expenditure for the year then ended; and
- ▶ A statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office ('NAO'), to the extent and in the form required by them, on your Whole of Government Accounts return.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements.
- ▶ Developments in financial reporting and auditing standards.
- ▶ The quality of systems and processes.
- ▶ Changes in the business and regulatory environment.
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter. And by focusing on the areas that matter, our feedback is more likely to be relevant to the Council.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In part 2 and 3 of this report we provide more detail on the areas which we believe present significant risk to the financial statements audit, and outline our plans to address these risks.

We will provide an update to the General Purposes Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2014.

Our process and strategy

▶ Financial Statement Audit

- ▶ We have not yet finalised our overall materiality for the Council's consolidated financial statements, but this will be set in the range of between £4.909 million and £9.818 million based on 1% - 2% of gross operating expenditure.
- ▶ We are assessing your control environment and we expect to be able to rely on internal controls, both manual and IT-based where this is the most efficient approach. For other areas we will apply a substantive approach.
- ▶ To the fullest extent permissible by auditing standards, we will seek to place reliance on the work of internal audit wherever possible to support our work, notwithstanding that changes to auditing standards prohibit our directing the work of internal audit.
- ▶ Your audit engagement partner, director and manager remain unchanged.
- ▶ Changes to the scope of our audit
 - ▶ We will report on our work in response to whistleblowing allegations about the appointment and use of consultants.
 - ▶ The Council will include the results for its subsidiary company - Constructors Health and Safety Assessment Scheme (CHAS) - for the first time in its financial statements. Appendix C provides an overview of the nature of the planned involvement in the work to be performed by the external auditors of CHAS (the component auditors).
- ▶ Arrangements for securing Economy, Efficiency and Effectiveness
 - ▶ We adopt an integrated audit approach such that our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.
 - ▶ We will assess the Council against the criteria and areas of focus set out by the Audit Commission. There are no specific risks identified to date for which additional work is to be performed, other than those associated with the whistleblowing allegations.

2. Financial Statement Risks

We outline below our assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with members and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
<p>Property, plant and equipment (PPE)</p> <p>The Council has made material changes to the valuation, classification and completeness of disclosures of its property, plant and equipment in recent years. We also identified material errors and omissions in last year's audit.</p> <p>The Council is proposing further changes in 2013/14 through a reclassification of its investment properties. This will lead to a material change to the financial statements. These changes indicate wider risks around the completeness of property, plant and equipment disclosed in the Council's financial statements and the accurate classification of these assets.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Management controls over the completeness and classification of assets in the asset register and underlying records ▶ Tests of detail over the completeness and classification of assets and corresponding valuations ▶ Tests of detail on the reasonableness of the valuation including assessment against central reports provided by the Audit Commissions expert valuer. ▶ Use of our own valuation expert. This will only be required if the results of our other work are unsatisfactory. We will consult with you before using our own expert to explain the reasons why we consider this to be necessary.
<p>Risk of management override</p> <p>As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>We also consider the findings from our work responding to allegations made about the Council's appointment and use of consultants.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ Reviewing accounting estimates for evidence of management bias; ▶ Evaluating the business rationale for significant unusual transactions; and ▶ Assessing the findings from our work responding to the allegations made about the Council's appointment and use of consultants.

Respective responsibilities in relation to fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks.

We will consider the results of the National Fraud Initiative and may make reference to it in our reporting to you.

3. Economy, Efficiency & Effectiveness

Our work will focus on:

1. Whether there are proper arrangements in place for securing financial resilience at the Council; and
2. Whether there are proper arrangements in place at the Council to secure economy, efficiency and effectiveness in the use of resources.

Our planning and work to date has not identified any significant risks or specific risks for which additional work is to be performed. However, given that the Council is operating in a wider public environment under financial pressure, and our work on investigation of the employment of consultants included the value for money of these arrangements, we will keep these areas under review as our audit progresses.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code'), dated March 2010, our principle objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Council's:

- i) financial statements; and
- ii) arrangements for securing economy, efficiency and effectiveness in its use of resources.

We issue a two-part audit report covering both of these objectives.

i) Financial Statement Audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We will also review and report to the National Audit Office ('NAO'), to the extent and in the form required by them, on your Whole of Government Accounts return.

The Council has established a trading company – Constructors Health and Safety Assessment Scheme (CHAS) - for its health and safety assessments for the construction industry. The Council will consolidate the results for this subsidiary in its financial statements for 2013/14. As a company the subsidiary will need to put in place external audit arrangements in accordance with the Companies Act requirements. If we are appointed as the external auditor, we will plan our audit procedures for the subsidiary to identify misstatements that could be material to the statutory financial statements of the individual entity (CHAS). Appendix C provides an overview of the nature of the planned involvement in the work to be performed by the external auditors of the subsidiary (the component auditors).

ii) Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the Council's corporate performance management and financial management arrangements we have regard to 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 that enables it to continue to operate 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 by improving efficiency and productivity.

4.2 Audit process overview

We are assessing your entity level controls. We have identified the key controls in your major financial systems and are in the process of testing these in cooperation with Internal Audit. As a result of our assessments we intend to place reliance on the key controls in your financial systems where this is the most efficient audit approach. Where this is not the most efficient approach, we will adopt a substantive approach to gain the assurances we require.

We reported in last year's audit results report on the number of individual financial systems you operate and the importance of manual reconciliations as a key element of your control environment. Therefore, we will not assess your IT general controls this year as this does not provide the most efficient audit approach.

To the fullest extent permissible by auditing standards, we are placing reliance on the work of internal audit wherever possible notwithstanding that changes to auditing standards prohibit our directing the work of internal audit.

Processes

Our initial assessment of the key processes across the entity has identified the following key processes where we will seek to test key controls, both manual and IT:

- Cash processing
- Accounts receivable
- Procure to pay
- Payroll
- Pensions – IAS19 disclosures
- Property, plant and equipment (PPE)
- Business rates
- Council tax
- Housing Benefits and Rents
- Education – SIMS system
- Social Services (Carefirst).

As elements of the payroll process is outsourced to the shared service hosted by the London Borough of Sutton, we will utilise the findings set out in the independent assurance report to be provided to the Council (ISAE 3402).

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular in respect of payroll, cash payments and receipts and journal entries. These tools:

- help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the General Purposes Committee.

Internal audit

As in prior years, we will review internal audit plans and the results of work undertaken. We will reflect the findings from these reports, together with reports from other work completed in

the year, in our detailed audit plan, where issues are raised that could impact the year-end financial statements.

Use of experts

We will utilise specialist EY resource, as necessary, to help us to form a view on judgments made in the financial statements. Our plan currently includes the involvement of specialists in pensions, valuations, financial reporting and tax.

Mandatory procedures required by auditing standards

In addition to the financial statement risks outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

- ▶ Addressing the risk of fraud and error. Significant disclosures included in the financial statements.
- ▶ Entity-wide controls.
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements.
- ▶ Auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement and the Remuneration Report.
- ▶ Reviewing and reporting on the Whole of Government accounts return, in line with the instructions issued by the NAO.
- ▶ Reviewing, and where appropriate, examining evidence that is relevant to the Council's corporate performance management and financial management arrangements and reporting on these arrangements.

4.3 Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We have not yet finalised our overall materiality for the Council's consolidated financial statements, but this will be set in the range of between £4.909 million and £9.818 million based on 1% - 2% of gross operating expenditure. We will communicate our final materiality levels to members at a future committee meeting. We will communicate the level above which we will communicate uncorrected audit misstatements to you at a future committee meeting.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

4.4 Fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of the Council is £188,730. In addition, the Commission has set an indicative fee of £54,500 for the certification of grant claims.

The indicative scale fee may be subject to variation to reflect the following factors:

- ▶ The work carried out in response to the allegations made by whistle-blowers in the Council over the appointment and use of consultants. This work is in addition to our existing responsibilities under the Code.
- ▶ The consolidation of the results of the Council's trading subsidiary Constructors Health and Safety Assessment Scheme (CHAS) into the Council's financial statements in accordance with the relevant accounting requirements. This requirement to produce consolidated financial statements affects the scope and extent of our audit work on the Council's financial statements. The audit engagement will be in addition to our role as appointed auditor to the Council.

Any variations to the indicative scale fees for these factors will need to be discussed and agreed with the Council. Any variations will also need to be considered by the Audit Commission and subject to their determination. We will report any agreed variations to the 4 General Purposes Committee.

4.5 Your audit team

The engagement team is led by David Wilkinson, Partner. David is supported by Paul King, Director, who has significant experience on council audits. David is also supported by Michael Yeats who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the chief accountant.

4.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government accounts; and the deliverables we have agreed to provide to you through the audit committee cycle in 2014. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

We will provide a formal report to the General Purposes Committee in September 2014, incorporating the outputs from our 2013/14 audit. We will also provide a progress report to the March and June 2014 meetings of the General Purpose Committee on our progress on the various elements of our audit. From time to time matters may arise that require immediate communication with the General Purposes Committee and we will discuss them with the General Purposes Committee Chair as appropriate.

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

Audit phase	Timetable	General Purposes Committee timetable	Deliverables
High level planning:	December 2013 / January 2014		Audit Fee letter (presented to 27 June 2013 General Purposes Committee)
Risk assessment and setting of scopes	December/ January	12 March 2014 Committee	Audit Plan Audit Progress Report
Testing of routine processes and controls	January/ February 2014	26 June 2014 Committee	Audit Progress Report
Year-end audit	July – September	25 September 2014 Committee	Report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources).
	November	6 November 2014 Committee	Audit completion certificate Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters. We will bring updates to the General Purposes Committee as these are available.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission's Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. However we have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

Self- interest threats

A self interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved and that are in compliance with the Audit Commission's Standing Guidance

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of David Wilkinson, your audit engagement partner and the audit engagement team have not been compromised.

5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 28 June 2013 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2013>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2013/14	Actual Fee 2012/13	Explanation of variance
	£	£	
Total Audit Fee – Code work	188,730~	188,730#	
Certification of claims and returns*	54,500	50,597	
Non-audit work (provide details)	0	0	

~ excludes any fee variations that may be agreed for the work and reporting in response to allegations raised by whistle-blowers and the consolidation of the results of the Council's trading subsidiary CHAS into the Council's financial statements, as set out above. # - fee excludes work in response to questions raised by a local elector – we are in discussions with the Council and Audit Commission over the quantum to be charged.

*Our fee for the certification of grant claims in 2013/14 is based on the indicative scale fee set by the Audit Commission.

Indicative fee

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ We are able to place reliance, as planned, on the work of internal audit;
- ▶ The level of risk in relation to the audit of accounts is consistent with that in the prior year (where we have prior year experience);
- ▶ No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- ▶ Our accounts opinion and use of resources conclusion being unqualified
- ▶ Appropriate quality of documentation is provided by the audited body
- ▶ Effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with you in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B UK required communications with those charged with governance.

There are certain communications that we must provide to the audit committee of audited clients. These are detailed here:

Required communication	Reference
Planning and audit approach	Audit Plan
Communication of the planned scope and timing of the audit including any limitations.	
Significant findings from the audit	Report to those charged with governance
<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	
Misstatements	Report to those charged with governance
<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	
Fraud	Report to those charged with governance
<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	
Related parties	Report to those charged with governance
Significant matters arising during the audit in connection with the entity's related parties including, when applicable:	
<ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	
External confirmations	Report to those charged with governance
<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	
Consideration of laws and regulations	Report to those charged with governance
<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off 	

Required communication	Reference
<ul style="list-style-type: none"> ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY'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"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>For listed companies, communication of minimum requirements as detailed in the ethical standards:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the audited body and senior management ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the ethical standards ▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	<p>Audit Plan</p> <p>Report to those charged with governance</p>
<p>Going concern</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"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<p>Report to those charged with governance</p>
<p>Significant deficiencies in internal controls identified during the audit</p>	<p>Report to those charged with governance</p>
<p>Group audits</p> <ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ 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 ▶ 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 ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ 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 	<p>Audit Plan</p>

Required communication	Reference
Certification work	
▶ Summary of certification work undertaken	Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary
Fee Information	
▶ Breakdown of fee information at the agreement of the initial audit plan	Audit Plan
▶ Breakdown of fee information at the completion of the audit	Report to those charged with governance and Annual Audit Letter if considered necessary

Appendix C Detailed Scopes

Our objective is to form an opinion on the group's consolidated financial statements under International Standards on Auditing (UK and Ireland).

We set audit scopes for each reporting unit which, when taken together, enable us to form an opinion on the group accounts (those for the Council and its subsidiary CHAS). We take into account the size, risk profile, changes in the business environment and other factors when assessing the level of work to be performed at each reporting unit.

- ▶ Full scope: locations deemed significant based on size and those with significant risk factors are subject to a full scope audit, covering all significant accounts and processes using materiality levels assigned by the EY audit team for purposes of the consolidated audit. Procedures are full-scope in nature, but may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements (as materiality thresholds support to the consolidated audit).

ISA 600 (UK and Ireland) requires that we provide you with an overview of the nature of our planned involvement in the work to be performed by the component auditors of significant locations/reporting units. On the basis we are appointed auditors, and to ensure an efficient audit, our involvement can be summarised as follows:

- ▶ All full scope locations will attend the Group audit team's planning events to be held in London in January and February
- ▶ Audit will review working papers relating to the key disclosures in the Council's financial statements
- ▶ Attendance at EY internal closing meetings.

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Audit Plan

Year end 31 March 2014

London Borough of Merton Pension Fund

March 2014

Ernst & Young LLP





Building a better
working world

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INVESTOR IN PEOPLE

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Merton Civic Centre
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28 February 2014

Dear Members

Audit Plan

We are pleased to attach our Audit Plan, which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide the General Purposes Committee with a basis for reviewing our proposed audit approach and scope for the 2013-14 audit in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements. It also ensures that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key risks which drive the development of an effective audit for the London Borough of Merton Pension Fund, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you on 12 March 2014 – and also at the Pension Fund Advisory Committee on 19 March 2014 - as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

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

Contents

- 1. Overview3**
- 2. Financial Statement Risks.....4**
- 3. Our audit process and strategy5**
- 4. Independence9**
- Appendix A Fees12**
- Appendix B UK required communications with those charged with governance. ...13**

1. Overview

Context for the audit

This audit plan covers the work that we plan to perform in order to provide you with our audit opinion on whether the financial statements of the London Borough of Merton Pension Fund give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and of the income and expenditure for the year then ended..

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements.
- ▶ Developments in financial reporting and auditing standards.
- ▶ The quality of systems and processes.
- ▶ Changes in the business and regulatory environment.
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter. This means that our feedback is more likely to be relevant to you.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In part 2 of this report we provide more detail on the areas which we believe present significant risk to the financial statements audit. We also outline our plans to address these risks.

Details of our audit process and strategy are set out in Section 3.

2. Financial Statement Risks

We outline below our assessment of the financial statement risks facing you, identified through our knowledge of the entity's operations and discussion with members and officers.

We aim to validate these with you at our meeting.

There is one significant risk identified for this audit. This risk applies to all clients.

Significant risks (including fraud risks)	Our audit approach
Risk of management override	
As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud. This is because of its ability to manipulate accounting records (directly or indirectly) and to prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ testing the appropriateness of journal entries in the general ledger and other adjustments made in the preparation of the financial statements; ▶ reviewing accounting estimates for evidence of management bias; and ▶ evaluating the business rationale for significant unusual transactions.

There are no other financial statement risks arising from our planning and work to date.

Respective responsibilities in relation to fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements caused by either error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility of a material misstatement due to fraud, and design the appropriate procedures to consider such a risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ identifying fraud risks during the planning stages.
- ▶ asking management about the risks of fraud and controls to address those risks.
- ▶ understanding how those charged with governance oversee management's processes over fraud.
- ▶ considering the effectiveness of management's controls designed to address the risk of fraud.
- ▶ determining an appropriate strategy to address those risks.
- ▶ performing mandatory procedures, regardless of specifically identified fraud risks.

3. Our audit process and strategy

3.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code'), dated March 2010, our principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, your financial statements.

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

3.2 Audit process overview

Our audit involves:

- ▶ assessing the key internal controls in place and testing the operation of these controls;
- ▶ where relevant, review and re-performance of the work of your internal auditors;
- ▶ reliance on the work of other auditors where appropriate;
- ▶ reliance on the work of experts in relation to areas such as valuation of the Pension Fund; and
- ▶ substantive tests of detail of transactions and amounts.

Processes

Our initial assessment of the key processes across the entity has identified the following key processes, both manual and IT:

- ▶ Contributions receivable
- ▶ Fund administration - Lump sum and retirement benefits
- ▶ Transfers in and out of the Pension Fund
- ▶ Cash and bank processes
- ▶ Pension payroll
- ▶ Investments; and
- ▶ Financial statements close procedures.

We will also undertake work in accordance with our IAS 19 protocol to provide information on which relevant admitted bodies of the London Borough of Merton Pension Fund can place reliance when preparing their financial statements.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular in respect of payroll, cash payments and receipts and journal entries. We will carry out this work in conjunction with that for the Merton Council audit. These tools:

- help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the General Purposes Committee.

Use of Administering Authority Payroll Data

As the majority of contributions paid to the Pension Fund are from the Council as administering authority, we would request access to salary data for the Council's employees to assist us with the audit.

Internal audit

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from other work completed in the year, in our detailed audit plan, where issues are raised that could have an impact on the year-end financial statements.

Use of experts

In producing the financial statements, management will place reliance on the work undertaken by experts. We anticipate being able to undertake sufficient procedures such that we will be able to place reliance on the work undertaken by management's experts.

We also anticipate relying on the work of the experts commissioned by the Audit Commission in respect of the work undertaken by the pension scheme actuary appointed by Merton.

We will utilise specialist EY resource, as necessary, to help us to form a view on judgments made in the financial statements. Our plan currently includes the involvement of specialists in pensions.

Mandatory procedures required by auditing standards

In addition to the financial statement risks outlined in section 2, we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

- ▶ Addressing the risk of fraud and error.
- ▶ Significant disclosures included in the financial statements.
- ▶ Entity-wide controls.
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements.
- ▶ Auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting as appropriate, other information published with the financial statements, including the Annual Report.
- ▶ Reviewing, and where appropriate examining, evidence relevant to your corporate performance management and financial management arrangements and reporting on these arrangements.

3.3 Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We have determined that overall materiality for the financial statements of the Pension Fund is £9.124million based on 2% of net assets.

We will communicate uncorrected audit misstatements greater than £456,000 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

3.4 Fees

The Audit Commission has published a scale fee for all authorities. This is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of the London Borough of Merton Pension Fund is £21,000.

3.5 Your audit team

The engagement team is led by Peter O'Neill who leads EY's pension's assurance team. Peter is supported by Michael Yeats who is responsible for the day-to-day direction of audit work, and who is the key point of contact for your finance and pension teams. Peter is planning to retire later this year at which point we will update the General Purposes Committee on the new Pensions engagement partner.

