

# Merton Council

## General Purposes Committee

### Membership

#### Councillors

Peter McCabe (Chair)

Janice Howard (Vice-Chair)

Laxmi Attawar

Adam Bush

Tobin Byers

Stephen Crowe

Mary Curtin

Ian Munn BSc, MRTPI(Rtd)

David Williams

Agatha Mary Akyigyina

#### Substitute Members:

Stan Anderson

Michael Bull

Daniel Holden

Imran Uddin

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

**Date: 25 June 2015**

**Time: 7.15 pm**

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

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

Press enquiries: [press@merton.gov.uk](mailto:press@merton.gov.uk) or telephone 020 8545 3181

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# General Purposes Committee

## 25 June 2015

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16	Report on the use of temporary workers and consultants	To Follow

### 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.



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

## GENERAL PURPOSES COMMITTEE

12 MARCH 2015

(19.15 - 20.44)

**PRESENT** Councillors Councillor Peter McCabe (in the Chair), Councillor Janice Howard, Councillor Adam Bush, Councillor Tobin Byers, Councillor Stephen Crowe, Councillor Mary Curtin, Councillor Abigail Jones, Councillor Ian Munn and Councillor David Williams

**ALSO PRESENT** Margaret Culleton (Head of Internal Audit & Investigations), Paul Dale (Assistant Director of Resources), David Keppler (Head of Revenues and Benefits), Paul King (External Auditor, Ernst and Young), Dean Shoemith (Joint Head of Human Resources) and Chris Pedlow (Senior Democratic Services Officer)

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

No declarations of interests were received.

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

An apology was received by Councillor Laxmi Attawar, with Councillor Stan Anderson standing in for her at the meeting.

### 3 MINUTES OF THE PREVIOUS MEETING (Agenda Item 3)

The Minutes of the Meeting of the General Purpose Committee held on the 6 November 2015 were approved as a correct record.

It was noted that Councillors Daniel Holden and Stan Anderson were present and should have been recorded as such at the meeting on the 6 November 2014 as they were standing in for the absent Councillors Stephen Crowe and Mary Curtin respectively.

### 4 EXTERNAL AUDITOR: CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2013-14 (Agenda Item 4)

The Council's External Auditor, Paul King, presented the certification of claims and returns annual report. It was noted that the report only covers one claim that was required to be certified, which was on a housing benefit and council tax subsidy claim for £92,250,409 to the Department of Work and Pensions. Members were informed that fourteen extended tests occurred following the initial tests on the claim. From

those further tests, four main areas of identified errors and uncertainties were included within the qualification letter and were highlighted on page 11 of the report.

In response to a Member question, in relation to the summary of recommendations contained within section 4, and whether the council was on track to meet the 31 March 2015 deadline for three of the recommendations, it was confirmed that we were on track to meet them, but it was an ongoing process.

RESOLVED

Members noted the report.

#### 5 EXTERNAL AUDITOR: AUDIT PROGRESS REPORT (Agenda Item 5)

The Council's External Auditor, Paul King, introduced the Audit Progress report, which provided a position statement of the audit work carried out by Ernst and Young during 2014-15. Members were informed that, within paragraph 1.6, it details proposed ways for the audit process which, it is hoped, would be smoother and more efficient in future years.

It was noted that from 2017-18 the Council would be required to close and produce its accounts a month earlier than the current deadline. Also those accounts would be required to be audited by the external auditor and their subsequent audit report issued by the end of July, two months earlier than currently process.

RESOLVED

Members noted the report.

#### 6 EXTERNAL AUDITOR: AUDIT PLANNING REPORT FOR THE COUNCIL (Agenda Item 6)

The Council's External Auditor, Paul King, presented the Audit Planning report of the Council, which detailed the audits carried out by Ernst and Young during the year ending March 2015. Section 3 was highlighted to Members as it detailed the three areas of significant risks and the audit approach to them.

It was noted that the audit of the Council pensions scheme would be done separately and was not included in the report, but would be put to the committee in due course.

RESOLVED

Members noted the report

7 INTERNAL AUDIT: PLAN, STRATEGY AND CHARTER 2015/16 (Agenda Item 7)

Members considered the Internal Audit, Plan, Strategy and Charter 2015-16, presented by the Head of Internal Audit & Investigations. It detailed the proposed planned audits for the forthcoming year, the reasoning and rationale behind each audit and the expected length in time of the investigation. It was noted that some of the IT audits would be outsourced to a specialist with the technical expertise in the subject matter.

In considering the report, Members asked that the risk assessment level i.e. high, medium or low, be included in future with the audit plans. The Head of Internal Audit and Investigations said she did not believe this to be an issue but would look into the matter and confirm at the next meeting, her only possible concern was that, by categories, the risk may be detrimental to the officers who were being audited. If it is fine, a copy of the risk assessment for the forthcoming year's programme would be provided to members for their information.

RESOLVED

- 1) That members note the 2015/16 draft Internal Audit Strategy, Plan and Charter.
- 2). The Head of Internal Audit and Investigations to confirm as to whether the risk assessment levels would be included with the audit plans that come before the Committee

8 INTERNAL AUDIT: INTERNAL AUDIT PROGRESS AND FRAUD UPDATE (Agenda Item 8)

The Head of Internal Audit and Investigations presented the report which provided Members with their second update on the Internal Audit's progress against the Audit Plan 2014-15. It was noted that since the last update, 22 audit reports had been produced and, of those, four had been labelled as 'limited assurance', with further information contained within Appendix B of the report. Of those, 'limited assurance', one related to Sherwood School and that was a follow up audit, following previous concerns. We have ensured that, since the second audit, the recommendations have, or were being, implemented and they had requested a further follow up audit to show their improvements.

On the fraud investigations aspect of the report, there were 23 investigations with 10 proven to be inconclusive. It was noted that that 23 investigations were set out in Appendix C. Members also were informed that, from April 2015, a fraud partnership had been set up with 5 neighbouring boroughs, being led by Wandsworth. The Committee would still be receiving the same information on the investigations.

In considering the report Members were interested in the proposed work of the fraud partnership, especially their expected investigation into 'Blue Badge' fraud and how

they would be working with Circle Merton Priory Homes on various types of tenancy fraud.