David Wilkinson leads our overall engagement with Merton Council and our relationship with the General Purposes Committee.

3.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the committee cycle in 2013-14. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

We will provide a formal report to the General Purposes Committee in September 2014, incorporating the outputs from our 2013-14 audit. We will also provide a progress report to the March and June 2014 meetings of the General Purpose Committee, and to the pension Fund Advisory Committee, on our progress on the various elements of our audit. From time to time matters may arise that require immediate communication with the General Purposes Committee and we will discuss them with the General Purposes Committee Chair, and Chair of the Pension Fund Advisory Committee, as appropriate.

Following the conclusion of our audit we will prepare an annual audit letter to communicate to you and external stakeholders, including members of the public, the key issues arising from our work.

Our audit process and strategy

Audit phase	Timetable	General Purposes Committee timetable	Deliverables
High level planning:	December 2013 / January 2014		Audit Fee letter (presented to 27 June 2013 General Purposes Committee)
Risk assessment and setting of scopes	December/ January	12 March 2014 Committee	Audit Plan Audit Progress Report
Testing of routine processes and controls	January/ February 2014	26 June 2014 Committee	Audit Progress Report
Year-end audit	July – September	25 September 2014 Committee	Report to those charged with governance Audit report (including our opinion on the financial statements) Audit completion certificate
	November	6 November 2014 Committee	Annual Audit Letter

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

4. Independence

4.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission's Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

4.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. However we have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

Self- interest threats

A self interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved and that are in compliance with the Audit Commission's Standing Guidance

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard 4.

We have considered the relevant guidance and confirm there are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

We have considered the relevant guidance and confirm there are no self review threats at the date of this report

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

We have considered the relevant guidance and confirm there are no management threats at the date of this report

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

We have considered the relevant guidance and confirm there are no other threats at the date of this report

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Peter O'Neill, your audit engagement partner and the audit engagement team have not been compromised.

4.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 28 June 2013 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2013>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2013-14	Actual Fee 2012-13	Explanation of variance
	£	£	
Total Audit Fee – Code work	21,000	21,000	
Non-audit work (provide details)	0	0	

Indicative fee

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ We are able to place reliance, as planned, on the work of internal audit;
- ▶ The level of risk in relation to the audit of accounts is consistent with that in the prior year (where we have prior year experience);
- ▶ Our accounts opinion being unqualified
- ▶ Appropriate quality of documentation is provided by the audited body
- ▶ Effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with you in advance.

Appendix B UK required communications with those charged with governance.

There are certain communications that we must provide to the audit committee of audited clients. These are detailed here:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit including any limitations.</p>	Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Report to those charged with governance
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Report to those charged with governance
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Report to those charged with governance
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Report to those charged with governance
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Report to those charged with governance
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off 	Report to those charged with governance

Required communication	Reference
<ul style="list-style-type: none"> ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY'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"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>For listed companies, communication of minimum requirements as detailed in the ethical standards:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the audited body and senior management ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the ethical standards ▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	<p>Audit Plan</p>
<p>Going concern</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"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<p>Report to those charged with governance</p>
<p>Significant deficiencies in internal controls identified during the audit</p>	<p>Report to those charged with governance</p>
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<p>Annual Report to those charged with governance Annual Audit Letter</p>

EY | Assurance | Tax | Transactions | Advisory

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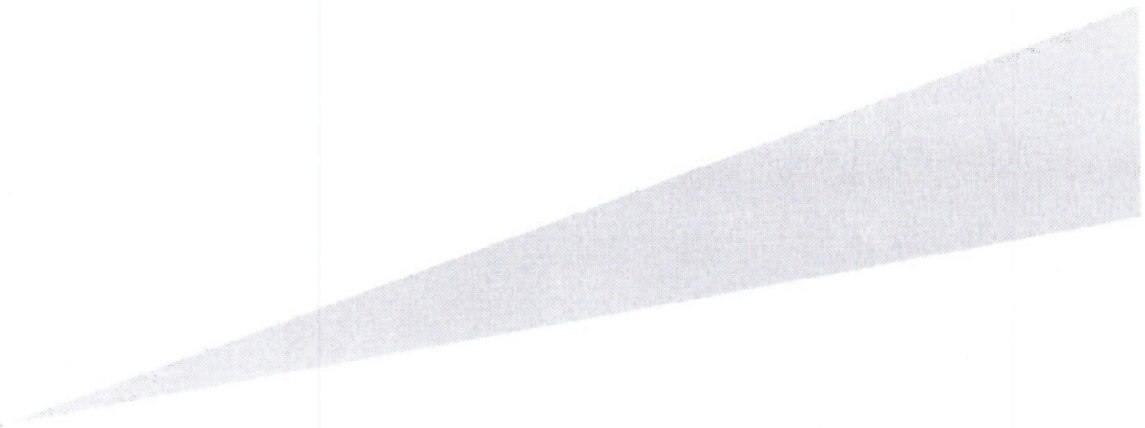
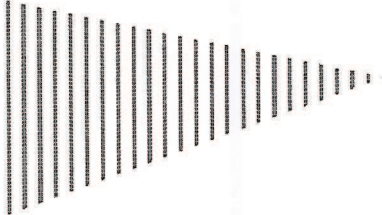
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Merton Council

Audit Progress Report to General Purposes Committee

March 2014

Ernst & Young LLP





Building a better
working world

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RG1 1YE



INVESTOR IN PEOPLE

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

4 March 2014

Dear committee members

Audit Progress Report

We are pleased to attach our Audit Progress Report.

The purpose of this report is to provide the General Purposes Committee with an overview of the stage reached in your 2013-14 audit and ensure our audit is aligned with the Committee's service expectations.

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

This report updates the Committee on our work at the Council. Our programme of work on assessment of your underlying financial information systems and arrangements for securing value for money is in progress.

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

Yours faithfully

Paul King
Director
For and behalf of Ernst & Young LLP
Enc

Contents

1. Work programme.....	2
2. Timetable.....	3
Appendix 1: Audit Progress.....	4
Appendix 2: Letter to management.....	5
Appendix 3: Letter to those charged with governance.....	7

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. Work programme

1.1.1 2012-13 audit

We include our certification and claims report, setting out our work on the certification of the three claims and returns, as a separate agenda item.

1.1.2 2013-14 audit

We presented the fee letter for the 2013-14 audit to the 27 June 2013 General Purposes Committee.

We have held monthly introductory meetings with your finance team over the scope and content of the 2013-14 audit.

We include our audit planning report, setting out our approach to carrying out our 2013-14 audit, as a separate agenda item.

We include our report on our investigation into the allegations made around the appointment and use of consultants by the Council as a separate agenda item.

Letters to management and those charged with governance

We have contacted management and those charged with governance requesting assurances in a number of areas. These requests are set out in Appendix 2 for management and Appendix 3 for those charged with governance. These apply to both the audit for the Council and for the Pension Fund.

Value for money assessment

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

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

1.1.3 Pension Fund 2013-14 audit

We include our audit planning report, setting out our approach to carrying out our 2013-14 audit, as a separate agenda item.

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

2. Timetable

General Purposes Committee timeline

We have set out below a timetable showing the key stages of the audit, including the value for money work and the whole of government accounts, and the deliverables we have agreed to provide to you through the 2013-14 General Purposes Committee cycle.

Audit phase	Timetable	General Purposes Committee timetable	Deliverables
High level planning:	December 2013 / January 2014		Audit Fee letter (presented to 27 June 2013 General Purposes Committee)
Risk assessment and setting of scopes	December/ January	12 March 2014 Committee	Audit Plan Audit Progress Report
Testing of routine processes and controls	January/ February 2014	26 June 2014 Committee	Audit Progress Report
Year-end audit	July – September	25 September 2014 Committee	Report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources). Audit completion certificate
	November	6 November 2014 Committee	Annual Audit Letter

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

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

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

Appendix 1: Audit Progress

Progress against key deliverables

Key deliverable	Timetable in plan	Status	Comments
Fee Letter	by June 2013	Completed	Presented to 27 June 2013 General Purposes Committee
Audit Plan	March 2014	In progress	Agenda item for this Committee
Report to Those Charged with Governance	by 30 September 2014 - submission deadline		Report to 25 September 2014 General Purposes Committee
Audit Report (including opinion and vfm conclusion)	by 30 September 2014 - submission deadline		
WGA Submission to NAO	before early October 2014 - submission deadline		
Audit Certificate	by 30 September 2014		Audit certificate will be issued on completion of our audit
Annual Audit Letter (covering the Council and pension Fund audits)	October 2014		Report to November 2014 General Purposes Committee

Appendix 2: Letter to management

Private and confidential

Caroline Holland
Corporate Services Department
London Borough of Merton
Civic Centre
London Road
Morden
SM4 5DX

28 February 2014

Ref:
Your ref:

Direct line:

Email: DWilkinson@uk.ey.com

Dear Caroline

Understanding your management processes and arrangements

Auditing standards (ISA 240) require us to formally update our understanding of your management processes and arrangements annually. Therefore, we are writing to ask that you please provide a response to the following questions. Please ensure the response covers the processes and arrangements applying to both the Council and the Pension Fund.

1. What are the management processes in relation to:
 - ▶ undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
 - ▶ identifying and responding to risks of fraud in the Authority, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
 - ▶ communicating to employees its views on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Authority's code of conduct);
 - ▶ encouraging employees to report their concerns about fraud; and
 - ▶ communicating to the General Purposes Committee (i.e. those charged with governance) the processes for identifying and responding to fraud or error?
2. What are Management's views about whether there are areas within the organisation that are at risk of fraud?
3. Does Management have knowledge of any actual or suspected or alleged instances of fraud?
4. Is Management satisfied that internal controls to prevent and detect fraud, including segregation of duties, exist and work effectively?
5. Are there any deficiencies in internal control?
6. Are you aware of any instances where controls have been overridden?
7. Is there any organisational or management pressure to meet financial or operating targets?

8. Are there any particular areas of the accounts that are more susceptible to false entries or omissions or other forms of manipulation? Are management aware of any such manipulation having occurred?
9. How does management gain assurance that all relevant laws and regulations have been complied with? Have there been any instances of non-compliance during 2013-14?
10. Are there any actual or potential litigation or claims that would affect the financial statements?
11. How does Management satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

Please would you provide a response by email or letter either on behalf of management or from yourself in your capacity as Director of Finance and Procurement.

Please contact me if you wish to discuss anything in relation to this request. If possible, please could we have your response by 1st April 2014.

Yours sincerely

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

Appendix 3: Letter to those charged with governance

Private and confidential
Counsellor Peter McCabe
London Borough of Merton
Civic Centre
London Road
Morden
SM4 5DX

28 February 2014

Ref:
Your ref:
Direct line:
Email: DWilkinson@uk.ey.com

Dear Peter

Understanding how the General Purposes Committee gains assurance from management

Auditing standards require us to formally update our understanding of your management processes and arrangements annually. Therefore, I am writing to ask that you please provide a response to the following questions. Please ensure the response covers the processes and arrangements applying to both the Council and the Pension Fund.

1. How does the General Purposes Committee, as 'those charged with governance' at the Council, exercise oversight of management's processes in relation to:
 - ▶ undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
 - ▶ identifying and responding to risks of fraud in the Council, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
 - ▶ communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Council code of conduct);
 - ▶ encouraging employees to report their concerns about fraud; and
 - ▶ communicating to you the processes for identifying and responding to fraud or error?
2. How does the General Purposes Committee oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control?
3. Is the Committee aware of any:
 - ▶ breaches of, or deficiencies in, internal control; and
 - ▶ actual, suspected or alleged frauds during 2013-14?
4. Is the Committee aware any organisational or management pressure to meet financial or operating targets?

5. How does the General Purposes Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2013-14?
6. Is the General Purposes Committee aware of any actual or potential litigation or claims that would affect the financial statements?
7. How does the General Purposes Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

Please contact me if you wish to discuss anything in relation to this request. If possible, please could we have your response by 1st April 2014.

Yours sincerely

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

Ernst & Young LLP

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Committee: General Purposes

Date: 12 March 2014

Wards:

Subject: Procurement: Report of the Chair of the Procurement Board

Lead officer: Simon Williams

Lead member: Chair of General Purposes Committee

Contact officer: Peter Stone: Head of Commercial Services

Recommendations:

A. The Committee is asked to consider and note the contents of this report

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. This report provides General Purposes Committee with details of progress in addressing and completing the key recommendations from the audit on corporate procurement, which were reported to General Purposes in March 2013.
- 1.2. The two major recommendations were the development and implementation of a Council Procurement Strategy to form the basis for future activities and secondly, redefinition of the roles of the Procurement Board, to ensure that it plays a more strategic role, central and devolved teams.
- 1.3. This report also highlights the major strategic priorities for the service moving forward.

2. DETAILS

- 2.1 Procurement is defined in the National Procurement Strategy as “The process of acquiring goods, works and services, covering both acquisition from third parties and from in house providers. The process spans the whole cycle from identification of need, through to the end of a service contract or the useful life of an asset. It involves options appraisal and the critical “make or buy” decision which may result in the provision of services in house in appropriate circumstances.” In short, procurement is not simply about obtaining the lowest price, it is a strategic tool to ensure that we receive best value. Procurement in Merton is governed by EU law, UK law and the Council’s own Standing Orders.
- 2.2 Procurement at Merton takes place across all departments and is undertaken through what is known as a “devolved” model. This means that responsible officers in the departments undertake operational procurement for their service areas, while the central team provides strategic support, including specific advice on commercial and EU issues, benchmarking, participation in high profile commercial/procurement exercises as agreed, spend analysis and training. Significant work has taken place over the last

twelve months to ensure that these relationships are clear and work together. This includes robust departmental plans, enhanced contracts register and specific training.

2.3 The first area identified by the audit was the need for a Council Procurement Strategy.

2.4 The Procurement Strategy document, which was in draft form at the time of the audit, has been considered and approved by the Procurement Board, which comprises senior representatives from each Department, all of whom were consulted and provided input into the document. It recognises the role which strategic procurement can play in helping to reshape how services are delivered, focusing on outcomes and best value. A copy of the document is appended to this report.

2.5 The Strategy identifies eight major themes, each of which has underpinning objectives, which will provide the framework for future procurement activity. The themes focus on three basic areas, namely value for money, processes and people and examples from each of these areas are discussed briefly in sections 2.6 to 2.9 below.

2.6 Value for money is all the more important in the unprecedented economic climate we now face. Every pound spent must deliver true value, which can be achieved in many ways, such as proactive spend analysis, contract and market management, all of which are covered in more detail in the Strategy document. Through innovative contracting and collaboration, we will continue to seek sustainable cashable savings.

2.7 Another example of how we will drive value for money and efficiencies is via category management. Grouping together products and services according to their function (eg care, construction, transport and professional services) will help us understand the market in depth, maximise our buying power, and achieve greater economies of scale. We will continue the initiative in the areas described above, with the aim of rolling out the approach across the Council.

2.8 Processes. Continued use of the e-tendering system and contracts register has also improved visibility of spend and has streamlined processes. The register has now been uploaded onto the London Tenders Portal and, together with our spend data, provides valuable and critical information to inform our procurement decisions. This too is reflected in the Strategy and will be developed by the increased use of e-tendering and rolling three year procurement plans.

2.9 People. Implementation and enhancement of the Strategy is dependent to a large extent upon the skills of the officers who undertake procurement and contract management. The Strategy recognises this dependency and a number of initiatives have already been put in place. These include a regular Procurement Forum for all Merton responsible officers, both departmental and corporate, training sessions and toolkits. The forum is accountable to the Procurement Board, with recommendations and updates fed bilaterally.

- 2.10 **The second area identified by the audit was redefining the roles of the Procurement Board, with the aim of the Board operating more strategically, plus the roles of central and devolved teams.**
- 2.11 To recap, the Procurement Board is the primary strategic vehicle through which procurement activity is governed and is chaired by the Director of Communities and Housing. Its main functions are to ensure that procurement is managed competently and legally, to ensure that best value is obtained and maintained and further, to ensure that staff engaged in procurement have the required skills and support.
- 2.12 Over the last twelve months, a number of steps have been taken to ensure that the Procurement Board does operate more strategically and, to focus our thoughts and plans, we ran a workshop last year. This was attended by a cross section of directors and procurement officers and was a valuable exercise, which resulted in a number of positive outcomes.
- 2.13 The first of these is that the level at which procurement activities now come to the Board has been increased to £3m, annual value is greater than £750k, or three or more risk triggers are assessed as amber. These triggers include political or reputational risk and volatility of the market. We now use the Gateway system differently, with the Board spending more time on Gateway 1, to enable us to shape the procurement route being taken and thus operate more strategically.
- 2.14 Planning. We have developed and now have in place detailed strategic procurement plans for each department, encompassing all major procurement exercises. These extend at least three years into the future and allow for enhanced planning, improved risk management and aid category management and identification of efficiency savings. The plans are overseen by the Procurement Board and the oversight includes “deep dives” into individual plans to an agreed agenda, twice yearly. These sessions have already begun.
- 2.15 We now obtain spend analysis routinely and the contracts register is in the public domain. We have worked with Legal and have a set of legally approved terms and conditions as a basis from which to work. We also recognise the need for pro active contract management post contract award and are looking to put in place a set of guidelines for officers involved in this important field.
- 2.16 Operational Procurement Groups have been reinvigorated. These groups are the operational arm of the Procurement Board and one such group exists for each department. Each group is championed by a senior manager who sits on the Procurement Board and who will for example be responsible for presenting the departmental procurement plan at the appropriate “deep dive” session.
- 2.17 **Focus for the next twelve months.**
- 2.18 Continue to build on the work which has already been carried out with departments and centrally to establish a proactive and effective vehicle to identify and capture savings and mitigate commercial risk to the Council. This will include embedding the departmental procurement plans and working with colleagues to develop their Target Operating Models.

- 2.19 Continue to roll out category and contract management across the Council, as mentioned earlier in this Report. Two examples have been given (Transportation and the recently retendered Agency contract). On the latter, the contract has only recently been awarded and we are hoping for savings of around £500,000.
- 2.20 Produce a set of guidelines and advice for colleagues engaged in contract management.
- 2.21 Support and training for procurement staff.
- 2.22 Support colleagues in relation to key cross cutting procurement exercises, such as Social Care Information System, Customer Contact and Domiciliary Care. In parallel, work with neighbouring boroughs to seek out further opportunities for joint and collaborative procurement, together with dissemination of best practice.

3.0 ALTERNATIVE OPTIONS

- 3.1 Nothing specific for this report, although as departmental TOMs continue to be produced, the Procurement Board recognises the need for the structure of Commercial Services to flex to reflect the future shape of the Council.

4.0 CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1 Procurement across the Council is overseen by the Procurement Board. Senior officers were consulted regarding the Procurement Strategy and through working with colleagues across South London and beyond, the Head of Commercial Services is appraised of and can share latest developments and best practice.

5.0 TIMETABLE

Not Applicable.

6.0 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1 Nothing specific to this report, although if there are any issues, eg proposed recruitment, then a business case will be produced and considered by the Procurement Board and Director of Corporate Services.

7.0 LEGAL AND STATUTORY IMPLICATIONS

- 7.1 These are detailed in section 2.1 of the report.

8.0 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1 Nothing specific to this report.

9.0 CRIME AND DISORDER IMPLICATIONS

Not Applicable.

10.0 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1 Nothing specific to this report.

11.0 APPENDICES. THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

11.1 Procurement Strategy

12.0 BACKGROUND PAPERS

12.1 Internal Audit Papers

12.2 Procurement Plans

12.3 Departmental Target Operating Models.

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Procurement Strategy 2013-2016



Foreword

Welcome to Merton's procurement strategy, which outlines our aims for the period 2013 – 2016 and shows how procurement will contribute towards achieving our priorities.

The aim of the strategy is to ensure procurement activities are undertaken efficiently and economically whilst contributing to the realisation of the economic, social and environmental benefits for the borough. The key visions are:

- Efficiency: Ensuring maximum value is obtained through best practice, innovative procurement and a consistent approach
- Governance: Ensuring the Council has appropriate controls, systems and standards to manage procurement risks and comply with legal requirements
- Continuous improvement: Seeking new ways to develop and improve the Council's procurement activities.

The strategy is aligned with the strategic aims and objectives of the Council's business plan and with other corporate and service strategies, plans and procedures. It is based on development of the principles and good practice established through the National Procurement Strategy for Local Government. Strategic procurement is an essential part of the approach by the Council to improve the way it acquires goods, supplies, works, and services, whilst at the same time identifying and capturing savings

The strategy should be read in conjunction with the Council's Contract Standing Orders which set out the regulations to be followed by council employees when engaged in procurement activities on behalf of the council and contains various sections. These will lead to action plans which will be developed and reviewed at least quarterly.

Procurement has a key role to play in ensuring that the Council continues to deliver high quality services to our residents and I look forward to the principles of the strategy becoming embedded into and part of the culture of our organisation.

Ged Curran
Chief Executive

DATE

Contents

Foreword	3
Section 1 - Introduction	4
Section 2 – Objectives and Benefits.....	6
Section 3 - Overview of Procurement.....	7
Section 4 – Key Themes	9
a. Value For Money (VFM)	9
b. Category Management	9
c. Contract Management	10
d. Partnering and Collaboration	11
e. Market Management.....	12
f. Supplier Relationship Management.....	13
g. Developing People and Improving Skills.....	14
h. Systems and Processes	15
Section 5 - Governance Framework.....	16
a. The Corporate Management Team	16
b. Contract Standing Orders.....	16
c. The Procurement Board	16
d. Operational Procurement Group	17
e. Procurement Gateway process	17
f. Financial Regulations and Procedures.....	17
g. Procurement Plans.....	17
h. Procurement Templates and Toolkits	18
i. The Contracts Register.....	18
j. E-Procurement	18
k. Looking to the Future.....	18
Section 6 – Key Actions	19
Contacting Us.....	20

Section 1 - Introduction

Procurement is defined in the National Procurement Strategy as:

“The process of acquiring goods, works and services, covering both acquisition from third parties and from in-house providers. The process spans the whole cycle from identification of need, through to the end of a service contract or the end of the useful life cycle of an asset. It involves options appraisal and the critical ‘make or buy’ decision which may result in the provision of services in house in appropriate circumstances.”

Although the definition is primarily about procurement, it also about the need to secure sustainable services, products and outcomes which meet the needs of the community we serve. Strategic procurement also encompasses collaboration, including the need to develop partnerships, consider delivery options and ensure value for money for every pound spent.

This document sets out the Council’s strategic approach to procurement for the next 3 years. It is not intended to be a procurement manual; however, the principles should be applied to all procurement and commissioning, recognising that procurement must work closely with our health and social care colleagues to deliver value for money from all commissioning and procurement.

Consideration of this strategy is not optional and it should be read in conjunction with the Council’s Contract Standing Orders (CSO’s).

The Procurement Strategy emphasises the continuing importance of sustainable procurement being used to support wider social, economic and environmental objectives in ways that offer real long term benefits to the residents of this borough.

Cost reduction and efficiency targets will not be achieved if the Council fails to approach competition positively, taking full account of the opportunities for innovation and genuine partnerships which are available from working with others in the public, private and Voluntary, Community and Faith Sectors (“VCFS”).

This strategy provides a corporate focus for procurement. It embraces the Council’s commitment to strategic procurement and sets out the Council’s aspirations. It is not a ‘user manual’; more detail on procurement processes and issues will be found in the Contract Standing Orders and on the procurement intranet.

The strategy will contribute to delivering the long term goals of:

- The Business Plan 2013-17
- Community Plan
- Merton 2015 and beyond (Good to Great)

The principal means of disseminating detailed procurement guidance are the Commercial Services Team (CST), and the intranet.

A full suite of procurement documents can be found in the procurement web pages at: <http://intranet/Councilwide/policyproceduresandguidance/procurement.htm>

Section 2 – Objectives and Benefits

The overarching objectives of this strategy are:

- To evaluate and improve current procurement practices to achieve better value for money and to ensure customer/client needs are met
- To ensure best practice examples are identified and applied consistently across the organisation.
- To align procurement activities with other strategies adopted and to ensure that corporate objectives are addressed
- To ensure that current and future procurement activities are planned, monitored, and reviewed effectively including identifying opportunities for collaboration with both private and public sector bodies and the VCFS

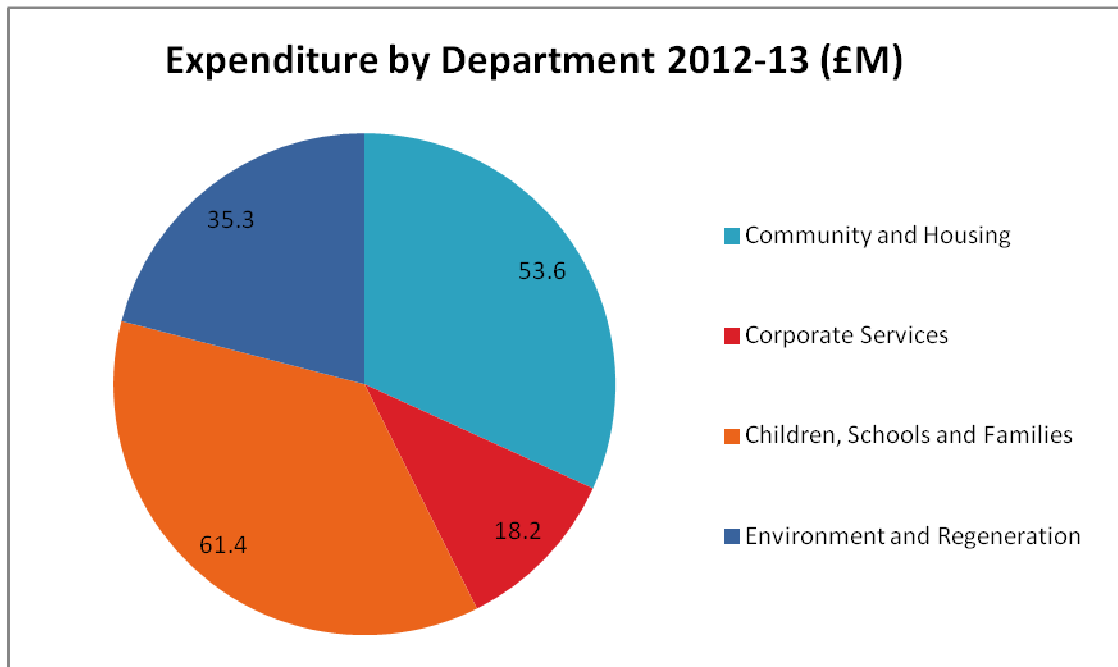
In taking this strategy forward, the Council expects to realise the following benefits:

- Demonstrate continuous improvement and achieve value for money through the efficient procurement of goods and services
- Encourage communication and interaction with local and national suppliers to understand their views
- Develop relationships between the Council, the business community and the broader voluntary sector which create mutually advantageous, flexible and long term relations
- More efficient procurement processes
- Better risk management
- Strategic procurement planning
- Effective spend analysis and measurable cash savings
- Proactive contract management
- Greater use of standard processes and templates
- Compliance with appropriate legislation
- Compliance with Contract Standing Orders
- Collaboration, including with other authorities, local businesses and the VCFS
- Greater use of the E-Tendering system

Our vision for procurement is to provide a first class service for our residents whilst we build on best practice to ensure value for money in all our procurement exercises.

Section 3 - Overview of Procurement

The London Borough of Merton spends approximately £170M each year on goods and services on behalf of Merton's residents. The range of goods and services is varied, but includes services for schools, waste collection, care services for children and adults, maintaining the highways, parks and services, encouraging business growth and major construction works.



Procurement in the Council takes place across all departments and is undertaken in what is called a 'devolved' model. This means that responsible officers in the departments undertake day to day operational procurement.

CST has been set up specifically to provide procurement support, advice and guidance to the departments and responsible officers. The devolved system means that the responsibility and accountability for operational procurement decisions and actions remain firmly with each responsible officer in the departments. CST is part of the Resources division of Corporate Services department.

CST provides the following services:

- Provision of strategic commercial advice as requested
- Specific advice on EU Regulations and associated areas, including latest case law (in conjunction with Legal)
- Benchmarking, identification and promulgation of best practice
- Involvement in high profile tender exercises as agreed
- Spend analysis and the Identification of potential savings opportunities and areas of collaboration
- Participation in key commercial exercises, such as make/buy reviews

- Maintenance of the contracts register. However, responsibility for entering information onto the contracts register and ensuring that the information is up to date and accurate, rests with the departments
- Undertaking a skills matrix and training of officers and elected members
- Engagement with partners and potential partners with the objective of streamlining the procurement process, i.e. making the Council an easier organisation with which to deal
- Providing up to date support via the intranet, toolkits, procurement guidance and advice.

Procurement is not simply about lowest price; instead it is a strategic tool to ensure that we receive best value whilst putting the needs of Merton's residents first. Effective procurement is about managing the whole life cycle of the goods and services we procure, and also ensuring that specifications are right and fit for purpose with clear outcomes and purposes.

A number of improvements have been made, including a strengthened Procurement Board, an enhanced Contracts Register and the implementation of a new E-Tendering system. May 2013 saw the launch of the Procurement Forum, which is designed to bring together all officers who are involved in procurement and commissioning, to disseminate information from the Procurement Board, to embed best practice and to ensure that officers are kept abreast of all relevant procurement matters including changes in law. This will also be used to discuss opportunities for cross cutting and joint procurement will be investigated.

Furthermore, in January 2012 the Council adopted a new Procurement Governance and Gateway process which comprises four key elements: the Procurement Board, the Procurement Gateways, the Operational Procurement Groups and the Risk Assessment Tool. These four elements work together to enable the Procurement Board to exercise effective oversight, control and to provide direction to procurement activity Council wide.

Section 4 – Key Themes

a. Value For Money (VFM)

In the unprecedented economic climate we face, the Council will need to make substantial year on year savings for the foreseeable future. Every pound spent must deliver true value to the community, whether that is by better management of our existing contracts, proactive spend analysis, being more commercially aware, or through reviewing current services and potential delivery models.

Knowing how, where and on what our money is spent will be used to drive a supplier review to maximise savings. Furthermore, we intend to review the supply base and drive additional efficiencies by reducing the overall number of suppliers and to utilise the additional leverage obtained. This exercise will also help us to develop and shape supply markets, define the skills to develop the market and to negotiate better outcomes for the Council and service users.

Strategic Objectives

- Undertake regular spend analysis of the Council's full non-pay spend with recommendations in how to identify and capture efficiencies
- Supply base review and rationalisation
- Make/buy reviews of services, options analysis
- Challenge specifications and assumptions around strategic contracts

b. Category Management

By grouping together products and services according to their function (e.g. care, construction, transport, professional services etc.) the Council can better manage the overall spend, whilst maximising our buying power and achieving economies of scale.

A 'category' is an area of spend determined by known market boundaries separating different products or services. Category Management recognises that suppliers within a certain market are likely to have similarities which enable a tailored approach to procurement.

We will develop our capacity and capability in Category Management to support the major commercial decisions the Council is facing. We will add

value to projects we support, bringing commercial insight and support throughout the commissioning lifecycle. Recognising this challenge we will also develop our staff through a revised professional training programme. It will also enhance their relationship and partnership building skills. This means they will spend less time involved in the administrative task of running tenders and spend more time with customers, commissioners and our major suppliers.

Strategic Objectives

- Develop a suite of category strategies to drive further savings and efficiencies
- Embed a category management approach across the Council
- Category Management specific training programme

c. Contract Management

We will manage our major contracts more actively to drive continuous improvement in performance and efficiency and further develop contract management across the Council. We will provide greater visibility of the performance of our top contracts to help to improve the management of major suppliers and ensure they are delivering against the agreed performance standards.

By reviewing strategic contracts and adopting a more commercial approach to the management of our key contracts we will ensure that improvements and efficiencies are delivered.

We will also work with operational contract managers in departments to build on best practice and provide training in contract management techniques. The outcome of this change will be measured by the monitoring of contract performance and by the identification of improvements in performance levels and additional efficiencies during the life of a contract. Furthermore, as we develop stronger relationships with our key suppliers, we will be recognised as their 'customer of choice' which may lead to increased market intelligence and therefore improve our opportunities for innovation in the marketplace.

Through a clear commercially led approach to contract management, we will ensure a greater focus is directed towards obtaining the required outcomes. This will include increased monitoring and management of supplier performance through robust SLAs and KPIs (including the delivery of community benefits) and where performance is not being achieved, an action and improvement plan will be implemented.

Strategic Objectives

- Reduce non-contracted spend
- Embed contract management principles across the Council
- Hold regular performance meetings with suppliers
- Set clear and proportionate KPI and SLA targets for suppliers
- Link payment to performance (where appropriate)

d. Partnering and Collaboration

Partnering means the creation of sustainable, collaborative relationships with suppliers in the public, private, social enterprise and voluntary sectors to deliver services; carry out major projects; or acquire supplies and equipment.

Partnerships can be beneficial and integrated in service delivery, but it needs to be recognised that this is not an easier contract style; indeed partnering agreements are likely to be more challenging than traditional contracts. A partnership agreement will therefore require careful preparation and procurement. Partnering should be considered when engaging in best value reviews of services as a potential alternative to established methods of service delivery.

When formulating our procurement strategies, we will ensure that we take account of potential opportunities afforded by partnering and collaborating. We will also look at existing framework agreements when considering any future options for procurement and where appropriate the use of any national, regional or pan London procurement arrangements that fit with the Council's strategy.

Collaboration describes the various ways in which councils and other public bodies come together to combine their buying power, to procure or commission goods, works or services jointly or to create shared services. Collaboration is a form of public partnership; its major benefits are economies of scale and accelerated learning.

We will ensure that contractors and partners have priorities which align with those of the Council and that they understand how they contribute to the Council's performance.

The Council will actively participate with other authorities and organisations where appropriate and feasible, to seek economies through joint procurement, joint commissioning, framework agreements and shared services.

Strategic Objectives

- Work with other public bodies to seek joint partnering and collaboration opportunities
- Investigate the greater use of collaborative contracts
- Look to use existing framework agreements where appropriate

e. Market Management

The Council will continue to work with more diverse providers of services. In some areas there are strong markets but in others they are either small or not yet developed. The Council will make full use of all the different methods of delivery available, including joint ventures, public, private and VCFS options.

Through procurement, we will support the growth of local businesses and other organisations by encouraging the use of local suppliers. While staying within the legal constraints of public sector procurement, the Council will encourage local suppliers to work with us, recognising and exploiting the ability to create a positive climate for firms based in Merton. The Council will endeavour to support a thriving local business sector, providing opportunities for suppliers to develop the capacity to win future contracts from the Council and other public sector partners.

This approach recognises that by encouraging sustainable high quality local employment, the Council is reducing the demand and thus cost of other public services. The Council will seek to encourage innovation, improve skill levels in Merton, create jobs and retain money in the local economy.

Strategic Objectives

- Identify where market capacity may be weak and where new markets may need to be developed
- Encourage suppliers to develop innovative approaches
- Foster a collaborative approach to procurement
- Work to increase the proportion of spend with SMEs and VCFS
- Take steps to promote and encourage local economic growth e.g. reducing the barriers to SME and VCFS participation
- Hold regular supplier engagement events

f. Supplier Relationship Management

The Council will build strong, long term, positive relationships with suppliers across all sectors, not just when actively procuring goods and services but also when considering alternative delivery models e.g. social enterprises. The Council will establish strategic relationships with suppliers to ensure that both parties are delivering against the commitments within the contract and also build upon mutual experience and knowledge to embed continuous improvement practices throughout the contracted period. Effective engagement with suppliers will also inform future specifications. This will ensure that the Council is approaching the market place with requirements which meet clearly defined needs and are commercially attractive to potential bidders.

The Council commits to making all procurement activity fair and transparent and to encourage a diverse range of potential bidders to participate.

A suite of standardised documents and contracts will be developed for use across the Council to ensure consistency and to make the procurement process more accessible to suppliers.

Strategic Objectives

- Engage with key suppliers in all sectors
- Robust contract management
- Explore new models of service delivery and welcome dialogue with communities and suppliers to establish new and innovative procurement practices
- Encourage a diverse range of suppliers to work with the Council

g. Developing People and Improving Skills

Procurement is a key activity in sourcing the skills, services and supplies required by the Council to deliver community outcomes. The officers who undertake procurement and contract management activity are vital to the successful delivery of the Council's strategic procurement objectives.

The required capacity and skills will continue to be developed in departments with support and guidance from CST.

CST will develop other ideas to encourage officer participation. These will include the offering of regular 'drop-in' sessions which will allow any topic of interest to be discussed informally. Also, specific targeted training will be developed and made available to officers/teams and divisions as required.

Regular procurement forums for all Merton responsible officers will continue to be offered. Active participation will be encouraged by the use of focus and working groups on specific topics of interest, such as toolkits, market engagement and benchmarking.

The forums will:

- Bring together all professionals across the Council working on procurement activity into a single forum
- Provide a platform for evidence sharing and best practice (both internal and external)
- Introduce and embed a co-ordinated and consistent Merton approach to procurement
- Identify savings and efficiencies opportunities

The forum is a reference group, accountable to the Procurement Board, with recommendations and updates to be fed bilaterally.