## RESOLVED

That the Committee

- 1) notes the Internal Audit Progress Report and comment upon matters arising from it.
- 2) notes the Whistleblowing update.
- 3) notes the proposal to join a 5 Borough fraud partnership led by Wandsworth Council.

## 9 WITHDRAWAL OF HOUSING BENEFIT AND COUNCIL TAX SUPPORT RISK BASED VERIFICATION (Agenda Item 9)

The Revenues and Benefits Manager presented the report to the Committee which details the proposed withdrawal of the risk based verification process and policy for new housing benefit and council tax support claims. The report also sought Members' agreement of the new verification policy, as the introduction of Universal Credit will see a reduction in new claims.

It was emphasised to the Committee that, with the expected commencement of Universal Credit in December 2015, it would see a significant reduction of new housing benefit claims that the council would be receiving or dealing with. It was noted that this proposal would lead to a budget saving from 2016-17.

## RESOLVED

That the Committee

- 1) agrees that the risk based verification process adopted for Housing and Council Tax Benefit in April 2012 will be withdrawn from April 2015, or 1 July 2015, pending further discussions with the Department of Work and Pensions.
- 2) agrees that the new Verification Policy for Housing Benefit and Council Tax Support will be implemented from 1 April 2015 ,or 1 July 2015, pending further discussions with the Department of Work and Pensions
- 3) notes Section 151 officers agreement to this approach and policy



10 REVIEW OF NON-KEY DELEGATED EXECUTIVE DECISIONS (Agenda Item 10)

The Committee considered the requested update report on the use of the non-key delegated executive decisions. Members supported the proposals that further work is done by Democratic Services to embed the new process across each department of the Council. Members also confirmed that a further report will be required in a year's time to see how this has progressed.

RESOLVED

That Members;

- 1) note the report,
- 2) request that the Head of Democracy Services work with each departmental management team to fully embed the new processes, and;
- 3) requests a further review report to the meeting of General Purposes Committee in March 2016.

11 REPORT ON THE USE OF TEMPORARY WORKERS AND CONSULTANTS (Agenda Item 11)

The Joint Head of Human Resources presented the update report on The Use of Temporary Workers and Consultants, which was a further follow up report to the external auditors' report from 12 March 2014 on Review of Anonymous Whistleblowing statement.' Members were guided through the report, receiving an update on the actions taken to date against the each of the recommendations from the external auditors' reports. It was noted that those original recommendations were detailed within Section 2 of the report.

Members were informed that in respect of original recommendation 3, an internal audit would commence in April 2015 to ensure that the correct challenge had occurred in respect of the use of long term interim appointments and consultants as well as their charges. Challenge was also occurring through regular monthly reports being presented to Departmental Management Teams (DMT's) and the review of interims in each department with respective management teams. It was noted that the original recommendations 5, 6 and 7 had been fully implemented as the appropriate HR policies have been amended accordingly.

In considering the report Members asked a number of questions of the Joint Head of Human Resources including whether the recommendation was having a difference? In response, Members were informed that the rigor of recording and monitoring of interims was now in place to meet all the expectations from the original external auditors' report. The upcoming internal audit will help to show how far we have come and what needs to be improved. In response to a question, it was confirmed that, the approximate number of temporary contracted staff (390) form approximately 20% of

the 1850 non-teaching staff workforce. It was noted, however, that a number of those temporary contracted staff were on fixed projects. Other questions included questioning the nature of the 'expected end dates' and whether they were monitored to ensure that the temporary staff contracts had finished as expected.

The committee held an extensive discussion on the recruitment and retention of social workers, including how the recent pan-London Memorandum of Understanding was impacting on this. Members felt that there was an opportunity for the Council's scrutiny function to have a more in-depth investigation into the general recruitment and retention of staff generally, and especially in terms of social workers. Also it was felt further scrutiny could occur into the costing of temporary workers and consultants, possibly via the financial monitoring task group.

Councillor McCabe, offered to take those general suggestions forward to the Overview and Scrutiny Commission as part of their work programme formulation as the Vice-Chair of the Commission. He also confirmed that through his role as Chair of the Healthier Communities and Older People Scrutiny Panel, he would be quite happy to ensure that the Panel scrutinises the recruitment and retention of social workers during the forthcoming year.

Arising from the discussion, Members asked that for their next meeting they receive the following additional information:

- trend data (in a graph) on showing the overall use of temporary staff and consultants
- benchmarking data across the London Borough on the spend of temporary staff and consultants
- Further information and feedback on the challenge on why there had been the use of the temporary arboriculturalist since 2008 (p.21 of the exempt appendix)

## RESOLVED

- 1) That the Committee notes the progress made to monitor and control the use of temporary workers and consultants
- 2) That the Joint Head of Human Resources be required to provide the requested information, as set out in the minute, for the next meeting of the Committee.
- 3) That Councillor McCabe put forward the Committee's suggestions through to the appropriate Scrutiny Commission and Panel for their considerations

## 12 LOCAL PENSION BOARD (Agenda Item 12)

The Assistant Director for Resources presented the report which proposed the establishment of a Local Pensions Board as required by statute. It also detailed a proposed Terms of Reference for the new Board, which was set out in Appendix A to the report.

Members acknowledged the statutory requirement of a Local Pension Board being established and thus endorsed the proposals to full Council.

## RESOLVED

That the Committee agrees

- 1). the establishment of a Local Pension Board and the Terms of Reference as attached at Appendix A to the report and recommend approval by Council;
- 2.) to delegate to the Director of Corporate Services the authority to finalise all matters relating to the set-up of the Board, including the power to make changes to the Terms of Reference in order to ensure compliance with relevant legislation and guidance; and
- 3.) that the Pension Board submits an annual report to General Purposes Committee summarising its work.