Strategic Objectives

- Provide a career path for practitioners of procurement with clear roles and responsibilities – including CIPS, where appropriate
- Provide skills and training and learning & development opportunities for officers
- Ensure that procurement best practice advice is available via the Procurement Toolkit

h. Systems and Processes

Continued use of the E-Tendering system has improved compliance and at the same time it has streamlined the tendering processes.

The contracts register has received a refresh and is now part of the E-Tendering suite which is in the public domain so that any interested parties may view it. This has led to greater visibility of Council spend which will be fed into procurement and resource planning and should lead to greater opportunities for efficiency savings.

It will also make it easier for members of the public to have their requests under the Freedom of Information Act 2000 (FOIs) answered quickly and efficiently.

Ensure council and departmental rolling 1-3 year procurement plans are produced each financial year and kept up to date.

Strategic Objectives

- Maintain an up to date contracts register
- Increased use of the E-Tendering system
- Investigating the strategic use of E-Auctions
- Training in the use of the procurement toolkit
- Develop a comprehensive rolling 1-3 year procurement plan

Section 5 - Governance Framework

Merton's procurement is governed by EU law, UK Law and lastly by Merton's own rules for procurement which are the Contract Standing Orders. These laws and processes are mandatory for officers of Merton to follow.

a. The Corporate Management Team

The Corporate Management Team (CMT) will continue to initiate and lead all procurement activity and endorse and support adherence to the procurement Strategy across the Council. CMT will set the strategic direction of the Council, empower officers and hold officers to account in the delivery of the strategy.

b. Contract Standing Orders

The Council will comply with the wide range of legislation, regulation and guidance which governs procurement. The Council's Contract Standing Orders for procurement have been revised in line with the latest legal and operational requirements and came into effect on 1 April 2012. Adjustments to the existing thresholds and delegations were made and provide the ability to improve the speed and simplicity of procurement activities and authorisations. Adherence to the Contract Standing Orders will be enforced to ensure the highest standards of probity and compliance, one of Merton's principles underpinning procurement activity.

c. The Procurement Board

The Procurement Board is the primary strategic agent through which procurement activity is governed. The Procurement Board is made up of senior management officers and procurement professionals and is chaired by a Director.

The main functions of the Procurement Board are:

- Oversee the production and management of the procurement strategy
- Assure that procurement is managed competently and legally
- Ensure changes in legislation e.g. The Social Value Act (2013) and best practice are embedded in the Council's procurement practices
- Assessing whether procurement is achieving best value for the Council
- Ensuring that staff engaged in procurement have the required skills
- To be responsible for the Operational Procurement Groups (OPG)

d. Operational Procurement Group

The OPGs are the operational arm of the Procurement Board, and are the means through which departmental procurement activity is planned and co-ordinated. One OPG exists for each department and the Groups co-ordinate, risk assess and manage the flow of all procurement activity. Each group is championed by a departmental procurement lead who also attends the Procurement Board.

e. Procurement Gateway process

It is a risk based approach which uses a series of minimum criteria and risk triggers to determine which procurement activities will come to the Procurement Board.

Projects will automatically come to the Procurement Board for review where:

- the total value is over £3m (or annual value over £750k), or
- the decision to award the contract is to be made by Cabinet, or
- three or more risk triggers are assessed at amber level or greater. These include political or reputational risk, impact of failure on service user and maturity or volatility of the market.

f. Financial Regulations and Procedures

The Financial Regulations and Procedures are the internal rules applicable to Merton's financial processes and these have also been reviewed to take account of current and recent changes in procurement practice e.g. use of Framework Agreements. Within the options appraisal carried out for each procurement project there will be included due consideration to the methods of financing the project available i.e. capital borrowing, leasing, and other alternatives.

g. Procurement Plans

These plans identify the required strategic procurement activities for a period extending 1-3 years into the future. The departmental procurement plans inform the Corporate Procurement Plan, which will encompass all major procurements due in the following 1-3 years. This will allow for enhanced planning and scheduling, improved visibility and improved risk management for the Council's major procurement activities. The Corporate Procurement Plan is overseen by the Procurement Board.

h. Procurement Templates and Toolkits

The 'Procurement Toolkit' is available to officers via the Procurement Intranet pages and it provides specific procedural guidance and templates for procurement activity.

The Council will review and keep these up to date. It is against this procedural guidance that individual compliance will be measured to ensure best practice, legal compliance and whether there is any off contract spend.

The CST will be working with departments to improve the current toolkit and templates.

i. The Contracts Register

The Contracts Register is a Council-wide record of all contracts that the Council has entered into above the value of £10,000.

The Contracts Register is now hosted via the London Tenders Portal as part of the Council's E-Tendering system. Responsible Officers must ensure that all contracts are entered onto it and that they are kept up to date.

The Contracts Register will continue to be a key component to co-ordinate and risk manage procurement activity at the corporate level and will assist with FOIs.

j. E-Procurement

In January 2011 the Council invested in an E-Tendering system called Pro-Contract. The system provides officers and suppliers with an effective and efficient way to electronically manage tender and quote processes. The system is designed to allow staff to conduct requests for quotations and tenders online, much more quickly and also to allow potential suppliers to respond without the need to complete numerous paper forms.

We will ensure that the benefits of E-Tendering continue by the promotion and monitoring of the system. The use of the E-Tendering system was made mandatory in the new CSOs which came into effective on 1 April 2012.

Improved use of the E-Tendering system will provide corporate visibility on spend and prevent duplication of processes. Improved corporate visibility will in turn allow greater scrutiny of the management of spend across the Council.

k. Looking to the Future

We are investigating the use of E-Auctions as a way of saving additional monies.

Section 6 – Key Actions

A procurement action plan will cover the principal objectives detailed in this strategy document.

To help us achieve our vision, there are five key actions we are taking:

1. Implement our people development plan, putting in place a new programme of training, coaching and mentoring
2. Roll out stronger contract and supplier management across the Council for key contracts, identifying clear roles and responsibilities and providing professional support for service teams
3. Develop a rolling three year corporate procurement plan, incorporating robust departmental plans
4. Provide an updated procurement toolkit and templates for responsible officers
5. Increased use of partnerships and collaboration with other organisations to drive greater efficiencies

By 2016, we will have:

Delivered substantial cost savings through strategic contracting, to help meet the Council's budget targets

Developed a best-in-class service which is highly responsive to the needs of customers, and is valued by them as a strategic partner in developing their own plans

Encouraged greater levels of spend with local suppliers and have thriving relationships with local businesses and VCFS communities, within the parameters of European Procurement Regulations and CSOs

Established strong partnerships with other public sector bodies to leverage best value for money

Contacting Us

Please contact us if you have any questions, comments or feedback about the Procurement Strategy:

E-mail: procurement@merton.gov.uk

Phone: 020 8545 3736

Other useful websites

Audit Commission <http://www.audit-commission.gov.uk>

Comprehensive Performance Assessment

<http://www.audit-commission.gov.uk/cpa>

Department for Communities and Local Government

<http://www.communities.gov.uk>

Improvement and Development Agency, (I&DeA)

<http://www.idea.gov.uk>

Local Government Association

<http://www.lga.gov.uk>

Regional Centre of Excellence

<http://www.rcoe.gov.uk>

Committee: General Purposes Committee

Date: 12 March 2014

Agenda item:

Wards:

Subject: Internal Audit Plan, Strategy and Charter 2014/15

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Chair of the General Purposes Committee

Forward Plan reference number: N/A

Contact officer: Margaret Culleton – Head of Audit & Investigations

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Recommendation:

- A. **That members review and comment upon the Draft Internal Audit Plan 14/15 and the Draft Internal Audit Strategy and Charter.**
-

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. The Draft Internal Audit Strategy, Audit Plan and Audit Charter 2014/15 are included in Appendix 1.

2 DETAILS

- 2.1. The Internal Audit Plan has been compiled using the following planning mechanism:
- The Corporate Risk Register
 - Financial systems work required by external audit
 - Strategic audit plan and audit previously identified as limited
 - Areas of concern arising from fraud investigations and Whistleblowing concerns.
 - Departmental requests
 - Best Practice and knowledge of significant new initiatives
 - The Contracts Register
 - The Capital Programme
 - Service Plans

- 2.2 The Head of Audit & Investigations provides copies of the draft plan to department directors and attends the departmental management teams where they may request audits to be added to provide assurance on their areas of risk. Comments are also obtained from their Heads of Services and key managers, business partners, departmental finance advisors.
- 2.3 Final Audit reports are sent to Directors and Heads of service as well as the business partners, in order to improve efficiencies.

Anti fraud work

- 2.4 Audit days are included in the audit plan for joint working with the investigation team, and also Council-wide anti-fraud initiatives such as on-line fraud training and updating of anti fraud policies.
- 2.5 Other anti-fraud work is, as far as possible, integrated into individual audits, e.g. an audit of payments would evaluate the controls in place that mitigate the risk of fraud and error. Fraud alerts and information provided by London Audit Group provide areas of potential fraud risk to the authority. Audits are included in the plan where risk is considered high.
- 2.6 The investigation team will be carrying out a range of anti fraud work, these include: - Housing Benefit fraud, NFI data matching, Recruitment fraud and emerging fraud risk

Information Technology audits

- 2.6 The Internal Audit section will cover non specialist IT work, such as reviewing the controls in place on the main financial systems. Internal Audit also inputs into advice on new systems.
- 2.7 Where IT audits are of a specialist nature, they require the detailed technical knowledge and expertise of a skilled IT practitioner. A budget has been provided to Internal Audit to buy in external support for this function.

3 ALTERNATIVE OPTIONS

- 3.1. None for the purpose of this report.

4 CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1. The draft Audit Plan has been sent to all Chief Officers who have consulted with their management teams. The Head of Audit & Investigations met with the departmental business partners and financial advisors and has taken into account their comments.

5 TIMETABLE

- 5.1. The Internal Audit Plan will be the basis of Internal Audit's programme of work throughout the 2014/15 financial year. The timing of individual audits is considered in consultation with the Departments where possible.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1. The audit plan is completed within the provision of existing resources.

7 LEGAL AND STATUTORY IMPLICATIONS

- 7.1. The requirement to maintain an Internal Audit function is defined within legislation, some of which is outlined below:-

- a) Section 151 of the **Local Government Act 1972** requires each Local Authority to *make arrangements for the proper administration of their financial affairs and to ensure that one of their officers is made responsible for the administration of those affairs.*
- b) The **Accounts and Audit Regulations 2011** require the responsible financial officer of a body, whose accounts are to be audited in accordance with Part III of the Local Government Act 1982, '*A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control*'

- 7.2. The Director of Corporate Services is the designated officer responsible for ensuring compliance with these pieces of legislation. In a similar manner to a private company:-

- a) Elected Members will look to the Director of Corporate Services to provide them with an assurance as to the adequacy of the Authority's financial systems and system of internal audit.
- b) Chief Officers will also seek an assurance that the financial dealings within their departments meet the standard required.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 8.1. 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 and 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.

9 CRIME AND DISORDER IMPLICATIONS

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

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1. The Audit Plan has a risk assessment formula built into the processing. This takes such aspects as expenditure, income, and previous audit findings into account and calculates priorities and the frequency of the audit.

10.2. In addition to the audit risk assessment formula the Corporate Risk Register is consulted during the production of the Draft Plan.

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

- Appendix 1 - Merton's Draft Internal Audit Strategy, Audit Charter and Internal Audit Plan 2014/15

12 BACKGROUND PAPERS

12.1. Papers held within the Internal Audit Section

INTERNAL AUDIT
STRATEGY, AUDIT PLAN AND CHARTER
2014/15



Contents

	Page
Introduction	3
Responsibilities and Objectives of Internal Audit	3
Internal Audit's Role in the Risk, Internal Control and Assurance Framework	4
Key Issues and Priority Areas for 2014/15	5
<ul style="list-style-type: none"> • Governance Arrangements • Key Financial Systems • Transformation • Risk Management • ICT and Information Governance • Partnerships • Contracts, Procurement and Major Projects • Counter Fraud • Implementation of Agreed Audit Recommendations 	6
Internal Audit's Role in Fraud and Corruption	7
Related Documents	
Internal Audits role in advice	8
Audit Resources and Skills Audit	8
Training	
Protocol for Audit Reviews	9
External Audit	9
Implementation of Agreed Audit Recommendations	9
Annual Audit Plan 2014/15	10
The three lines of defence	10
Our Performance Management	12
A Detailed Annual Audit Plan 2014/15	13-19
B Audit Charter	20-26
C Service Performance Targets	27

Introduction

This document sets out the council's Internal Audit Strategy and Annual Audit Plan for the year 2014/15.

The purpose of the Internal Audit Strategy and Annual Audit Plan is to:

- Ensure effective audit coverage and a mechanism to provide independent and objective overall assurance to Members, Director of Corporate Services and the Corporate Management Team (CMT);
- Optimise the use of audit resources available, given that they are limited;
- Add value and support senior management in providing effective control and identifying opportunities for improving value for money;
- Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations 2011

Responsibilities and Objectives of Internal Audit

As an independent appraisal function within the authority, the primary objective of Internal Audit is to review, appraise and report upon the adequacy of the control environment comprising the systems of governance, risk management and internal control as a contribution to achieving the council's objectives and the proper, economic, efficient and effective use of resources.

In addition, the other objectives of the function are to:

- Support the Director of Corporate Services to discharge "Proper Officer duties" (S151 responsibilities)
- Provide an Anti Fraud function
- Contribute to the overall effectiveness of corporate governance in the council's activities
- Promote the council's anti fraud policies
- To provide assurance to management on the integrity, effectiveness and operation of the council's internal control system;
- Delivery of the Annual Audit Plan
- To be responsive to transformational change and service demands;
- To continue to meet the requirements of the council's external auditors;
- To follow up on agreed actions to ensure agreed they have been fully implemented;
- To continue to develop and have a lead in the council's corporate governance arrangements including production of the 'Annual Governance Statement' to provide assurance on the council's governance arrangements and any areas for improvement.

Internal Audits Role in the Risk, Internal Control and Assurance Framework

The Accounts and Audit Regulation 2011 require an annual review of the effectiveness of its system of internal audit to be reported to the General Purposes committee for consideration. The system of internal control is broader than just the work of the internal audit section and includes the framework of assurance covering how the risks to the authority are identified with effective managed controls. Assurances are provided by a range of internal and external providers. The Head of Audit & Investigations will assess whether the overall framework of assurances is adequately designed and effectively operated through a plan of internal audit work.

In addition to the above, the Director of Corporate Services has a statutory duty under Section 151 of the Local Government Act 1972, to establish a clear framework for the proper administration of the local authority's affairs. To perform that duty the Section 151 Officer relies on, amongst other things the internal audit work for reviewing systems of internal control, financial management and other assurance processes.

The standards for 'proper practice' in relation to internal audit are laid down in Public Sector Internal Audit Standards (effective from 1st April 2013). We continually ensure compliance with these professional standards and reflected in our terms of reference contained in our Terms of Reference, shown at Appendix B.

The standard and quality of internal audit is principally scrutinised in three ways:

- An annual review of the effectiveness of internal audit required by the Accounts & Audit Regulations 2011 reported to the General Purposes Committee
- The external auditor seeks to place reliance upon the quality and standard of work our work through principally the 'managed audit' process and reports this to the Council in the annual audit and inspection letter
- Customer feedback and perceptions

This gives an overall assurance on the adequacy of internal controls within the Council in the Annual Report and the Assurance Statement.

In order to give such an assurance, a balanced programme of Internal Audit review is constructed each year. This Audit Plan contains elements of all audit work assessed by a "Risk Based" approach. There are many elements to this including undertaking systems reviews, regularity audits (e.g. schools), contract and computer audit, and an Annual Review of major financial systems such as Council Tax, the Financial Ledger and debtors/creditors systems.

In order to contribute to the Annual Governance Statement all Internal Audit reports give an audit assurance as follows:

- Substantial Assurance
- Satisfactory Assurance
- Limited Assurance
- No assurance

In addition each recommendation is given a high, medium or low risk priority. All recommendations are followed up by Internal Audit to ensure that they have been implemented.

Key Issues and Priority Areas for 2014/15

Having regard to the current risk profile of the council, the following areas have been identified as key issues and priority areas of our work for 2014/15

Governance Arrangements

The council's governance framework covers all aspects of its business, including risk management, internal control and ethical standards. We have a key role to play in assessing the effectiveness of governance arrangements by comparison with principles contained in the CIPFA/SOLACE Governance Framework (Delivering Good Governance in Local Government, 2007). A number of audits will support this assessment and will take account of the emerging governance arrangements as the council implements its new operating model. The statutory Annual Governance Statement will be produced in June, for approval by the General Purposes Committee and then signed by the Leader and Chief Executive.

Key Financial Systems

The effectiveness of controls and management of risks within key financial systems remains a core part of our audit work. This work is important in providing annual assurance to the council and to meet the requirements of the External Auditor. We continue to develop our audit approach to give greater assurance and ensuring it meets the External Auditor's requirements, including carrying out testing to assist with the annual audit of accounts.

Transformation

Considering the significant financial challenges facing the public sector and the council's continuous transformation program, our Annual Audit Plan will need to be flexible enough to respond to emerging issues and risks from change.

Value for money (VFM) will continue to be an integral part of our risk based audit approach, in particular being alert to opportunities and ensure reporting of issues raised and agreed management actions from audit recommendations. In addition we will support transformation projects, consider changes to the control environment and risk exposure and provide assurance on program management and realisation of benefits.

Risk Management

We will assess the council's risk management arrangements, including risk management strategy, adequacy of strategic and operational risk registers, risk reporting and the extent to which it is embedded. The Head of Audit & Investigations is a member of the Corporate Risk Management Group.

ICT and Information Governance

Information technology is fundamental to the delivery of the council's services and is an area of rapid change. Due to this high risk to the council, providing assurance on the adequacy of electronic systems and controls is a key part of our Annual Audit Plan. Our work recognises the pace of change and adoption of new information technology and as such will be well informed to focus our resources on areas of highest risk and benefit.

Partnerships

The council is increasingly operating and delivering services jointly through partnerships. This also brings risks and opportunities to the council and the delivery of services. We will continue to review key partnerships and also work with auditors from partner organisations for effective coverage and assurance.

Contracts, Procurement and Major Projects

Changing approaches to procurement and contract management are a key part of delivering improved services. This also brings additional inherent risks that need to be managed. Major projects also represent a high risk to the council in terms of corporate importance and resources. Our audit work will continue to focus on embedding risk management and controls.

Anti Fraud and Corruption

The Head of Audit & Investigations will also seek to develop pro-active anti-fraud work through a series of specifically focused reviews into areas of high risk of fraud or irregularity.

The investigation team will undertake specific anti fraud exercises, as follows:-

- Housing Benefit fraud – Investigations on this area will continue until further clarification is obtained on the Single Fraud investigation service. Date is currently to be confirmed and could be between October 2013 and March 2015.
- NFI data matching- review of the results of these matches in a range of areas.
- Recruitment fraud- review of the vetting process in place and proactive fraud checks undertaken
- Partnership working with our main housing association on tenancy fraud.
- Work will be undertaken on those areas of emerging fraud risk identified by the Audit Commission in their fighting fraud locally publication. These are on Business Rates, Social Fund and Local Welfare Assistance, council tax reduction, personal budgets.

There will be joint working between auditors and investigators, depending on the type of fraud investigation. Internal Audit will also identify areas of control risks and make appropriate recommendations to reduce the risk of further fraud occurring.

Anti fraud training will be provided to services in the council as required.

Related Documents

This document is one of a series that, together, constitute the policies of the authority in relation to anti-fraud and corruption. The other documents are:

- Anti-fraud and Corruption Strategy
- Anti-Money Laundering Policy
- Whistle-blowing policy

Internal Audit's Role Providing Advice

Internal Audit can provide support and advice to managers, particularly regarding the interpretation and application of Council Policies and Procedures.

Internal Audit advice and recommendations are given without prejudice to the right of Internal Audit to review the relevant policies, procedures and operations at a later date.

We provide advice, support and training to schools. We provide templates for schools to improve controls and share best practice. We also issue a guidance manual to schools called 'On the Right Track 5' which covers guidance on all areas of good financial practice.

In order to establish an audit presence and to create sound informal lines of communication as much audit work as possible will be done on location.

Audit Resources and Skills

The staffing structure of the section comprises a mix of qualified, experienced, technician and trainee auditors, with a mix of professional expertise to reflect the varied functions of the section. There is a sum available in the Internal Audit budget to buy in some expertise from external suppliers of internal audit services; this will be used to purchase IT specialist skills.

As far as is practicable, Internal Audit will not participate in the day-to-day operation of any systems of internal financial control. However, in strict emergency situations only, audit personnel may be called upon to carry out non-audit work on a short-life basis.

Members of the internal audit section will be expected to contribute to the general management and conduct of business through membership of working groups and participation in ad hoc exercises. Upon request from the Director of Corporate Services, appropriate specialists from departments other than Corporate Services should be made available to take part in any audit or review requiring specialist knowledge.

The Head of Audit & Investigations will carry out a continuous review of the development and training needs of all audit and investigation personnel and will arrange in-service training covering both internal and external courses.

Protocol for Audit Reviews

For each audit review carried out, the responsible Head of Service/Assistant Director, and Service Manager will be consulted in the scoping to ensure that the audit is appropriately focused on current key perceived risks and issues. A terms of reference (Audit Brief) will be produced for each audit review and agreed to ensure the scope, objectives, approach, timetable are understood and agreed.

Draft internal audit reports will be issued for discussion with the appropriate levels of management and normally set-out in the terms of reference.

Final internal audit reports will be issued after the agreement of draft reports and contain completed management actions plans that will identify those responsible for implementation and timescales. The final reports will always be issued to the 'Lead Client' responsible for the area reviewed.

External Audit

We work closely with the council's external auditors to minimise duplication and maximise the benefits the council receives from total audit resources. We will continue to ensure full reliance is placed on our work and continue to seek opportunities for minimising the external audit fee.

Implementation of Agreed Audit Recommendations

At the end of each audit review, an audit report will be produced containing agreed management actions to audit recommendations made. We will ensure these agreed actions to audit recommendations are fully implemented to ensure improvements to the council's control environment and value for money. We will follow-up on all audit recommendations. We will get confirmation from officers responsible for implementation that required actions have taken place.

Developing the Annual Audit Plan 2014/15

The methodology used for developing the Annual Audit Plan focuses upon the quantification of the risks associated with achieving corporate and departmental objectives. Auditable areas have been selected and prioritised on a rational and objective basis following a systematic assessment using the following predictive factors:

- Control and previous assurance;
- Corporate importance including criticality to the achievement of priorities, legislative and regulatory impact;
- Materiality;
- Value for money and service delivery; and
- Corporate sensitivity and management concern.

The predictive factors are used to determine a risk rating of high, medium or low to reflect the inherent risk or vulnerability. We ensure our coverage is proportionate and appropriately aligned.

Based on past experience and good practice, the Annual Audit Plan includes a contingency for unplanned work requirements to ensure we are able to respond to

changing needs and demands.

The Annual Audit Plan will be indicative and it is inevitable that changes will be made during the year as the risk profile of the council changes. This will be achieved through ongoing review and amendment, in consultation with the relevant lead clients and service managers to reflect the changing needs of the council and to add maximum value.

The General Purposes Committee will be kept informed of progress against the Annual Audit Plan and agree any significant changes during the year.

The three lines of defence

There are three lines of defence in place on controls in the council. The first line of defence is the day to day operational controls, the second line is the management controls which include trend analysis, budget monitoring etc. The third line of defence is independent inspection such as Internal Audit or other assurance providers.

In formulating the Annual Audit Plan, consideration has been given to the work of other assurance providers, both internal and external. Examples include:

- Operational managers identifying, managing risks and improvement actions; (1st line of defence)
- Oversight functions such as finance, commercial services, Legal and Health & Safety (2nd line of defence)
- Independent assurance providers such as internal audit, external audit, inspectors (3rd line of defence)

Internal audit provides assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the first and second lines of defence achieve risk management and control objectives

Annual Audit Plan 2014/15

Appendix A shows the detailed Annual Audit Plan and provides a brief summary of each review under thematic areas.

Contingency has been provided for unplanned reactive work. This will be used to respond to emerging issues, risks and to have the capacity to respond to requests from senior managers.

Timing of the audit review will be agreed with management during the planning process. There is however flexibility to respond for example to pressures on services audited and audit resource availability.

In addition to the General Purposes Committee receiving regular progress reports against the plan, Corporate Management Team Members will be provided with progress reports as necessary through the year summarising the outcome of reviews and other audit work for the quarter and planned for the quarter ahead. The Head of Audit & Investigations will also attend Management Team meetings as required, to discuss audit coverage and outcomes.

Our Performance Management

To achieve planned coverage, deliver a high standard of customer care and demonstrate effectiveness of the service, we have well established performance targets based on best professional practice and easily comparable with other organisations.

Performance indicators and targets are shown at Appendix C for six aspects of our service:

- Effectiveness of time
- Productivity and process efficiency;
- Quality of output;
- Compliance with professional standards;
- Outcomes and degree of influence; and
- Our Staff.

We will ensure continuous improvement of the Internal Audit Service and adopt new approaches. It is regularly benchmarked with other public sector providers to ensure efficient, effective and competitive.

Internal Audit Plan 2014/15

	Days
Cross cutting (more than 1 department)	244
Corporate Services	127
Children's Schools and Families	98
Community and Housing	110
Environment and Regeneration	124
IT audits	50
Financial systems	75
Support	165
Total	993

Corporate Cross Cutting 14/15

Area of Review	Description of work	Days
Annual Governance Statement	To produce Annual report for use in the AGS and attendance at AGS meetings	20
Procurement Card expenditure	To select a sample of high value procurement card users and check compliance with procedures	15
Contract Compliance	To review a sample of procurement expenditure within all areas of the council and test compliance to CSO.	12
Fees and Charges	To provide assurance that the council has a clear policy on levying fees and charges for services it provides to external customers across the council and that fees and charges are annually reviewed and correctly charged to customers in accordance with financial regulations	8
Oyster cards	Review of the use of Oyster Cards, to ensure that there is sufficient monitoring and control over the use of these cards. A sample will be selected from all departments	10
Data Protection	A review of a sample of areas to ensure compliance with processing of data, through inappropriate use, retention, access or inaccuracy of personal data, through change in processes or staff	15
Trusts	Arrangements in place for managing trusts	10
Frauds	To undertake whistleblowing investigations on areas of procedural weakness. To also assist the investigation staff on fraud investigations	60
Pro active fraud training	To provide training for areas in the council that deal with cash income or other areas of fraud risk	15
sickness/absence management	Review of the arrangements in place for the Management of sickness absence and the extent of compliance across departments with Council policy and review and monitoring arrangements in department	10

Business Continuity/disaster recovery	To ensure that appropriate and coordinated business continuity plans are in place within the Council and with local businesses which meet the emergency requirements of London Borough of Merton and to ensure that disaster recovery processes are in place	12
Agency and temporary Staff	To review the use of agency and temporary staff, the process in place for authorising the use and the review and monitoring.	15
APS cards	Review of new APS cards used in place of the previous imprest account to provide funds to vulnerable families. To review the use of these cards in C&H and CSF	12
Risk Management	Assessment of the effectiveness of risk management arrangements throughout the council.	15
Corporate procurement	To review the effectiveness of corporate procurement.	15

244

Corporate Services		14/15	Days
Customer services	CHAS Scheme	review of the new company arrangements for CHAS to ensure robust procedures are in place	12
Customer Services	Blue Badges and concessionary fares	Review of procedures for administering blue badge and concessionary fares, to include taxi card scheme and freedom passes. Audit to include proactive fraud work in relation to duplicate cards.	15
Customer services	Local Welfare Support Scheme	Review of the Council's arrangements for administration of the new local scheme for Council Tax	12
Customer services	Registry office	Review of income and expenditure and control of certificates.	12
Customer services	Bailiff service.	Review of bailiff service including a review of the controls on cash handling	10
Corporate Governance	Health & Safety	Review of the arrangements in place for managing the risk of asbestos	8
Resources	Petty Cash Imprest	To review the councils arrangements in place for petty cash imprests	10
Resources	Monitoring of Schools returns	Systems review of the information from the schools and monitoring of this area.	10
Resources	Merton and Sutton Joint Cemetery Board-	review of grant claim	8
HR	Recruitment	To review the robustness of the council's employee vetting procedures and recruitment process making comparison with best practice and third party data sources. The review will include compliance with the Information Safeguarding Authority's requirements and employees rights to work in the uk	15

HR	Corporate Review of DBS Checks	Review compliance with statutory requirements and Council policy and the 'process for safeguarding personal information received across all departments (CRB now DBS)	15
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127

Children's Schools and Families

2014/15

Days

Children Social and Youth	Children Social Care Contracts	Review of commissioning process, to ensure that it is transparent, robust, and rigorously followed. review of contract in place to include 16+accomodation	15
Education	Schools - Probity reviews	Financial and Governance reviews of a sample of nine schools selected based on risk methodology,	48
Children Social and Youth	Troubled families grant	Review of troubled families grant claims	8
Children Social and Youth	Respite Care Unit-Brightwell.	Review of the financial controls in relation to income and expenditure	5
Education	Schools utility	Review of a sample of schools commissioning arrangements for utilities	10
Education	Youth Service	Follow-up review on previous audit report, in particular a review of procurement cards and expenditure	10

98

Community and Housing**14/15**

		Details	Days
Libraries	Review of libraries- arrangements for managing income, review of petty cash, procurement cards etc.	To review controls in place around income and expenditure. To include the use of procurement cards/imprest accounts	15
Housing	DFG Housing funding- review of Disabled facilities grants	A regularity audit which reviews the procedures relating to the entitlement of grant, calculation of the grant and appropriate division of duties and authorisation.	10
Direct Provision	Review of residential homes - Meadowsweet and Riverside	To review controls in place around income and expenditure. In relation to client monies and to the use of procurement cards/imprest accounts	15
Direct Provision	Mascot Service	Review of the income and expenditure arrangements in place for the Mascot service. Scope of audit coverage to be agreed	10
Commissioning	Home Care contracts	This audit will examine systems and procedures for the management and monitoring of Domiciliary care contracts to ensure that these contracts provide value for money	15
Commissioning	Supporting People	A systems based review covering all the financial aspects of the scheme and the administration of payments made under the scheme.	15
Public Health	Public Health	To review new Public Health arrangements following transfer April 13. In relation to the commissioning arrangements	15
Commissioning	Block and Spot Contracts	Review of commissioning and monitoring arrangements in place	15

110**Environment and Regeneration****2014/15**

DIVISION	TITLE		Days
Public Protection and Development	Section 106 monies	To review the arrangements in place for setting up Section 106 agreements. To review the bidding process.	15

Public Protection and Development	Car Parks - Penalty Charges	A system review of the issuing and collection of income	15
Street Scene and Waste	Vehicle maintenance	Review of the financial controls, use of external contractors and stock control mechanisms	15
Sustainable communities	Pitch Lettings/public halls/allotments	To review the arrangements in place for bookings and income collection	12
Sustainable communities	Commercial Property Rents	A review of the arrangements for letting commercial properties from agreements to income collection arrangement	12
Sustainable communities	Grounds Maint. Contract	A review of the arrangements in place for monitoring the grounds maintenance contract	12
Public Protection and Development	Service Tenancies	Review of arrangements in place for service tenancies	10
Safer Merton	Safer Merton - CCTV contract	A follow up audit on the CCTV contract. Issues identified in the last review.	10
Street Scene and Waste	Commercial waste	This audit will examine management and control of commercial waste to ensure that sound systems and procedures are in place	15
	Grant claim sign off	To audit grant claims such as city cycle and smiles project.	8

121

IT Audit Plan 14/15

DIVISION	TITLE		Days
Public Protection and Development	M3 Planning Computer System	IT audit on access controls, user access, input and output controls and security.	10
Public Protection and Development	Parking Computer System	IT audit on access controls, user access, input and output controls and security.	10
Infrastructure and Transactions	Software Licence Audit	IT audit on access controls, user access, input and output controls and security.	10
Housing	Capita housing - academy	IT audit on access controls, user access, input and output controls and security.	10
Resources	Financial System	Progress review of the new financial system. Phased review	10
			50

Key Financial Systems

Area of Review	Description of work	Days
Review of key controls across fundamental and financial systems	Review of key controls within the councils key financial systems. Ensure compliance with external audit requirements. Systems	75
	Borrowing and Investments/treasury management	15
	Capital budget management	15
	Business Rates	15
	Council Tax Systems Based	15
	Creditors / Payments System	15
Support	2014/15	
Area of Review	Description of work	Days
Consultancy and advice	Audit has an important role to play in advising management on an ad-hoc basis on a range of issues affecting services. This provision is used to offer advice and assistance throughout the year.	20
Committee and member support	Providing support including advice and reporting to Committee	25
Follow up audits	Follow up of reviews carried out in 13/14 to ensure implementation of recommendations	25
Management time	Provision for management time to direct, control and monitor the work of the internal audit team and outsourced provision	35
Carry over of 13/14 audit plan	To finalise all draft reports from 2013/14	60
		165

Investigation Team	Anti Fraud Work	Days
Housing Benefit Investigations	Investigation of Housing Benefit fraud, including issuing sanctions and preparing for prosecutions	940
Fraud Investigations (other)	Investigation of internal fraud, including preparing for disciplinary and if appropriate prosecution	120
Proactive Fraud work	To undertake proactive fraud work on a number of areas of high fraud risk. Workshops to be set up with departments	160
NFI	To take part on the National Fraud Initiative exercise, submitting data and analysing results.	40
Training	To provide ad-hoc anti fraud training with internal audit to areas of risk in the council.	10
Updating fraud policies	To review and update fraud policies; Whistleblowing policy, Anti Fraud & Corruption strategy, Anti Money Laundering and Prosecution policy.	20
		1290

Internal Audit Charter 14/15

This charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards.

The charter will be reviewed annually and presented to the GP Committee (which covers the role of the 'board' as defined in the standard) for approval.

Purpose

Internal Audit is defined by the Institute of Internal Auditors' International Professional Practices Framework as "an independent objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

The Accounts and Audit Regulation 2011 require an annual review of the effectiveness of its system of internal audit to be reported to the General Purposes committee for consideration. The system of internal control is broader than just the work of the internal audit section and includes the framework of assurance covering how the risks to the authority are identified with effective managed controls. Assurances are provided by a range of internal and external providers. The Head of Audit & Investigations will assess whether the overall framework of assurances is adequately designed and effectively operated through a plan of internal audit work.

In addition to the above, the Director of Corporate Services has a statutory duty under Section 151 of the Local Government Act 1972, to establish a clear framework for the proper administration of the local authority's affairs. To perform that duty the Section 151 Officer relies on, amongst other things the internal audit work for reviewing systems of internal control, financial management and other assurance processes.

The standards for 'proper practice' in relation to internal audit are laid down in Public Sector Internal Audit Standards (effective from 1st April 2013). We will ensure continued compliance with these professional standards.

Authority

In carrying out their duties and responsibilities, Internal Audit shall be entitled to have full and unrestricted access to all of the Council's activities, records, property, personnel and information, which they consider to be necessary to properly fulfill their function. Access also applies to other third parties / organisation's as permitted through contract, shared services and partnering

Internal audit will consider all requests from the external auditor for access to any information files or working papers obtained or prepared during audit work and which external audit need to discharge their responsibilities.

Responsibilities

As an independent appraisal function within the authority, the primary objective of Internal Audit is to review, appraise and report upon the adequacy of the control environment comprising the systems of governance, risk management and internal

control as a contribution to achieving the council's objectives and the proper, economic, efficient and effective use of resources.

In addition, the other objectives of the function are to:

- To provide a quality' independent and objective audit service that effectively meets the Council's needs' adds value' improves processes and helps protect public resources
- To provide assurance that the Council's operations are being conducted in accordance with legislation' and relevant external and internal regulations' policies and procedures
- To provide assurance that significant risks to the Council's objectives are being managed
- To continue to develop and have a lead in the council's corporate governance arrangements including production of the 'Annual Governance Statement' to provide assurance on the council's governance arrangements and any areas for improvement.
- Promote the council's an anti fraud, anti bribery and anti corruption culture within the Council to aid the prevention and detection of fraud
- To provide assurance to management on the integrity, effectiveness and operation of the council's internal control system;
- To support management through the provision of advice and guidance on the overall control environment' and where new systems and / or procedures are implemented
- To be responsive to transformational change and service demands;
- To continue to meet the requirements of the council's external auditors;
- To follow up on agreed actions to ensure that those agreed have been fully implemented;
- To assist investigations where there is suspected fraud bribery and corruption and to provide recommendations for improved controls.

In meeting its responsibilities, the activities of Audit will be conducted in accordance with the council's objectives, established policies and procedures. In addition, internal auditors comply with the Public Sector Internal Audit Standards.

Audit will co-ordinate effectively with the External Auditors for optimal audit coverage and to ensure that appropriate reliance can be placed on internal audit work.

The Head of the Internal Audit is required to provide the Council via the Director of Corporate services and the General Purposes Committee with an annual opinion on the adequacy and effectiveness of the internal control system for the whole council.

There are inherent limitations in any system of internal control and thus errors or irregularities may occur and not be detected by internal audit's work. When carrying out its work internal audit will provide management with comments and report on breakdowns failures or weaknesses of internal control systems together with recommendations for remedial action. However internal audit cannot absolve line management of responsibility for internal controls.