## 13 WORK PROGRAMME (Agenda Item 13)

### RESOLVED

Work Programme General Purposes Committee

#### JUNE

- Internal audit: Annual Governance Statement
- Internal audit: Annual Report
- External auditor: fee letters for audit and for the Council and Pension fund
- Finance: Draft Accounts

#### SEPTEMBER

- External audit: Audit Results Report for the audit of the Council and the Pension fund
- Internal audit: Progress on annual audit plan
- Finance: Final Accounts

#### NOVEMBER

- External auditor: annual audit letter
- Polling places
- Constitutional amendments
- Feedback on EY whistleblowing report

#### MARCH

- External audit: certification of claims report
- External audit: Audit Progress Report
- External audit: Audit Plans for audit of the Councils and Pension Fund

- Internal audit: Progress report
- Internal audit: Plan, strategy and terms of reference
- Internal audit: Whistleblowing policy and annual update
- Democratic services: Update report on Non-Key Delegated Executive Decisions

OTHER STANDARD ITEMS

SPECIFIC ITEMS

- Constitutional changes (when necessary)

Ged Curran  
Chief Executive  
Merton Council  
Civic Centre  
London Road  
MORDEN  
SM4 5DX

2 April 2015

Ref: LB Merton/fee15-16 letter

Direct line: 07974 757910

Email: PKing1@uk.ey.com

Dear Ged

## Annual Audit and Certification Fees 2015/16

We are writing to confirm the audit and certification work that we propose to undertake for the 2015/16 financial year at Merton Council.

Our 2015/16 audit is the first following the closure of the Audit Commission on 31 March 2015. Public Sector Audit Appointments Ltd (PSAA), an independent company set up by the Local Government Association, will now oversee our contract until it ends in 2017 (or 2020 if extended by the Department for Communities and Local Government).

The responsibility for publishing the statutory Code of Audit Practice, under which we will conduct our audit work, has transferred to the National Audit Office.

### Indicative audit fee

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies, and which applies from 2015/16 audits.

The audit fee covers the:

- audit of the financial statements;
- value for money conclusion; and
- Whole of Government Accounts return.

For the 2015/16 financial year the Audit Commission set the scale fee for each audited body before its closure. The scale fee is based on the fee initially set in the Audit Commission's 2012 procurement exercise, reduced by 25% following the further tendering of contracts in March 2014. It is not liable to increase during the remainder of our contract without a change in the scope of our audit responsibilities.

The 2015/16 scale fee is based on certain assumptions, including:

- the overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- we are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards;

- the financial statements will be available to us in line with the agreed timetable;
- working papers and records provided to us in support of the financial statements are of a good quality and are provided in line with our agreed timetable; and
- prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

For Merton Council this fee is set at the scale fee level as the overall level of audit risk is not significantly different from that of the prior year. As we have not yet completed our audit for 2014/15, our audit planning process for 2015/16 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

### Certification fee

The Audit Commission has set an indicative certification fee for housing benefit subsidy claim certification work for each audited benefits authority. The indicative fee is based on actual benefit certification fees for 2013/14 but incorporates a 25 per cent reduction.

The indicative certification fee is based on the expectation that an audited body is able to provide the auditor with complete and materially accurate housing benefit subsidy claim with supporting working papers, within agreed timeframes.

The indicative certification fee for 2015/16 relates to work on the housing benefit subsidy claim for the year ended 31 March 2016, and we have set the certification fee at the indicative fee level. We will update our risk assessment after we complete 2014/15 benefit certification work, and to reflect any further changes in the certification arrangements.

### Summary of fees

	Indicative fee 2015/16 £	Planned fee 2014/15 £	Actual fee 2013/14 # £
Total Code audit fee	143,498	191,331	209,800
Certification of housing benefit subsidy claim	41,242	37,760	54,989

# - the actual Code audit fee for 2013/14 included additional fees of £16,400 for the investigation and reporting in response to the whistleblowing allegations raised on use of contractors; £2,070 extra work on analytics data; and £2,600 for work on NDR. The actual fee for the certification of housing benefit subsidy claim included additional fees of £8,000 for completion of additional workbooks

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.

### Billing

The indicative audit fee will be billed in four quarterly instalments of £46,185.

**Audit plan**

We expect to issue our plan in March 2016. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks, and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Director of Corporate Services and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit and Standards Committee.

**Audit team**

The key members of the audit team for the 2015/16 financial year are:

<b>Paul King</b> Director	<a href="mailto:PKing1@uk.ey.com">PKing1@uk.ey.com</a>	Tel: 07974 757910
<b>Michael Yeats</b> Manager	<a href="mailto:MYeats@uk.ey.com">MYeats@uk.ey.com</a>	Tel: 07866 620240
<b>Eli Johns</b> Lead Executive	<a href="mailto:EJohns@uk.ey.com">EJohns@uk.ey.com</a>	Tel: 07778 110277

We are committed to providing you with a high quality service. 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, please contact me. 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.

Yours sincerely



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

cc. Caroline Holland      Director of Corporate Services  
Peter McCabe          Chair of the General Purposes Committee

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Mr Ged Curran  
Chief Executive  
Merton Council  
Civic Centre  
London Road  
Morden  
SM4 5DX

23 April 2015

Ref: Merton PF/MY/fee15-16 letter

Direct line: 0786 662040

Email: MYeats@uk.ey.com

Dear Ged

## Merton Pension Fund - Audit Scale Fee 2015/16

We are writing to confirm the audit scale fee for the 2015/16 financial year for Merton Pension Fund.

Our 2015/16 audit is the first following the closure of the Audit Commission on 31 March 2015. Public Sector Audit Appointments Ltd (PSAA), an independent company set up by the Local Government Association, will now oversee our contract until it ends in 2017 (or 2020 if extended by the Department of Communities and Local Government).

The responsibility for publishing the statutory Code of Audit Practice, under which we will conduct our audit work, has transferred to the National Audit Office.

### Indicative audit fee

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies, and which applies from 2015/16 audits.

The audit fee covers the

Audit of the financial statements;

The consistency of the financial information within the Pension Fund annual report.

For the 2015/16 financial year the Audit Commission has set the scale fee for each audited body as part of the procurement exercise of 2012. Consequently it is not liable to increase without a change in scope.

The 2015/16 scale fee is based on certain assumptions, including:

The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;

We are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards;

The financial statements will be available to us in line with the agreed timetable;

Working papers and records provided to us in support of the financial statements are of a good quality and are provided in line with our agreed timetable; and

Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

For Merton Pension Fund this fee is set at the scale fee level as the overall level of audit risk is not significantly different from that of the prior year.

As we have not yet completed our audit for 2014/15, our audit planning process for 2015/16 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

### Summary of fees

	Indicative fee 2015/16 £	Planned fee 2014/15 £	Actual fee 2013/14 # £
Total Code audit fee	21,000	21,000	22,449

# - the actual Code audit fee for 2013/14 included additional fees of £1,449 for extra work associated with delays in receipt of, and multiple iterations and refinements of, the datasets for analytics work

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.

### Billing

The indicative audit fee will be billed in 4 quarterly instalments of £5,250.

### Audit plan

We expect to issue our plan in March 2016. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks, and any changes in fee. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Director of Corporate Services and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the General Purposes Committee.

**Audit team**

The key members of the audit team for the 2015/16 financial year are:

Baldeep Singh  
**Partner**

[BSingh@uk.ey.com](mailto:BSingh@uk.ey.com)

Tel: 01582 643035

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Paul King  
**Director**

[PKing1@uk.ey.com](mailto:PKing1@uk.ey.com)

Tel: 07974 757910

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Michael Yeats  
**Manager**

[MYeats@uk.ey.com](mailto:MYeats@uk.ey.com)

Tel: 07866 620240

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We are committed to providing you with a high quality service. 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, please contact me. 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.

Yours sincerely

Baldeep Singh  
Partner  
For and on behalf of Ernst & Young LLP

cc. Caroline Holland      Director of Corporate Services  
Peter McCabe          Chair of the General Purposes Committee

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# London Borough of Merton Pension Fund

Year ending 31 March 2015

Audit Plan

March 2015

Ernst & Young LLP



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

9 March 2015

Dear Committee Members

## **Audit Plan – Merton Pension Fund**

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the General Purposes Committee with a basis to review our proposed audit approach and scope for the 2014/15 audit in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, Standing Guidance, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Pension Fund, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this plan with you at your June 2015 Committee and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Baldeep Singh  
Partner  
*For and behalf of Ernst & Young LLP*  
Enc

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

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

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

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

# 1. Overview

## **Context for the audit**

This Audit Plan covers the work that we plan to perform 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 position as at 31 March 2015 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; and

Management's views on all of the above.

We held planning meetings with the Treasury and Insurance Manager on 3 and 19 February 2015 in which we discussed the results to date and we understand that there are no significant changes in the investments, contributions or membership of the Scheme.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Pension Fund. Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In part three of this plan we provide more detail on the above areas and we outline our plans to address them. Our proposed audit process and strategy are summarised below and set out in more detail in section four.

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 2015.



## **Our process and strategy**

### **Financial statement audit**

We consider materiality in terms of the possible impact of an error or omission on the financial statements and set an overall planning materiality level. We then set a tolerable error to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality to an appropriately low level. We also assess each disclosure and consider qualitative issues affecting materiality as well as quantitative issues.

To the fullest extent permissible by auditing standards, we will seek to rely on the work of internal audit wherever possible.

## **2. The Local Audit and Accountability Act 2014**

The Local Audit and Accountability Act 2014 (the 2014 Act) closes the Audit Commission and repeals the Audit Commission Act 1998.

The 2014 Act requires the Comptroller and Auditor General to prepare a Code of Audit Practice. This must be laid before Parliament and approved before 1 April 2015.

Although this new Code will apply from 1 April 2015, transitional provisions within the 2014 Act provide for the Audit Commission's 2010 Code to continue to apply to audit work in respect of the 2014/15 financial year. This plan is therefore prepared on the basis of the continued application of the 2010 Code of Audit Practice throughout the 2014/15 audit.

### 3. Financial statement risks

We outline below our assessment of the financial statement risks facing the Pension Fund, identified through our knowledge of the Pension Fund’s operations and discussion with those charged with governance and officers.

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

Significant risks (including fraud risks)	Our audit approach
<b>Risk of management override</b>	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>Reviewing accounting estimates for evidence of management bias, and</li> <li>Evaluating the business rationale for significant unusual transactions</li> </ul>
<b>Other financial statement risks</b>	
<b>Changes to the Local Government Pension Scheme</b>	
<p>The 1st of April 2014 marked the start of a new pension scheme which all members of the LGPS automatically joined. Benefits accrued before 1 April 2014 were protected. Key changes impacting on our financial statements audit are:</p> <ul style="list-style-type: none"> <li>• Benefits payable for service from 1 April 2014 will be calculated on a career average basis.</li> <li>• There are an increased number of salary bands, which are used to determine the level of employee contributions with a maximum employee contribution rate of 12.5%</li> </ul> <p>There is a risk that benefits payable or employee contributions may be incorrectly calculated if system parameters were not correctly updated.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>Using membership data and known parameters to undertake a predictive analytical review for benefits payable and employee contributions and critically comparing our predictions with the year-end figures.</li> <li>Walking through benefit payables and employee contribution cases to update our process understanding</li> <li>Substantively testing a sample of benefits paid to ensure calculations are correct</li> <li>Substantively testing a sample of employee contributions to ensure calculations are correct.</li> </ul>

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 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;

Enquiry of management about risks of fraud and the controls 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 any identified risks of fraud; and

Performing mandatory procedures regardless of specifically identified fraud risks.

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

## 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') our principal objectives are to review and report on, the Pension Fund's financial statements.

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

### 4.2 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 experts in relation to areas such as valuation of the investments 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.

#### Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, and support our work on the completeness of your accounting records and in our work on review of journal entries. These tools:

Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests

Give greater likelihood of identifying errors than random sampling techniques.

We will carry out this work in conjunction with that for the Merton Council audit. 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 their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements

### **Use of experts**

We will use specialist EY resource as necessary to help us to form a view on judgments made in the financial statements.

### **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.

### **Mandatory procedures required by auditing standards**

As well as the financial statement risks outlined in section three, 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.

#### ***Procedures required by standards***

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; and

Auditor independence.

#### ***Procedures required by the Code***

Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Report

## **4.3 Materiality**

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition. We have determined that overall materiality for the financial statements of the Pension Fund is £4,722,430 based on 1% of net assets.

We will communicate uncorrected audit misstatements greater than £236,122 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 might ultimately influence our judgement. 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 financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

## 4.4 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 Pension Fund is £21,000.

## 4.5 Your audit team

The engagement team is led by Baldeep Singh, who is a partner in EY's pensions assurance team. Baldeep is supported by Michael Yeats who is responsible for the day-to-day direction of audit work and is the key point of contact for the Finance team.