Where appropriate internal audit will undertake audit or consulting work for the benefit of the Council in organisation's that are wholly owned by the Council (such as CHAS). Internal audit may also provide assurance to the Council on third party operations where this is provided for as part of the agreement or contract.

Anti Fraud and Corruption

Managing the risk of fraud and corruption is the responsibility of management. Internal Audit reviews alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Audit will however be alert in all their work to risks and exposures that could allow fraud or corruption.

The Head of Audit & Investigations will also seek to develop pro-active anti-fraud work through a series of specifically focused reviews into areas of high risk of fraud or irregularity.

Joint work will be undertaken on some fraud investigations. Internal Audit will also identify all areas of control risks and make appropriate recommendations to reduce the risk of further fraud occurring.

The investigation team will undertake proactive fraud work on areas of high risk as well as undertaking investigations on reported allegations of fraud either from audit, managers or whistleblowers.

Related Documents

This document is one of a series that, together, constitute the policies of the authority in relation to anti-fraud and corruption. The other documents are:

- Anti-fraud and Corruption Policy
- Anti-Money Laundering Policy
- Whistle-blowing Policy

Reporting

The UK Public Sector Internal Audit Standards require the Head of Audit & Investigations to report directly to the top of the organisation and those charged with governance. This will be done as follows:

- The Audit Charter will be agreed with the GP Committee
- The annual audit plan will be compiled by the Head of Audit & Investigations following discussions with senior managers at their Departmental Management Team (DMT) meetings
- Progress reports will be made to DMT's on a quarterly basis
- The Head of Audit & Investigations will report at least twice a year to the General Purposes Committee on progress made against the Annual Audit Plan together with any significant risk exposures and control issues arising and the summarised outcomes of individual audits.
- The Head of Audit & Investigations will provide an Annual Audit Report to the General Purposes Committee that includes an opinion on the adequacy and effectiveness of the control environment.
- Any instances of non conformance with the Public Sector Internal Audit

Standards will be reported to the General Purposes Committee and will be included in the Head of Audit & Investigations annual report. Any significant failings will be included in the Annual Governance Statement

- Any external review of the internal audit function will be agreed by and reported to the General Purposes Committee

Independence

The main determinant of the effectiveness of Internal Audit is that it is seen to be independent. The Head of Audit & Investigations has full and unrestricted access to the following:

- The Director of Corporate Services (S151 officer)
- Chief Executive
- Chair of the General Purposes Committee
- The Council's Monitoring Officer
- All senior management

The Internal Audit Section is part of the Corporate Governance Division within Corporate Services. The Head of Audit & Investigations, who is required to hold a professional qualification (CCAB) and be suitably experienced, is responsible for the strategic management and appropriate resourcing of the service. The Head of Audit & Investigations has a management reporting line to the Assistant Director of Corporate Governance (monitoring officer) and also reports to the Director of Corporate Services, (Section 151 officer).

The Council General Purposes Committee meets at least 4 times a year. The Head of Audit & Investigations reports directly to the Council via the General Purposes Committee, and has a right of access to the Chair of the General Purposes Committee.

Notwithstanding the above, the Head of Audit & Investigations has the right of direct access to any officer and member of the Council

Every effort will be made to preserve objectivity by ensuring that all audit members of staff are free from any conflicts of interest and do not undertake any non-audit duties. All audit staff complete an annual declaration of interests form and would not be assigned audit work if there was any potential conflict.

External auditors

The external auditors fulfill a statutory duty. Effective collaboration between internal and external audit helps to ensure effective and efficient audit coverage and resolution of issues of mutual concern. Internal and external audit will meet periodically to discuss respective work plans and coverage and potential issues arising from work completed.

Due Professional Care

The Internal Audit Section is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics
- Seven Principles of Public Life (Nolan Principles)
- UK Public Sector Internal Audit Standards.
- All Council Policies and Procedures

- All relevant legislation

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies.

Service Performance Targets

Aspect of	Performance Indicators	Target
Effectiveness of time	Productive/direct time as % of total time	<ul style="list-style-type: none"> • 70%
Productivity and Process	<ul style="list-style-type: none"> • Achievement of annual plan by 30th April 2013 (%) • Issue of draft report after completion of fieldwork • Client responses received to draft audit reports from issue • Issue of final report after agreement with client of draft • Time between start of audit (entry meeting) and exit meeting • Audit reviews delivered within budgeted time 	<ul style="list-style-type: none"> • 90% • Within 10 Days • Within 15 Days • Within 10 Days • Days not exceeding 3x total planned time for audit review • 100%
Quality of Output	<ul style="list-style-type: none"> • Client satisfaction levels (including added value from audit recommendations), source customer satisfaction questionnaires • External audit reliance on work 	<ul style="list-style-type: none"> • 90% of scores within good to excellent • Reliance placed
Compliance with Professional Standards	<ul style="list-style-type: none"> • Public Sector Internal Audit Standards 	<ul style="list-style-type: none"> • 100% compliant
Outcomes and degree of influence	<ul style="list-style-type: none"> • Implementation of agreed recommendations 	<ul style="list-style-type: none"> • 90% of Recommendation
Our Staff	<ul style="list-style-type: none"> • Professionally Qualified/ Part qualified CPD • Annual Training & Development Received 	<ul style="list-style-type: none"> • 80% • 5 Day (Minimum).

Committee: General Purposes Committee

Date: 12th March 2014

Agenda item:

Wards:

Subject: Internal Audit Progress and Whistleblowing Update

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Chair of the GP Committee

Forward Plan reference number:

Contact officer: Margaret Culleton Head of Audit & Investigations

Tel. 020 8545 3149 margaret.culleton@merton.gov.uk

Recommendation:

- A. **That Members note the Internal Audit Progress Report and comment upon matters arising from it.**
 - B. **That members note the Whistleblowing update.**
 - C. **That members note the independent review being carried out on a proposed shared internal audit & investigation service.**
-

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report summarises the work carried out to date by Internal Audit within the 2013/14 financial year. It also details the progress on implementing recommendations from audits completed.
- 1.2 Internal Audit seeks to ensure that Merton's financial and other systems adhere to recognised standards and that public accountability can be demonstrated and is transparent.
- 1.3 Internal Audit is responsible for conducting an independent appraisal of all the Council's activities, financial and otherwise. It provides a service to the whole Council, including Members and all levels of management. It is not an extension of, nor a substitute for, good management. The Internal Audit Service is responsible for giving assurance on all control arrangements to the General Purposes Committee and the Director of Corporate Services (also known as the Section 151 Officer); it also assists management by evaluating and reporting to them the effectiveness of the controls for which they are responsible.

2. Details

- 2.1 In order to contribute to the Annual Governance Statement all Internal Audit reports give an audit assurance. The definitions of these opinions are given below:

Opinion	Definition
Substantial Assurance	There is an adequate system of controls designed to achieve the system objectives
Satisfactory Assurance	All key controls in place, but there is some evidence of minor controls not operating or documentation missing
Limited Assurance	Significant weaknesses have been identified in the system of control, which put the system objectives at risk.
No assurance	Control is weak, causing the system to be vulnerable to error and abuse

- 2.2 In addition each recommendation is given a high, medium or low risk priority. All recommendations are followed up by Internal Audit to ensure that they have been implemented.

- 2.3 A key part of internal audit work is to provide advice to managers; this can either be attendance at meetings, working groups or telephone advice. During 2013/14, advice to departments represented 6% of auditor time.

2.4 Planned Audit Reviews

- 2.4.1 This financial year we have finalised 54 audits, 22 of which relate to completion of the 2012/13 audit plan. Nine of these reports have been given a limited assurance (16%), the progress report at this time last year 32% limited assurance reports had been issued.

- 2.4.2 For the 2013/14 audit plan there are 32 at final stage, 19 at draft stage and 10 in progress. All audit reports issued since April 2013 and outstanding audit actions are included in Appendix A.

- 2.4.3 Since the last progress report in September 2013, there have been 3 final reports (20%) with substantial assurance, 9 issued with a satisfactory assurance (60%) and 3 final reports (20%) issued with a limited assurance.

- 2.4.4 As at the end of February 84% of the 2013/14 audit plan had been completed (final and draft reports). It is expected the plan will be completed to final report stage by the end of April 2013.

- 2.4.5 Table 1 details those audits with a limited assurance (below the required standard) issued since the last committee report in September 2013. Table 2 lists those audits with satisfactory assurance issued since September 2013.

Table 1 – Audit Assurances –limited

Audit Title	Department
Street & Market Traders	ER
Procurement Cards	CS
Recruitment & vetting procedures	CS

- 2.4.6 The main concerns relating to street & market traders was the cash handling arrangements and delays in issuing permits.
- 2.4.7 The procurement card review found that clearer procedures and guidance is needed for users, that the cards were not being used for the correct type of expenditure
- 2.4.8 The recruitment and vetting audit raised concerns in relation to whether the correct shortlisting and probation procedures had been followed, procedures for appointing apprentices or consultants was also unclear.
- 2.4.9 The Management Summaries of all these limited reports including a summary of the agreed actions can be found in Appendix B.
- 2.4.10 Table 2 details the reports given a satisfactory or substantial assurance.

Table 2 – Audit Assurance – Satisfactory/substantial

Audit Title	Department
Pre paid cards	CH
Rent deposits	CH
Haslemere Primary School	CSF
Garfeild primary school	CSF
Cramner primary school	CSF
Hillcross primary school	CSF
School Bacs procedures	CSF
IT Civica - Revenue	CS
Pension shared service	CS
Debtors	CS
IT audit on Ash debtors	CS
Merton Priory Homes	CH
IT security in schools-Garfeild	CSF

- 2.4.11 This year so far there have been nine additional requests for work; there have been three additional audits and six reviews where assurances on controls were required following Whistleblowing concerns. Where additional work is requested, a decision is made on whether this work replaces other planned work on the audit plan.

2.4.12 Internal Audit has also provided cash handling training to the bailiff team and assisted on the setup of an on-line declaration of interest form to replace the manual forms and extended to include staff relationships.

3. Following up on the Implementation of Agreed Actions

3.1.1 In 2013/14 there have been 373 agreed actions by managers. The agreed actions for all audits are always followed up. Future implementation dates are agreed with management and a monthly trigger report is run when this date is met. A follow-up report is then sent to officers responsible for implementing the agreed actions to ascertain whether the action has been implemented or reasons for non implementation. There are 117 actions due to be implemented.

3.1.2 If responses are not received from managers by the following month reminders are escalated to Heads of Service/ Assistant Director Level. If no response is received for those overdue by 3 months or more, then these are reported to GP Committee. There are currently no actions more than 3 months overdue.

4. Whistleblowing

4.1. A summary of all Whistleblowing allegations is reported to the General Purposes committee on an annual basis. The whistleblower's identity will however, always remain confidential, unless the whistleblower makes it public.

4.2 Appendix C outlines the allegations received and the action taken since the last time the Whistleblowing activity was reported to committee in March 2013. There have been 24 Whistleblowing incidents reported in the last year. This compares to 13 incidents last year and 16 the year before.

- Twelve cases are on-going
- Four cases have resulted in recommendations on improved controls.
- Eight cases were inconclusive

Table 4 Whistleblowing by departments

Dept	Fraud/Corruption	Data Protection	HR issues
Corporate Services	3	0	1
Environment & Regeneration	6	1	5
Community & Housing	2	1	2
Children Schools & Families	3	0	0
Total	14	2	8

4.3. The council encourages staff, contractors and others to raise concerns. In order to raise awareness of the councils Whistleblowing procedures, the council have undertaken the following:-

- Filler slide in the Foyer

- Leaflets sent out to all Departments, partners and schools.
- Intranet Links on the Procurement site and the CHAS website on the Internet
- The policy is available on the Intranet and the Internet.
- As well as being on standard terms and conditions of contracts.

4.4 A review of all the fraud policies is scheduled to be carried out early in 2014/15. These include the following policies:- Whistleblowing, Anti-fraud & Corruption, Anti-Money Laundering and the prosecution policy.

4.5. Fraud Investigations

4.5.1 On 1st February 2014 the Investigation Team merged with the Internal Audit Section to form the Audit & Investigation Service. The merge will build on the proactive work currently undertaken and will assist with the co-ordination between the two teams on areas of fraud risk

4.5.2 Fraud investigations are currently undertaken on Whistleblowing allegations unless otherwise agreed, as well as on issues identified during audit reviews or management concerns. Depending on the nature of the concern raised, these will either be reviewed by the investigation, audit team or externally.

4.5.3 In addition to this, pro-active fraud testing is included in all work carried out by Internal Audit, this testing ensures that controls are strengthened to reduce the risk of fraud. Proactive fraud testing was included in the pre-paid cards audit, and procurement card audit.

4.5.4 Additional proactive fraud training was provided this year by the Internal Audit Section on cash handling procedures for the bailiff team. This training was interactive and encouraged the staff to consider the fraud risks in their area and possible solutions to managing these risks.

4.5.5 The investigation team have undertaken proactive joint blue badge fraud investigation work with the police and the parking section, which has resulted In 2 cautions and 1 successful prosecution. The police are now keen to undertake regular monthly exercises.

4.5.6 The investigation team has also undertaken Housing Benefit investigations and set a target of 70 sanctions for 13/14, as at the end of January 2014; they were on target with 56 sanctions issued. Sanctions can be: - Prosecution, Administrative Penalties or a caution.

Table 5 Breakdown of Sanctions 12/13 and 13/14 (to January 14)

Year	Admin. Penalty	Cautions	Prosecutions	Total
12/13	10	45	15	70
13/14	9	29	19	56 (to end of Jan)

4.5.7 The investigation team also work with trading standards to put in place confiscations proceedings to recover loss funds where possible.

4.6 National Fraud Initiative

4.6.1 The National Fraud Initiative 2012/13 matched a variety of data, such as Housing Benefit, Council Tax, Electoral Roll, Payroll, Pensions etc. The data received from the Audit Commission in February 2013 resulted in 8,600 matches for Merton.

4.6.2 Out of 8,600 matches, there were 2,676 recommended high priority matches. The council has processed 3,518 matches and identified 10 cases of fraud and 8 cases of claimant error. Initial feedback from the Audit Commission has indicated that Merton is ahead of other authorities.

4.6.3 The exercise has identified overpaid Housing and council tax benefit of £51,747.12 and pension overpayments of £1,747.30. The exercise is still on-going and a further 165 matches are in progress. The council will be seeking to recover this money.

5. Independent Review

5.1 An independent review is currently being undertaken to consider options for a four borough shared Internal Audit & Investigation service with Richmond, Kingston and Sutton. This review will consider current methods of working in each authority and consider whether it would be beneficial for each council to be part of a shared service.

5.2 The outcome of the independent review will be completed in March 2014. The Directors and senior officers from each authority will then consider report and any potential options. The outcome of this will then be reported to the General Purpose's committee in June 2014.

6 ALTERNATIVE OPTIONS

6.1 None for the purposes of this report.

7. CONSULTATION UNDERTAKEN OR PROPOSED

7.1 The strategic plan, Internal Audit Plan and charter have been agreed with Chief Officers who have consulted with their Management teams. Business Partners and Financial Advisors for each department have also been consulted. Customer Agreements are in place. The Head of Audit & Investigations has monthly meetings with the Director of Corporate Services to report upon progress against the Plan.

7.2 Audit briefs outlining the scope and objectives of each audit are agreed with the relevant manager prior to the audit commencing.

7.3 All audit reports are discussed with managers prior to issuing as a draft, further meetings are held if required and comments from the Manager and Head of Service/Assistant Directors are included in the final report.

8. TIMETABLE

8.1. None for the purposes of this report.

9 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

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

10. LEGAL AND STATUTORY IMPLICATIONS

10.1 This report sets out a framework for Internal Audit to provide a summary of internal audit work for 2013/14. 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.

11. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

11.1 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.

12 CRIME AND DISORDER IMPLICATIONS

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

12.2 The report does however include brief details of potential fraud investigations in progress.

13 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

13.1. The Audit Plan has a risk assessment formula built into the process. This takes such aspects as expenditure, income, and previous audit findings into account and calculates priorities and the frequency of the audit.

13.2. In addition to the audit risk assessment formula the Corporate Risk Register is consulted during the production of the Internal Audit Plan.

- 13.3. The Audit Brief at the beginning of the audit, and the internal audit reports at the end of the audit also identify risks. Audit Recommendations are categorised high, medium or low priority in relation to the level of risk involved.