Paul King is the director leading our overall engagement with Merton Council and our relationship with the General Purposes Committee.

## 4.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit. The timetable includes the deliverables we have agreed to provide to the Pension Fund through the General Purposes Committee's cycle in 2014/15. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the General Purposes Committee and we will discuss them with the Committee Chair as appropriate.

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

Audit phase	Timetable	Committee timetable	Deliverables
High level planning	<b>November - December 2014</b>	<b>November 2014</b>	Audit Fee letter (sent 29 April 2014) Progress Report
Risk assessment and setting of scopes	<b>January – February 2015</b>	<b>March 2015</b>	Audit Plan
Testing routine processes and controls	<b>January – February 2015</b>	<b>June 2015</b>	Progress Report
Year-end audit	<b>June – July 2015</b>		
Completion of audit	<b>September 2015</b>	<b>September 2015</b>	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements). Audit completion certificate
Conclusion of reporting	<b>November 2015</b>	<b>November 2015</b>	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.

## 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 on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during 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
<p>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;</p> <p>The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review;</p> <p>The overall assessment of threats and safeguards;</p> <p>Information about the general policies and process within EY to maintain objectivity and independence.</p>	<p>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;</p> <p>Details of non-audit services provided and the fees charged in relation thereto;</p> <p>Written confirmation that we are independent;</p> <p>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</p> <p>An opportunity to discuss auditor independence issues.</p>

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, 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 contracted services, and details of any written proposal to provide non-audit services;

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

### 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 any principal threats. However we have adopted the safeguards 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 the Pension Fund.

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 the Pension Fund has approved and that are in compliance with the Audit Commission's Standing Guidance.

At the time of writing, there are no non-audit fees. No additional safeguards are required.

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 the Pension Fund. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, 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 other 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 where management is required to make judgements or decisions 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 adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Baldeep Singh, the 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 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 27 June 2014 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2014>

## Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2014/15 £	Out-turn 2013/14 £	Published fee 2013/14 £	Explanation
Total Audit Fee – Code work	21,000	22,449	21,000	Extra work due to delays in receipt of, and multiple iterations of, analytics data
Non-audit work	0	0	0	

*All fees exclude VAT.*

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

Officers meeting the agreed timetable of deliverables;

The operating effectiveness of the internal controls for the key processes outlined in section 4.2 above;

We can rely on the work of internal audit as planned;

Our accounts opinion being unqualified;

Appropriate quality of documentation is provided by the Pension Fund; and

The Pension Fund has an 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 the Pension Fund 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 General Purposes Committee. These are detailed here:

Required communication	Reference
<p><b>Planning and audit approach</b> Communication of the planned scope and timing of the audit including any limitations.</p>	Audit Plan
<p><b>Significant findings from the audit</b> 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</p>	Report to those charged with governance
<p><b>Misstatements</b> 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</p>	Report to those charged with governance
<p><b>Fraud</b> Enquiries of the General Purposes Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity Any fraud that we have identified or information we have obtained that indicates that a fraud may exist A discussion of any other matters related to fraud</p>	Report to those charged with governance
<p><b>Related parties</b> Significant matters arising during the audit in connection with the entity's related parties including, when applicable: 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</p>	Report to those charged with governance
<p><b>External confirmations</b> Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures</p>	Report to those charged with governance
<p><b>Consideration of laws and regulations</b> Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off Enquiry of the General Purposes Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the General Purposes Committee may be aware of</p>	Report to those charged with governance

Required communication	Reference
<p><b>Independence</b></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 director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>The principal threats</li> <li>Safeguards adopted and their effectiveness</li> <li>An overall assessment of threats and safeguards</li> <li>Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Audit Plan</p> <p>Report to those charged with governance</p>
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>Whether the events or conditions constitute a material uncertainty</li> <li>Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>The adequacy of related disclosures in the financial statements</li> </ul>	<p>Report to those charged with governance</p>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<p>Report to those charged with governance</p>
<p><b>Fee Information</b></p> <ul style="list-style-type: none"> <li>Breakdown of fee information at the agreement of the initial audit plan</li> <li>Breakdown of fee information at the completion of the audit</li> </ul>	<p>Audit Plan</p> <p>Report to those charged with governance</p> <p>Annual Audit Letter if considered necessary</p>

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# Merton Council

Audit Progress Report to General Purposes Committee

June 2015

Ernst & Young LLP



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

June 2015

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 2014-15 audits for the Council and the Pension Fund 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. We include the audit planning report for the 2014--15 Pension Fund audit, and the audit scale fee letters for the 2015-16 audits, as separate agenda items to the Committee.

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  
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Auditors are undertaking their 2014/15 work under the Audit Commission Act 1998 as transitionally saved. The Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 has been made which preserves the relevant parts of the Audit Commission Act 1998 for 2014/15 audits.

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 2014-15 audit**

We have completed our planning and interim work including the walkthroughs of your main financial systems. This work informed our audit planning reports. There are no other issues we wish to bring to your attention.

We presented the audit planning report for the Council to the March 2015 Committee meeting. The audit planning report for the Pension Fund was reviewed by the Pension Fund Advisory Committee in March and is attached as a separate agenda item.

We are due to commence our audit of your financial statements next month and will report the findings of our work to the September 2015 Committee.

### **1.2 Letters to management and those charged with governance**

We included in our progress report to the March 2015 Committee letters to management and those charged with governance (the General Purposes Committee) that we request each year. These cover arrangements around fraud and error, laws and regulations and going concern. In previous years we sought a joint response covering the Council and the Pension Fund; this year we sought separate responses for each.

### **1.3 Audit process review and further improvements for 2014-15**

We have worked with the Finance team to carry out early work on ensuring we have the necessary 'mapping' of the Council's financial systems to the accounts to support our audit of the financial statements. This will also support providing the added value from analysis of your financial data.

We have also discussed the proposed treatment in the Council's 2014-15 financial statements for CHAS 2013 Ltd. The current proposal is to apply the same approach as in 2013-14 with the Council presenting single entity accounts (on the grounds that, from a financial perspective, CHAS is not material to the Council) rather than full group accounts.