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

- Appendix A- Internal Audit Progress since April 2013
- Appendix B – Limited assurance Management summaries and agreed actions.
- Appendix C- Whistleblowing

BACKGROUND PAPERS

- i. Documents held in Internal Audit Files

Internal Audit progress since April 2013

Audit Title	Department	Final Report Date	Assurance	No of actions	No of outstanding actions	No of overdue actions
12/13 Plan						
Passenger Transport	ER	12/04/13	Limited	2	0	0
Residential Care Contracts	CH	17/04/13	Satisfactory	8	2	0
IT Disaster recovery and backup	CS	17/04/13	Satisfactory	2	0	0
IT Security and Data Handling Morden Primary school	CSF	25/04/13	Satisfactory	10	0	0
IT Security and Data Handling SS Peter & Paul Primary School	CSF	26/04/13	Satisfactory	4	0	0
IT Security and Data Handling Haslemere Primary school	CSF	26/04/13	Satisfactory	7	1	0
Legal shared service	CS	30/04/13	Satisfactory	7	0	0
Asset Management	ER	03/05/13	Satisfactory	10	6	1
Financial assessments	CH	15/05/13	Satisfactory	2	0	0
Debtors	CS	24/05/13	Satisfactory	6	1	0
IT Security and Data Handling – Pelham Primary School	CSF	31/05/13	Satisfactory	11	9	0
Court of protection/Appointeeship	CH	31/05/13	Satisfactory	8	3	0
Recruitment & Vetting procedures	CS	11/06/13	Limited	25	10	0
Adoption	CSF	27/06/13	Limited	15	5	0
Housing Benefit	CS	23/07/13	Satisfactory	5	1	0
Council tax	CS	15/07/13	Satisfactory	3	1	0
NDR	CS	15/07/13	Satisfactory	14	3	0
Fostering	CSF	23/08/13	Satisfactory	10	4	1
Carefirst	CH	14/08/13	Limited	11	9	0
Abandoned Vehicles	ER	30/08/13	Satisfactory	8	2	0
Payroll	CS	13/09/13	Limited	16	2	2
Cemeteries	ER	13/09/13	Satisfactory	10	3	2

Audit Title	Department	Final Report Date	Assurance	No of actions	No of outstanding actions	No of overdue actions
13/14 Audit Plan						
Gifts and hospitality	CS	26/04/13	Satisfactory	4	0	0
Facilities management	CS	24/06/13	Satisfactory	8	3	0
Merton & Sutton Joint Cemetery Board – grant sign off	ER	21/05/13	Non applicable	0	0	
Annual Governance Statement	All	27/06/13	n/a	0	0	
Aragon Primary School	CSF	19/07/13	Satisfactory	7	2	0
Transforming families July 13 claim	CSF	31/07/13	Non applicable	9	0	
Parks income	ER	16/09/13	Limited	8	0	0
West Wimbledon Primary School	CSF	17/09/13	Limited	30	0	0
Market & Street traders	ER	30/09/13	Limited	7	7	0
Recreation Trust advice	ER	30/09/13	Non applicable	0	0	
Pre paid cards	CH	02/10/13	Satisfactory	6	2	6
City Cycle (1) grant claim	ER	02/09/13	Non applicable	0	0	
Haslemere Primary School	CSF	29/11/13	Satisfactory	13	0	0
Garfield Primary school	CSF	22/10/13	Substantial	6	1	0
Rent deposit Scheme	CH	13/11/13	Satisfactory	7	6	0
IT audit Civica - Revenue	CS	16/12/13	Satisfactory	13	8	0
Cramner Primary school	CSF	29/11/13	substantial	6	0	0
Hillcross Primary school	CSF	29/11/13	Satisfactory	10	4	0
Declaration of interest- setting up on-line form	CS	12/12/13	Non applicable	0	0	
Pension shared service	CS	29/11/13	Satisfactory	4	4	0
School Bacs	CS	15/01/14	Satisfactory	3	2	0
Bailiff – cash handling training	CS	02/12/13	Non applicable	5	0	0
Transforming families Oct 13 claim	CSF	31/10/13	Non applicable	0	0	
IT audit on Ash	CS	05/02/14	Satisfactory	3	3	0
IT audit on proactis	CS		Satisfactory	3	3	0
Merton Priory Homes	CH	13/02/14	Substantial	2	2	0

Debtors	CS	07/02/14	Assurance	6	3	0
Procurement cards	CS	21/02/14	Limited	21	21	
Transforming families Feb 14 claim	CSF	14/02/14	Non applicable	0	0	
Unreconciled bank e returns	CS	19/02/14	Satisfactory	8	0	0
city cycle (2) grant claim	ER	19/02/14	Non applicable	0	0	
IT security in schools-Garfeild	CSF	25/02/13	Satisfactory	12	6	0
Draft reports						
IT Confirm	CS	24/12/13	Satisfactory			
IT security in schools-Hillcross	CSF	16/01/14	Satisfactory			
IT security in schools-Cramner	CSF	16/01/14	Satisfactory			
firewall phase 1	CS	14/01/14	Satisfactory			
Oyster card procedures	CS	16/01/14	limited			
Pupil place planning	CSF	17/02/14	Satisfactory			
Firewall Security phase 2	CS	28/01/14	Satisfactory			
Cash and Bank	CS	07/02/14	Satisfactory			
Residents parking	ER	03/02/14	Satisfactory			
Housing Benefits	CS	20/02/14	Satisfactory			
itrent expenses	CS	03/03/14	Satisfactory			
Persaid special school	CSF	03/03/14	Satisfactory			
Data Protection concern	ER	03/03/14	limited			
General Ledger audit	CS	03/03/14	Satisfactory			
Ursuline High School	CSF	03/03/14	Satisfactory			
Passenger transport	ER	03/03/14	Satisfactory			
Firewall Security phase 3	CS	03/03/14	Satisfactory			
No recourse to Public Funds	CSF/CH	03/03/14	Limited			
Homelessness and Nominations	CH	03/03/14	Satisfactory			

Internal Audit Report Summary

Service: Market & Street Traders	30 th September 2013
Date of Final Audit Report	
Audit Objective	
To ensure that there is a robust process for the receipt and banking of income	
Summary of Audit Findings	
<p>Our review of the system and procedures for the collection and banking of income from street traders showed that there were some areas where the controls were weak and needed to be strengthened to make them more effective. Our review identified weaknesses in relation to the recovery of income.</p> <p>An analytical review of existing traders whose licences were due for renewal by 1 April 2013, showed that, over 25% had not been issued with a licence at the time of this audit (5 August 2013) for various reasons, including not complying with the conditions for renewal (not submitting the correct documentation). This can cause considerable delay in collecting income, as invoices cannot be raised until new licences have been issued. It also means that some traders could be operating without a valid licence. We have recommended that a more rigorous approach be adopted to address this.</p> <p>To assess the effectiveness of income collection, we carried out a comparison between income due and income received for 2012/2013. We found that 40% of the income due remained unpaid at the time of this audit (5 August 2013). Potentially, this could lead to high level of bad debts. Additionally, this could give a misleading picture of the financial position for the cost centre, given that income is recognised in full when a client is invoiced</p> <p>Our review of the system and procedures for the collection and banking of income from market traders identified weaknesses of a more serious nature.</p> <p>We found that cash was not held securely and banked promptly. Cash of up to £2,000 was held either in a desk drawer or by the Technical Officer in person for two weeks or longer before it was banked.</p> <p>We also found that there is no separation of duties between collecting, recording and banking of income, as the Technical Officer carries out all the above functions. This means that the system is vulnerable to abuse and manipulation. Staff responsible could also be vulnerable to accusations of wrongdoing in the event of cash missing</p>	

Summary Response and update from Managers

Comments received 30th September 2013

Written procedures to be developed.

New procedures to ensure there is separation of duties between collection, recording and banking of income.

The issue of stationery (receipts which act as licences) to be controlled until cashless system is implemented.

To run a report identifying insurance policies which have expired.

To ensure that cash is banked promptly.

Move towards a cashless environment

Consideration of options including Mango and Card/D/D facilities

Update from manager 25th February 2014

An improved renewal system was implemented for the licence year 2013-14 and there were several teething issues. Processes have been adjusted further this year with more changes to be implemented next year in relation to the timing of the renewal. 90% of invoices are paid by Direct Debit meaning payments are spread throughout the year in the same manner as Council Tax payments. It is expected that the income will be paid more swiftly this fiscal year as the system enters its second year.

We are currently consulting with market traders on the implementation of an invoiced market licence. This will be payable in a number of ways and remove cash collections from the market. Inspection duties will remain but all risks to the officer associated with the collection, whether personal or in the event of cash missing, will be removed

Recruitment & Vetting procedures	
Final Report Date: 11.6.13	
Audit Scope To review the procedures in place for the recruitment of staff and adherence to these procedures.	
Summary of Audit Findings	
<p>This report acknowledges that the Recruitment Procedures are in the process of being updated, alongside the implementation of the new Applicant Tracking system. However the findings in this report include processes outside of that system and should be considered alongside its implementation.</p> <p>There is a facility in ITrent3 to enable the scanning and recording of all supporting documentation relating to newly appointed staff. However, it was found that the supporting documentation had not always been uploaded onto the ITrent system.</p> <p>Procedures require that all job descriptions and person specifications are reviewed prior to a vacancy being advertised, in order to ensure that it is still relevant to the requirements of the post. However, evidence was not always obtained that this had been done.</p> <p>From the sample selected, it was evident that the correct recruitment process had not been followed in all instances.</p> <p>The authority currently has a time to recruit target of 90 days. However despite exhaustive enquiries, internal audit where unable to obtain details of how this figure was arrived at. This target should be reviewed and broken down into its component parts, in order to ensure that it provides a realistic timescale.</p> <p>Although evidence was obtained that the relevant recruitment in-house checks had been carried out for the sample selected, it was found that these documents were not randomly checked for authenticity.</p> <p>The current recruitment procedures provide clear guidance on the need for panel members to have completed a relevant recruitment and selection training course. However internal audit were unable to obtain confirmation that all recruitment panels met the required criteria.</p> <p>The Consultants Registers obtained during the audit appeared to vary in their content depending on the department maintaining the records. Two sets of guidelines relating to the appointment of consultants were identified, which appeared to provide conflicting information. Both policies appeared to be in use at the time of audit.</p> <p>The authority now has the provision to request DBS (CRB) checks via ebulk. However evidence was obtained that manual requests are still being issued. In addition the majority of DBS checks undertaken are enhanced and despite changes in the guidelines, there was no evidence that these are being reviewed with the relevant manager prior to requesting a renewal.</p> <p>Records of complaints received relating to the recruitment process had not been fully documented and were not made available to the auditor</p>	

at the time of audit.

There was no evidence that the probation procedures had been followed as laid down in the current guidelines.

A report of secondee placements indicated that some secondments had been open since 2004.

Summary of agreed action

The procedures relating to the appointment of Consultants will be reviewed. There will be one set of guidelines and a review of the way in which the consultant's registers are maintained across the authority.

The time to recruit target will be reviewed and a break-down of the figures obtained in order to assist with the identification of areas within the recruitment process where targets are currently being achieved.

A list of all staff who have attended the Recruitment and Selection training will be maintained and the Recruitment and Selection procedures followed in all aspects of the recruitment process. Consideration will also be given to maintaining a pool of staff who have undertaken the Recruitment and Selection training.

Consideration will be given to obtaining external verification of the documentation provided in support of appointments made.

All DBS checks will be required to go through the e-bulk system from June 2013 and there will be a system put in place in order to verify the type of check required either on renewal or initial application.

Consideration will be given to charging the cost of a DBS check to the relevant service area.

The Probationary Policy issued in March 2006 will be reviewed in order to ensure that it meets the current requirements. A process will also be put in place in order to ensure that the relevant probationary forms are completed for all new staff in accordance with the Probationary Policy. The Secondment Procedure dated 2006 will be reviewed. A report of all open secondments will also be obtained and reviewed. The procedure for the payment of interview expenses will be reviewed. The Relocation of Expenses document dated June 2009 will be reviewed.

Update from Manager 26/2/14

The procedures relating to the appointment of consultants will be fully reviewed following any recommendations from the recent review by external audit. Other recommendations have either been completed or are in the progress and should be completed within the next few months.

Service: Procurement cards	
Date of Final Audit Report	20.2.14
Audit Objectives	To ensure there is a robust process in place for issuing and monitoring the use of procurement cards
Summary of Audit Findings	<p>A signed copy of the full contract; has been unavailable to review, with only three pages of the contract available. Consequently the Auditor could not confirm that the contract was still current or that it was being administered in line with the agreed terms.</p> <p>There appeared to be two sets of procedures in use at the time of this audit, the version available on the LBM intranet and the version used by the Procurement Card Administrator. This version, updated 2012 appears to be incomplete and there is no evidence that it was ever formally approved.</p> <p>Receipts for expenditure undertaken via the Corporate Procurement card are held locally, but the audit found that receipts for expenditure were not always available as required, therefore providing no clear audit trail, or supporting VAT receipts as part of the HMRC requirement.</p> <p>A review of the types of expenditure needs to be undertaken as soon as possible for example, purchase of stationery, despite there being a corporate contract in place, purchase of fuel for council vehicles, when the councils fuel cards should be used..</p> <p>Evidence was obtained that two of the Procurement cards in the selected sample where being used by the named cardholder as well as by other staff. In each case this was found to be with the cardholders permission.</p> <p>One card was found to contain a split transaction to the same supplier in order to circumvent controls in place in relation to the authorised expenditure limit.</p>
Summary Response from Managers	<p>The current card provider, Barclaycard has been contacted and a complete copy of the contract requested.</p> <p>The current contract will be re-tendered as soon as the Procurement Team are able to provide assistance with the tender.</p> <p>Procedures are currently being reviewed and updated and should be available shortly.</p> <p>All staff currently holding a corporate procurement card will be contacted and reminded of the need to obtain and retain receipts for all expenditure incurred.</p> <p>A sample of card logs plus the corresponding receipts will be randomly selected and checked centrally on a quarterly basis.</p> <p>Where it was found that procurement cards were being used by more than one member of staff, internal audit have been informed that new processes will be put in place as soon as possible.</p> <p>All non submissions of authorised logs will be reported to the line manager as soon as possible, with a view to reducing the card</p>

expenditure limit to £1. However card limits will not normally be reduced without the prior knowledge of the authorising manager to ensure that any reduction will not adversely affect the service provision. Card expenditure will be regularly monitored and reviewed and any concerns immediately reported to internal audit.
An internal audit incorporating a review of the current processes and procedures in place for the re-claiming of travel expenses will be undertaken as part of the 2014/15 internal audit plan. The review will include a review of both the value and types of expenditure incurred

Whistleblowing Activity – February 2013 - February 2014

Appendix D

	Allegation Type	Date	Dept	Brief Details of Allegation	Anony mous	Outcome	£	Action
1	HR issues	19/02/13	ER	Various HR issues	No	No evidence	0	NFA
2	Data Protection	03/02/13	CH	Information Security concerns	No	Officer informed of correct procedures	0	NFA
3	Fraud	07/03/13	CH	Potential false invoices	No	On going	unknown	On-going
4	HR issues	08/03/13	CH	Various HR issues	No	Issues resolved	0	NFA
5	HR issues	15/04/13	ER	Bullying and intimidation allegations	No	To be covered as part of a grievance- passed to HR	0	NFA
6	HR issues	07/05/13	CH	Concerns relating to inappropriate behaviour	Yes	Issues resolved	0	NFA
7	HR issues	21/05/13	CS	Time management issues	Yes	on-going	0	On-going
8	Fraud	16/05/13	CSF	Concerns involving recruitment process and financial transactions	No	Internal Audit review - improved controls. no evidence of fraud	0	NFA
9	Fraud	16/07/13	ER	Concerns about receipt of gifts	No	on-going	unknown	On-going
10	Fraud	16/07/13	ER	Concerns about receipt of gifts	Yes	No evidence found	0	NFA
11	Fraud	16/07/13	ER	Concerns raised over parking fees	No	Investigation inconclusive	0	NFA
12	Fraud	16/07/13	CS	Concerns linked with HB claim	No	Investigation on-going Suspended – disciplinary pending	10,000	On-going
13	Corruption		ER	Concerns relating to	No	Advice provided to dept.	0	NFA

14	HR issues		15/08/13	ER	use of land Concerns relating to staff behaviour	Yes	Investigation by HR	0	On-going
15	Corruption		14/08/13	CS	Concerns relating to potential conflict of interest	Yes	No evidence found	0	NFA
16	Corruption		20/07/13	ER	Contract award concerns	Yes	No evidence of corruption, recommendations made on improved controls	0	NFA
17	Corruption		24/09/13	CSF	Potential conflict in relation to a contractor	Yes	On-going	0	On-going
18	Data Protection		03/10/13	ER	Concern relation to data access	Yes	On-going	0	On-going
19	Corruption/VFM		25/10/13	CSF	Concern relating to procurement procedures	No	On-going	unknown	On-going
20	Corruption/VFM		13/11/13	ER	Concerns relating to procurement	No	On-going	unknown	On-going
21	Corruption		18/11/13	CS	Allegation of corruption	Yes	See separate report	0	On-going
22	HR issues		20/11/13	ER	Concerns relating to staff behaviour	Yes	On-going	0	On-going
23	HR issues		26/11/13	ER	Concern relating to staff behaviour	No	no evidence	0	NFA
24	Fraud		09/01/14	CH	Concern relating to inappropriate use of funds	No	On-going	unknown	On-going

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Committee: General Purposes Committee

Date: 12th March 2014

Wards: Cricket Green, Graveney, Merton Park and St Helier

Subject: Review of Polling Places

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Mark Allison

Contact officer: Tim Revell, Interim Head of Electoral Services

Recommendations:

- A. That the General Purposes Committee considers the options for replacement polling places in Graveney, Merton Park and St Helier Wards and makes a recommendation to full Council.
 - B. That the General Purposes Committee considers the alternative polling place suggested for Cricket Green Ward and makes a recommendation to full Council.
-

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. This report deals with the final changes to polling places before the elections on 22nd May 2014. New polling places are required in Graveney Ward (polling district GB), Merton Park Ward (polling district RA) and St Helier Ward (polling district BC) due to the loss of the currently designated buildings. The Committee is also asked to consider an alternative polling place for polling district ED in Cricket Green Ward.

2 DETAILS

- 2.1. **Graveney Ward**; The current polling place for GB polling district is St Barnabas Hall, Thirsk Road, Mitcham but this is now unavailable as it is used every day for a children's nursery. St Barnabas Church which is adjacent has adapted the rear of the church for use as a meeting place and has suggested that this area could be used as a polling place. Following a site visit the church has been assessed as meeting the requirements for a polling place. It is adjacent to the church and so is known to electors, has step free access, sufficient space for two polling stations and some albeit limited off street car parking. This proposal would involve the minimum of disruption to electors.
- 2.2. **Merton Park Ward**; The polling place which has previously been used for the two polling stations in polling district RA is a room on the ground floor of the Nelson Hospital, Kingston Road. The hospital is currently being rebuilt and the site is inaccessible. The cricket pavilion located at the junction of Cannon Hill Lane and Aylward Road appears to be the most suitable alternative. It is near the previous polling place, can be accessed directly from the road and has all the facilities required of a polling place although old fashioned in style. It is not used for cricket on a Thursday. It could accommodate the two polling stations in RA.

- 2.3. **St Helier Ward**; The polling place which has previously been used as the polling station in polling district BC is Farm Road Church, Farm Road, Morden. This building is likely to be demolished shortly and will not be available for use on 22nd May. This is a residential area with no obvious buildings that could be used as a polling place. It is therefore proposed that the polling place for BC should be Abbotsbury Primary School which is already used for polling district BD. A site visit has taken place which has confirmed that the school hall could accommodate two polling stations. The school is 0.2 miles from the church.
- 2.4. **Cricket Green Ward**; St Peter & St Paul (RC) Primary School, Cricket Green, Mitcham is the designated polling place for polling district ED. The Headteacher has suggested that the scout hall at the rear of the school could be used as an alternative which would enable him to keep the school open on polling day. Following a site visit the scout hall has been assessed as meeting the requirements for a polling place. It has recently been redecorated and new flooring installed. It is adjacent to the school and so is known to electors. Step free access for electors would be ensured by providing a ramp leading to the double doors which would remain open during polling hours. Electors would then turn right into a short corridor leading to the main hall. This corridor is sufficiently wide to present no significant difficulty to a wheelchair user entering the building.