We have discussed with the Finance team responsible for preparation of the CHAS 2013 Ltd financial statements the learning we can take from the audit process and the most effective timing and approach to the audit in future years. This year we plan to carry out our work on completion of the Council and the Pension Fund audits as the CHAS 2013 Ltd audit has a later submission deadline.

We have also carried out our initial testing to support our certification of the Council's 2014-15 housing benefit and subsidy claim. We have carried out this work earlier this year to ensure the amount of additional work required is known and to support completion of our work by the submission deadline of the end of November 2015.

### **1.4 Audit scale fees for 2015-16**

The audit scale fee letters for the Council and the Pension Fund are attached as a separate agenda item. The 2015-16 scale fees for the Council features a further 25% reduction over the 2014-15 scale fee.

## 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 2014-15 General Purposes Committee cycle.

Audit phase	Timetable	General Purposes Committee timetable	Deliverables
High level planning:	<b>December 2014 - January 2015</b>		Audit Fee letter (presented to 25 June 2015 General Purposes Committee)
Risk assessment and setting of scopes	<b>December-January</b>	12 March 2015 Committee	Council Audit Plan (presented to 12 March 2015 General Purposes Committee) Pension Fund Audit Plan (presented to March 2015 PFAC – then to June 2015 General Purposes Committee) Audit Progress Report
Testing of routine processes and controls	<b>January-February</b>	25 June 2015 Committee	Audit Progress Report
Year-end audit	<b>July – September</b>	16 September 2015 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
	<b>November</b>	4 November 2015 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. Our latest sector briefing has been circulated to members for information.

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## Committee: General Purposes Committee

Date: 25 June 2015

Wards: All

### Subject: Amendment to standing orders

Lead officers: Paul Evans, Assistant Director Corporate Governance, and Dean Shoemith, Joint Head of Human Resources

Lead member: Councillor Mark Allison, Deputy Leader and Cabinet Member for Resources

Contact officer: Paul Evans, 0208 545 3338

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### Recommendations:

- A. That the General Purposes Committee recommends to Council that it agrees to authorise the changes to the council's constitution (set out in paragraphs 2.4 and 2.5 below) in order to comply with the requirements of the Local Authorities (Standing Orders) (England) (Amendment) Regulations 2015.
- 

## 1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. To inform General Purposes Committee of the changes to the constitution that are required in order to comply with the requirements of the Local Authorities (Standing Orders) (England) (Amendment) Regulations 2015.
- 1.2. Standards Committee discussed the matter at its meeting on 16 June 2015 and agreed to forward the recommendation to General Purposes Committee and subsequently to Council.

## 2 DETAILS

- 2.1. The Local Authorities (Standing Orders) (England) (Amendment) Regulations 2015 require councils to modify their standing orders to implement these Regulations no later than the first ordinary meeting of the council after the Regulations come into force on 11 May 2015.
- 2.2. The Regulations simplify and localise the disciplinary process for the Head of Paid Service, the monitoring officer and the chief finance officer.
- 2.3. The changes that are required to the council's standing orders are:  
Constitution – Part 4H Officer Employment Procedure Rules
- 2.4. Paragraph 7.1, replace:  
“No disciplinary action may be taken in respect of the Head of Paid Service, the Chief Finance Officer or the Monitoring Officer except in accordance with a recommendation in a report made by a Designated Independent Person i.e. as set out in the Local Authorities (Standing Orders) (England) (Amendment) Regulations 2001”
- 2.5. With:

“No disciplinary action to dismiss may be taken in respect of the Head of Paid Service, the Chief Finance Officer or the Monitoring Officer except after having taken into account any advice, views or recommendations of a Panel, the conclusions of any investigation and any recommendations of the relevant officer i.e. as set out in the Local Authorities (Standing Orders) (England) (Amendment) Regulations 2015”

### **3 ALTERNATIVE OPTIONS**

- 3.1. Council is required to make these changes in order to comply with the requirements of the Local Authorities (Standing Orders) (England) (Amendment) Regulations 2015.

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

- 4.1. None for the purposes of this report.

### **5 TIMETABLE**

- 5.1. Council is required to make these constitutional changes no later than the first ordinary meeting of the council after the Regulations come into force on 11 May 2015.
- 5.2. A report was taken to Standards Committee on 16 June and will subsequently be taken to General Purposes Committee on 25 June 2015 and Council on 8 July 2015.

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

- 6.1. There are no significant financial implications.

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

- 7.1. Council is required to make the changes to its standing orders as set out in the Regulations described above..

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

- 8.1. None for the purposes of this report.

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

- 9.1. None for the purposes of this report.

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

- 10.1. None for the purposes of this report.

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

- None

### **12 BACKGROUND PAPERS**

- 12.1. None.

## **Committee: General Purposes Committee**

**Date: 25/06/2015**

Wards: All Wards

### **Subject:**

Lead officer: Paul Evans, Assistant Director of Corporate Governance

Lead member: Councillor Mark Allison, Deputy Leader and Cabinet Member for Finance

Contact officer: Paul Evans, Assistant Director of Corporate Governance

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### **Recommendations:**

1. To review the Members' declaration of interest form and guidance.
  2. To agree the form and guidance should be updated to include declaration of trade union membership.
  3. To agree the form and guidance should be updated to include declaration of third party organisations in the borough where a Councillor or Co-opted Member holds a position of management or control.
  4. To ensure all councillors are guided by the Monitoring Officer on the new requirements that come into effect on 1<sup>st</sup> September 2015.
  5. To recommend to Council the changes to the declaration of interest form and guidance.
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## **1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1. The purpose of this report is to carry out a routine review of the register of interest form and accompanying guidance for Councillors and Co-opted Members. The review aims to ensure the Council's approach is consistent with the requirements of the Localism Act 2011 and subsequent guidance published after the existing local form and guidance was agreed.
- 1.2. This report went to Standards Committee on 16<sup>th</sup> June 2015. Standards Committee agreed the recommendations. Standards Committee also recommended that further guidance based on the questions most frequently received should be developed.

## **2 DETAILS**

- 2.1. Since 2011 it has been a statutory obligation for Councillors and Co-opted Members to declare pecuniary interests and any other interest as is required by the Authority (Localism Act 2011). Any arrangement to declare non-pecuniary interest is to be considered locally.
- 2.2. In July 2012 Standards Committee did not recommend that non-pecuniary interests should be included within the Council's code. Standards Committee and General Purposes Committee agreed that the form and accompanying guidance should be kept under review by the monitoring officer and the new

Standards Committee. Since that decision, DCLG guidance 'Openness and Transparency on Personal Interests' was published and this report considers that guidance and the Council's experience.