3 ALTERNATIVE OPTIONS

- 3.1. There are no obvious alternative locations within Graveney and St Helier Wards. For Merton Park Ward the suggestions by the Conservative agent and Councillor Simpson (see paragraph 4.3 below) have been investigated. The Co-op has confirmed that it would have no objection to a mobile unit being stationed in the supermarket car park and a suitable unit could be hired. However, mobile units generally provide a poor experience for both electors and staff and are relatively expensive to hire. Usually they are only used when there is nothing else available and it is not recommended that this alternative be pursued.
- 3.2. Two other buildings have been visited to assess their suitability; St Mary's church hall, St Mary's Road which is currently used for polling district RB and the bowls pavilion in John Innes Park. A site visit has taken place which indicated that the two polling stations in RA could be accommodated in the church hall. By car the church hall is 0.8 miles from the hospital but is closer on foot. The bowls pavilion is located in the park some way from the road so is perhaps not so convenient for electors. It also has all the facilities required of a polling station but is used every day during May by the bowls club. This use would not be possible on polling day. However, this pavilion could only accommodate one polling station so if it were used it would have to be in conjunction with another building.
- 3.3. In Cricket Green Ward the alternative would be to continue to use the school.

4 CONSULTATION UNDERTAKEN

- 4.1. Ward councillors for these wards and political party agents have been consulted on these proposed changes.

- 4.2. **Graveney Ward**; Councillors Dehaney and Kirby indicated that they had no objection to the use of St Barnabas church as the polling place for GB polling district.
- 4.3. **Merton Park Ward**; Councillor Southgate on behalf of the Merton Park Independent Residents indicated that his group viewed the cricket pavilion as a reasonable alternative for RA polling district. The Conservative agent has suggested that a mobile unit or another public building could be used in view of the distance between the previous and proposed polling places and Councillor Simpson suggested that the car park of the Co-op supermarket in Kingston Road could be used for a mobile unit.
- 4.4. **St Helier Ward**; Councillor Martin has indicated that she has no objection to the use of Abbotsbury Primary School as the polling place for polling district BC.
- 4.5. **Cricket Green Ward**; Councillor Saunders has indicated that she has no objection to this proposal. Councillor Munn has expressed some concerns about the proposal particularly in relation to on street parking restrictions, parking activity while parents drop off and collect children, the location of the only entrance to the polling place in Mitcham Park rather than both there and on Cricket Green, the lack of visibility of the entrance to the scout hall and disabled access which he considers not as good as that for the school hall. His detailed comments are attached in the appendix.

5 TIMETABLE

- 5.1. The council meeting on 2nd April 2014 must make a decision on these proposals so that all polling districts have a designated polling place for the elections on 22nd May and electors notified of their polling place well in advance of the election. It is planned that the delivery of poll cards will begin on Thursday 17th April, five weeks before polling day. Any later decision would cause a delay in sending poll cards to electors whose polling place had changed because of the deadlines for sending data to the printers. If an emergency occurred after this date the Returning Officer has power to designate a polling place.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1. Provision for the hire of buildings for use as polling places is included within the budget for the elections on 22nd May. As the Borough council elections are combined with those for the European Parliament some of the cost will be recoverable from the Cabinet Office.

7 LEGAL AND STATUTORY IMPLICATIONS

- 7.1. The Council has a duty under the Representation of the People Act 1983 (RPA) to divide its area into polling districts for parliamentary and local government elections, to designate a polling place for each polling district, and to keep these under review. The Local Authorities (Functions and Responsibilities) (England) Regulations 2000 specifies that functions in section 18 of the RPA are not to be the responsibility of an authority's executive. This function has not been specifically delegated by the Council.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1 Under section 149 of the Equality Act 2010 it is the duty of a public authority in the exercise of its functions to have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act;
- Advance equality of opportunity between people who share a protected characteristic and those who do not;
- Foster good relations between people who share a protected characteristic and those who do not.

Having due regard for advancing equality involves:

- Removing or minimising disadvantages suffered by people due to their protected characteristics;
- Taking steps to meet the needs of people from protected groups where these are different from the needs of other people;
- Encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

8.2 In providing services and access to them the Council is required by law to make reasonable adjustments in order to avoid discriminating against disabled persons. When considering what adjustments should be considered as reasonable the council is required to have regard to the relevant code of practice. The following are some of the factors to be taken into account when considering what is reasonable:

- Whether taking any particular steps would be effective in overcoming the substantial disadvantage that disabled people face in accessing the services in question;
- The extent to which it is practicable for the service provider to take the steps;
- The financial and other costs of making the adjustment;
- The extent of any disruption which taking the steps would cause;
- The extent of the service provider's financial and other resources;
- The amount of any resources already spent on making adjustments; and
- The availability of financial and other assistance.

8.3 The right to free elections forms part of Article 3 of Protocol 1 of the Human Rights Act 1998. Any resident is entitled to vote, if qualified by age and nationality, and if not subject to any other legal incapacity.

8.4 As indicated above, the principles have been followed of seeking to ensure that all electors have such reasonable facilities for voting as are practicable in the circumstances, and seeking to ensure that so far as is reasonable and practicable every polling place is accessible to electors who are disabled. There is a commitment to ensure that all polling places are accessible.

- 8.5 The aim of enhancing community cohesion and engagement would be expected to be achieved by the principles in 9.1 and 9.2 through promoting democratic engagement by seeking to make voting in person as easy as possible for residents of all communities.

9 CRIME AND DISORDER IMPLICATIONS

- 9.1 Integrity plans are maintained for elections. These involve working closely with Merton Police on operational matters, together with liaising with the Metropolitan Police Service officer specifically delegated with responsibility for potential election offences.

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 10.1 In reviewing polling places, the reasonable facilities for staff at polling stations during elections have been considered. The physical fabric of possible polling places has also been considered to reflect the need for members of the public to visit their polling station.

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

- Map of Cricket Green ward & location plan of John Innes cricket pavilion
- Detailed comments by Councillor Munn on polling district ED

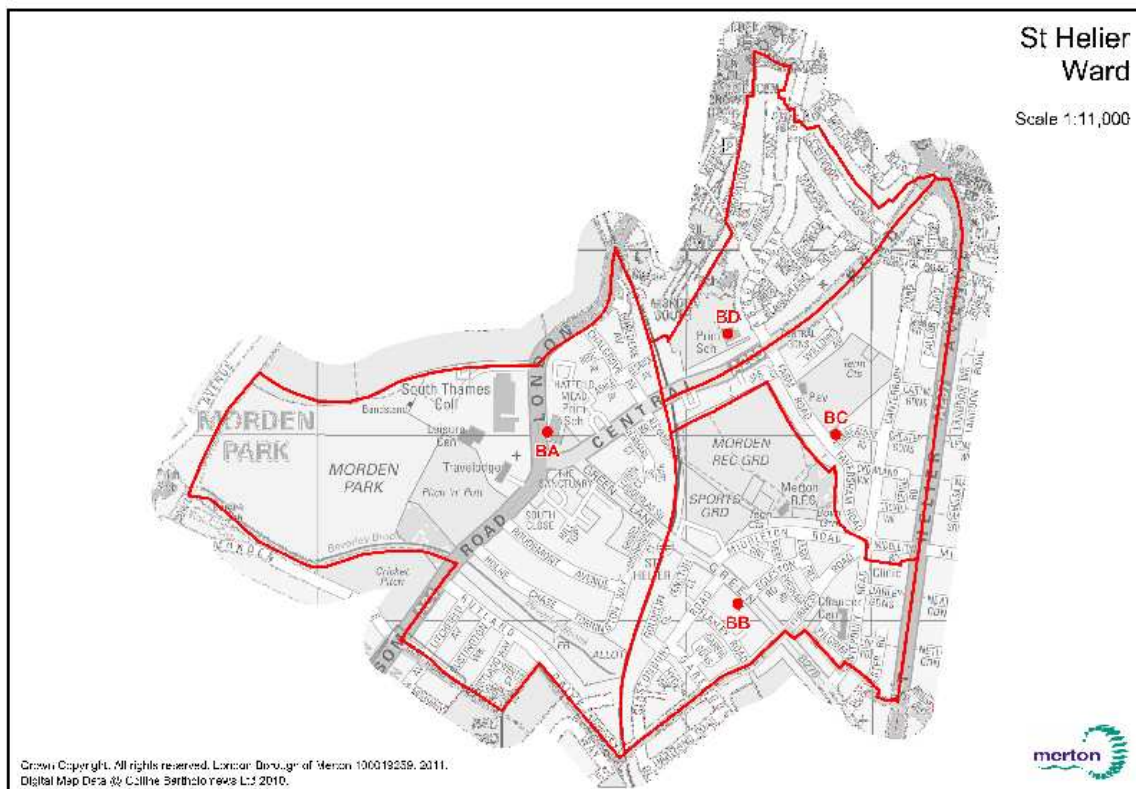
12 BACKGROUND PAPERS

- 12.1 Reports on current and potential polling places and polling stations made by Electoral Services staff and by presiding officers and polling station inspectors at past elections.

Cricket pavilion, John Innes recreation ground



Abbotsbury Primary School (BC & BD)



Cricket Green Ward – Detailed comments from Councillor Munn

Thank you. I visited the Scout Hut at 3.00 pm yesterday (ie 11.2.14). This coincided with the collection times for children at St Peter & St Paul's Primary. Vehicular access to the school is one way via Mitcham Park. At the time of my visit all four parking spaces were in use; and cars were parked on both sides of the road for a distance of 30/40 yards either side of the School entrance. The entrance to the Scout hut was blocked by parked vehicles. I am concerned that this parking activity (which occurs twice a day during term time) will be repeated during the election period.

As discussed, if the Scout Hut were to be used there would need to be a temporary removal of the parking restrictions near the School and Scout Hut entrances; however, if the School were to be open during Polling Day there would be unacceptable chaos at the entrance to the new Polling Station.

The Polling Station in the School has two entry points. One is on Cricket Green, the other via Mitcham Park. Notices identifying the Polling Station have been placed close to these entry points in the past and people casting their votes have used both entrances.

The proposed new Polling Station will have only one entrance; and, whilst pedestrian access for non-disabled people will be possible, there will be only one drop off point for people using the vehicles.

The interior of the Scout Hut poses no problem. I have visited and confirm there is sufficient space to cope with the 1300 or so on the Register; however, the entrance doors are not designed to permit wheelchair users access. Both doors would have to be fully open to permit wheelchair access. I know you have said you can arrange a ramped access (as was provided at the school); however a wheelchair user would not have direct access to the door way. This is at right angles to the footway entrance. If it were to be used the Scout Mini bus would have to be parked elsewhere on Polling Day to allow for access onto a ramp. A wheelchair user would need to leave the footway, turn right and then swivel 180 degrees to access the ramp. This is probably manageable; but is not ideal.

Publicity for the Polling Station (if its use is approved) would have to be provided at the Cricket Green entrance to the School as well as at the Mitcham Park junction with Cricket Green by the Police Station so that Voters (who are familiar with the Cricket Green entrance to the School) are re-directed to the Scout Hut.

The Scout Hut location (even though it is near the Mitcham Park school entrance) is not nearly as visible as the School. There are traffic problems in Mitcham Park near the School entrance; and disabled access is not as good as at the School Hall Polling Station, so, on balance I am not happy about changing the venue.

Regards

Councillor Ian Munn BSc MRTPI (RTD)

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Committee: General Purposes

Date: 12 March 2014

Wards: All

Subject: Freedom of the Borough – proposed criteria and procedures

Lead officer: Julia Regan, Head of Democracy Services

Lead member: Councillor Ian Munn, Chair, Freedom of the Borough Working Group

Contact officer: Julia Regan, Head of Democracy Services,
julia.regan@merton.gov.uk; 020 8545 3864

Recommendation:

That General Purposes Committee report to Council on 2 April 2014, recommending the adoption of criteria and procedures in relation to nominations for the award of the freedom of the borough. (the proposed criteria are set out in paragraphs 2.7 to 2.10 and proposed procedures are set out in paragraphs 2.12 to 2.16 of this report)

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. At its meeting on 20 November 2013, Council resolved that officers be instructed to report to the General Purposes Committee on future criteria and procedures for considering nominees for the freedom of the borough with a view to Council receiving a recommendation from General Purposes Committee on the adoption of such criteria and procedures.
- 1.2. A small working group comprising five members of General Purposes Committee, the Head of Democracy Services, the Leisure and Culture Development Manager and the Head of Communications was established for the purpose of developing criteria and reporting back to the Committee..
- 1.3. This report sets out the criteria and procedures proposed by the working group.

2 DETAILS

Principles

- 2.1. The working group considered the criteria and procedures adopted by other councils, identified a set of guiding principles for Merton and agreed draft criteria and procedures to recommend to General Purposes Committee.
- 2.2. The working group noted that awards prior to 2013 had been to politicians who had made a substantial contribution to the civic life of the borough. Members agreed that they wished to develop criteria that would acknowledge significant contribution made to other aspects of the borough and those who have brought distinction to the borough.

- 2.3. Members wished to be able to acknowledge sustained commitment but stressed that it would be awarded for exceptional service and not automatically for long service.
- 2.4. The working group discussed how best to ensure that there is a process in place that can be activated when there is a nomination, but that wouldn't create the expectation that nominees would automatically receive the freedom of the borough – members stressed that it is important that the award doesn't become commonplace.
- 2.5. The working group requested that legal advice be provided to general Purposes Committee regarding the advisability of including the criteria and procedures in the Council's constitution.

Criteria

- 2.6. The working group agreed to recommend the following criteria to general Purposes Committee:
- 2.7. Freedom of the Borough is a high honour which should only be awarded in exceptional circumstances where the prospective recipient is an individual or organisation of distinction and has rendered eminent services to the borough.
- 2.8. Candidates should have a strong and continuing connection with and commitment to Merton or have made a major contribution to national life and in doing so have enhanced the reputation of the borough.
- 2.9. Candidates should have made a substantial contribution to the borough in any area of activity, which could include:
 - artistic and cultural endeavours
 - business, economic growth and prosperity
 - charitable work
 - improvement to the built and natural environment
 - religious and spiritual life
 - sports activities
 - civic service
- 2.10. The award may be granted posthumously.

Procedures

- 2.11. The working group agreed to recommend the following procedure to General Purposes Committee:
- 2.12. Nominations for persons or organisations to be granted Freedom of the Borough, may be made by any serving Member of the Council to the Monitoring Officer on the appropriate form. The Member should first raise the matter for discussion within their political group.

- 2.13. Once a nomination is received, the Monitoring Officer will check that sufficient information has been provided on the form and will pass it to the General Purposes Committee for consideration.
- 2.14. The Monitoring Officer will write to all councillors at least once during the four yearly municipal cycle, preferably at or near the midpoint, to draw their attention to the opportunity to make nominations
- 2.15. The General Purposes Committee may establish a small working group to informally assess nominations and the likelihood of meeting the 2/3 criteria. The working group would report back to the General Purposes Committee in regard to any nominee who it believed would meet the criteria and achieve sufficient support at Council.
- 2.16. General Purposes Committee shall report to Council and, should Council accept the nomination, a Special Meeting of Council would then be called to pass the resolution as required by Section 248 of the Local Government Act 1972.
- 2.17. A draft nomination form is appended to this report for consideration by the Committee.

3 ALTERNATIVE OPTIONS

- 3.1. General Purposes Committee may choose to recommend alternative criteria and/or procedures to Council..

4 CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1. A request for information on criteria and procedures was placed on the Association of Democratic Services Officers' website. Information was received from three councils and was considered by the working group..

5 TIMETABLE

- 5.1. A report from General Purposes containing recommendations relating to criteria and procedures for awarding the Freedom of the borough will be received at Council's meeting on 2 April 2014..

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

Any expenditure associated with conferring the Honorary Freedom of the Borough will be from existing budgets.

7 LEGAL AND STATUTORY IMPLICATIONS

- 7.1. Section 249 (paragraphs 5 and 6) of the Local Government Act 1972 states:
 - (i) (5) The Council of a London Borough... may, by resolution passed by not less than two-thirds of the members voting thereon at a meeting of the council specially convened for the purpose with notice of the object, admit to the borough persons of distinction and persons who have, in the opinion of the council, rendered eminent services to the borough"
 - (ii) (6) The Council of a London Borough... may spend such reasonable sum as they think fit for the presenting an address or a casket containing an address to a person upon whom they have conferred the title of (honorary alderman) or admitted to be an honorary freeman of the ...borough..

- 7.2. The working group requested that legal advice be provided to the Committee regarding the advisability of including the criteria and procedures in the Council's constitution.
- 7.3. Making the criteria and procedures part of the Constitution does mean they are transparent to the public and easily accessible. If any amendments are required to the processes then, as part of the constitution, this would require the amendments to be presented to Standards Committee, General Purposes Committee and full Council.
- 7.4. If the procedures do not form part of the constitution amendments could be decided without the need to refer them through Standards Committee, this committee and Council. Substantive amendments could be delegated to General Purposes Committee with minor amendments delegated to the Monitoring Officer. As regards transparency, even if the procedures were not made part of the Constitution they could be posted on the website.

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. None

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

Appendix 1 – draft nomination form

12 BACKGROUND PAPERS

Note of meeting of the Freedom of the Borough Working Group, 6 February 2014

NOMINATION FOR FREEDOM OF THE BOROUGH

1. Name of the person or organisation being nominated for Freedom of the Borough.

2. Freedom of the Borough is a high honour which should only be awarded in exceptional circumstances where the prospective recipient is an individual or organisation of distinction and has rendered eminent services to the borough.

Candidates should have a strong and continuing connection with and commitment to Merton or have made a major contribution to national life and in doing so have enhanced the reputation of the borough.

Candidates should have made a substantial contribution to the borough in any area of activity, which could include:

- artistic and cultural endeavours
- business, economic growth and prosperity
- charitable work
- improvement to the built and natural environment
- religious and spiritual life
- sports activities
- civic service

The award may be granted posthumously.

3. The award of the Freedom of the Borough requires support of 2/3 of Council. Nominations should therefore first be discussed within your political group and, where appropriate, with other group leaders. In your opinion, is the nomination likely to achieve the required 2/3 support at Council?

YES NO

4. Please use the box below to outline your nominee's outstanding achievements in the Borough or on the international stage which have brought pride and satisfaction to the Borough. Continue on a separate sheet if necessary.

5. Nomination submitted by:

Councillor _____ Date _____

Please return this form to The Monitoring Officer, Merton Civic Centre or by e-mail to democratic.services@merton.gov.uk

Work Programme General Purposes Committee

Outline programme – scheduled audit and finance items

MARCH

- External auditor: certification of claims report
- External auditor: fee letters for audit for the Council and Pension Fund
- Internal audit: Progress report
- Internal audit: Plan, strategy and terms of reference
- Internal audit: Whistleblowing policy and annual update

JUNE

- Internal audit: Annual Governance Statement
- Internal audit: Annual Report
- Finance: Draft accounts

SEPTEMBER

- Internal audit: Progress on annual audit plan
- Finance: Final accounts

NOVEMBER

- External auditor: annual audit letter
- External auditor: audit results report
- Internal audit: Annual Governance Statement update on improvement plan

Other standard items

- Polling places
- Constitutional amendments

Specific items

- Constitutional changes - Financial regulations, GP terms of reference, Council standing orders and Chief Exec's delegation – **JUNE 2014**

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