- 2.3. The 2013 DCLG guidance on registration of personal interests explains that registration of personal interests 'should be guided by... [the] duty to act in conformity with the seven principles of public life.' The guidance states that membership of any Trade Union will 'necessarily' be a personal interest to be declared under these principles. The guidance supports the inclusion of other interests on the form that assist members in complying with the seven principles of public life.
- 2.4. In 2014 an Internal Audit Report reviewed Merton's arrangements and confirmed that the existing form is compliant with the compulsory elements of the statute in relation to pecuniary interests. The report recommended that the Council should consider expanding the current register of interests to also include a declaration by members of third party organisations within the borough in which they hold a position of general control or management. Members are used to making such declarations at Council meetings when required, such as when they are a school governor, trustee or committee member of an organisation in the borough. It is recommended that adopting this new requirement to register such interests would promote transparency.
- 2.5. An amended registration of interests form (attached at Appendix A) incorporates the above. The form has also been amended to make it clear that Company Directorships are pecuniary interests that must be disclosed.
- 2.6. For the purposes of the register, an interest of a spouse or civil partner **is** the disclosable pecuniary interest of the member. There is no requirement to differentiate between the pecuniary interest of the member and those relating to their spouse or civil partner. The form has been amended to reflect this.

### **3 ALTERNATIVE OPTIONS**

- 3.1. One further option is to continue with the current register of interest form which is compliant with the compulsory elements of the Localism Act 2011 in relation to declaration of pecuniary interests.
- 3.2. However the DCLG guidance 'Openness and Transparency on Personal Interests' (2013) updated the guidance on registration of personal interests in accordance with the seven principles of public life, which includes membership of any trade union. The existing Merton guidance does not state this and is therefore not consistent with this guidance.

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

- 4.1. This report will be taken to Standards Committee, General Purposes Committee and Council.



## **5 TIMETABLE**

- 5.1. It is proposed that an updated form and accompanying guidance if agreed would come into effect on the 1<sup>st</sup> September 2015 (01/09/15).

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

- 6.1. There are no financial, resource or property implications arising from this report.

## **7 LEGAL AND STATUTORY IMPLICATIONS**

- 7.1. The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 defines the disclosable pecuniary interests required to be registered under the Localism Act 2011. The regulations or Act do not require members to specify who the disclosable interest relates to – it is seen as the members' interest regardless of whether it relates to them or their partner. Failure to declare disposable pecuniary interests is a criminal offence under section 34 of the Localism Act.

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

- 8.1. There are no anticipated human rights, equalities or community cohesion implications arising from this report.

## **9 CRIME AND DISORDER IMPLICATIONS**

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

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

The review of the form and guidance is intended to minimise the risk that Councillors and Co-opted Members may inadvertently fail to follow the compulsory elements of the statute or the government guidance.

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

- A) Amended register of interest form and guidance

## **12 BACKGROUND PAPERS**

None

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## Notification by a Member of a London Borough of Merton of interests (2015)

Every elected or co-opted member is required to notify the Monitoring Officer (within 28 days of being elected or co-opted onto the authority) of all current "disclosable pecuniary interests" of which they are aware.

Failure to register any such interest, failure to register within 28 days of election or co-option, or the provision of misleading information on registration without reasonable excuse, will be criminal offences. Prosecution is at the instigation of the Director of Public Prosecutions.

Every elected or co-opted member should notify the Monitoring Officer (within 28 days of being elected or co-opted onto the authority) of all current "non-pecuniary interests" of which they are aware.

**I (print full name)**

A Member of the Council of the London Borough of Merton, give notice that I have the following disclosable pecuniary interests under sections 29-34 of Localism Act 2011.

**These interests apply to myself or my partner** (which means spouse or civil partner, a person with whom I am living as husband or wife, or a person with whom I am living as though we are civil partners), in so far as I am aware of his/her interests.

I also give notice that I have the following non-pecuniary interests.

### **Disclosable pecuniary interests**

Employment, office, trade, profession or vocation carried out for profit or gain.

You should show every employment, office (including Company Director), trade, profession or vocation that you and your partner have to declare for income tax purposes.

Provide the name of the employer and give a short description of the activity concerned; for example, "Computer Operator" or "Accountant".

Where you hold an office, give the name of the person or body which appointed you. In the case of a public office, this will be the authority which pays you. In the case of a teacher in a maintained school, the local education authority; in the case of an aided school, the school's governing body.

Sponsorship received in respect of carrying out duties as a member of the authority, or towards my election expenses

You should declare the name of any person or body who has made any payments to you in the last year towards your expenses as a councillor or towards your election expenses. You do not need to declare the amounts of any payments: only the name of the person or body making them.

This would usually mean a political party at election time.

Contracts between myself (or body in which I have a beneficial interest) and the London Borough of Merton (or organisation contracted to carry out business on its behalf)

You should list any contract made between yourself or your partner or a body in which either of you have a beneficial interest and the London Borough of Merton (or an organisation contracted to carry out business on its behalf):

- a) under which goods or services are to be provided or works are to be executed; and
- b) which has not been fully discharged.

Address of property or land in the London Borough of Merton in which I have a beneficial interest

You should include any land in the area of the borough in which you or your partner have a beneficial interest. You should give the address or a brief description to identify it. If you live in the borough you should include your home under this heading whether as owner, lessee, or tenant.

You should also include any property from which you receive rent, or of which you are the mortgagee.

“Land” includes any buildings or parts of buildings.

Any licence (alone or jointly with others) to occupy land in the London Borough of Merton for a month or longer

You should include land in the area of the borough which you or your partner have a right to occupy, but neither own nor have a tenancy of. You should give the address or a brief description to identify it.

“Land” includes any buildings or parts of building.

Any tenancy where (a) the landlord is the London Borough of Merton; and (b) the tenant is a body in which the relevant person has a beneficial interest

Any beneficial interest in securities (stocks, shares, bonds...) of a body where (a) that body has a place of business or land in the London Borough of Merton; and (B) either (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or (ii) of the share capital is of more than one class, the total nominal value of any one class in which I have a relevant interest exceeds one hundredth of the total issued share capital of that class

You should list the names of any companies, industrial and provident societies, co-operative societies, or other bodies corporate that (to your knowledge) are active in the Borough and in which you or your partner have a substantial interest. You do not need to show the extent of your interest.

**Non-pecuniary interests**

Any trade union which you are a member of

Any position of management or control that you hold in any third party organisation within the borough

You should list school governor, trustee and committee roles and other roles where you hold a position of management.

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Signed: \_\_\_\_\_

Dated: \_\_\_\_\_

**NOTE:** A Member must, within 28 days of becoming aware of any change to the interests specified above, provide written notification to the authority's monitoring officer of that change.

**Sensitive Information**

Where you consider that disclosure of the details of an interest could lead you, or a person connected to you, or a person connected with you, being subject to violence or intimidation, and the Monitoring Officer agrees, any published version of the register will exclude details of the interest but may state that you have an interest, the details of which are withheld.

## **Committee: General Purposes Committee**

**Date: 25<sup>th</sup> June 2015**

Wards:

### **Subject: Shared Internal Audit Service**

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Councillor Mark Allison

Contact officer: Margaret Culleton – Head of Internal Audit    email.  
margaret.culleton@merton.gov.uk

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### **Recommendation:**

A     To agree to the principle of Merton joining the shared Richmond and Kingston Council Internal Audit Service from the 1<sup>st</sup> October 2015

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

1.1   This report seeks General Purposes Committee endorsement for Merton to join the Richmond and Kingston shared internal audit service with effect from 1st October 2015, with Richmond as the lead authority. Approval will be sought from Cabinet at both Merton and Richmond and Policy and Finance Committee at Kingston.

#### **2.     DETAILS**

2.1   The Richmond and Kingston Internal Audit and Investigation shared service went live in June 2012. In April 2015, the investigation function for 5 councils, Richmond, Kingston, Sutton, Merton and Wandsworth were joined in a partnership, led by Wandsworth council.

2.2   The Richmond and Kingston Shared audit service is now seeking to expand their audit service to include neighboring authorities. Discussions have started on the feasibility of Merton joining and an outline project brief developed. This has received endorsement in principle at senior management level in each authority and endorsement is now sought from Members to progress this work.

2.3   The Internal Audit function at Merton has 6 posts. The Internal Audit function at Richmond and Kingston Shared service is of a comparable size with 9 posts and 2 FTE equivalent outsourced from Mazars. Both Merton and the Richmond/Kingston shared service use a risk based audit model, using Galileo. The Head of Audit at Merton has responsibility for pulling together the AGS whereas Richmond and Kingston do not.

#### **3     Drivers for change**

3.1   Councils are facing enormous challenges as a result of grant reductions by central Government. It is crucial that each council applies its limited resources in the most effective way possible

- 3.2 Internal audit teams have a vital role to play in helping Councils manage effectively through the challenges they face by ensuring that governance, risk management and control arrangements remain effective. To do this successfully, internal audit teams need to be fit for purpose and provide assurance of the necessary quality, depth and coverage. Often this will mean giving assurance on complex and risky issues and using specialist resources when necessary.
- 3.3 As well as Internal Audit providing an effective service now they need to ensure they are resilient against any potential future efficiency.
- 3.4 A Memorandum of Co-operation signed by South London Partnership Boroughs supporting collaboration was endorsed by Merton. At this time when shared services are being explored for Merton, it makes sense to consider joining an Internal Audit Service.
- 3.5 The scale of a potential shared service would be manageable and objectives realised within a reasonable timescale and would provide scope for further integrated arrangements with other boroughs in the future.
- 3.6 Richmond and Kingston are similar sized London Boroughs to Merton, geographically adjacent, and influenced by similar issues in their respective market places.

#### **4. Benefits**

- 4.1 It is proposed that the Internal Audit Shared Service Project be progressed in order to realise the potential business benefits for all councils including:
  - i) to deliver a programme of high quality and reliable assurance on all key governance, risk and control systems to each Council, operating in accordance with statutory requirements, professional standards such as the Public Sector Internal Audit Standards, and recognised best practice methodology
  - ii) To deliver the service through a mix of in-house staff and contract days procured through the Croydon framework contract (or similar). This allows greater flexibility to buy in specialist audit services and in a period of significant organisational change in both authorities, to expand or contract as and when required;
  - iii) to deliver high standards of customer service and be responsive and flexible in its approach, offering the benefits of a 'close' in-house team
  - iv) to offer a wide base of experience, resilience, specialisms and skills, taking advantage of the economy of scale available to larger audit teams
  - v) to deliver efficiencies through exploiting opportunities for joined-up working, adopting a common methodology and service standards, sharing knowledge, skills and expertise whilst continuing to provide the assurance required to the Section 151 officers that appropriate resources are in place in a time of reductions in public sector funding



- vi) to provide a supportive and stimulating working environment for those staff working in the Shared Service with opportunities for career development
- vii) to be open to future opportunities to expand the Shared Service, thus enabling greater efficiencies to be achieved.

## **5 Governance arrangements**

5.1 The project sponsors are the Directors of Finance of each council. The co-Project Sponsors at RBK will be the Executive Head of Organisational Development and Strategic Business and Director of Finance. A Project Manager has been appointed at Merton

5.2 The Project Board will report into both Kingston's Strategic Leadership Team (SLT), Richmond's Executive Board and Merton Corporate Management Team and will drive forward the delivery of the project by:

- Providing the energy, direction and support to enable the project team to deliver its brief
- Leading the engagement and communication with staff and other stakeholders across both boroughs
- Managing the risks and issues that will arise through the delivery of the project
- Considering and agreeing any significant changes to the project.

5.3 A Project Team to include the Head of Audit of Richmond & Kingston and the Head of Audit at Merton will be formed in order to deliver the project and co-ordinate the activities of the Work Stream teams. These Work Streams have been identified as Governance, Finance, Culture & Communications, IT & Accommodation and HR.

5.4 It is proposed that the arrangement will be governed through a detailed partnership agreement which will set out the arrangements in place, standards and expectations, and performance targets.

5.5 Thereafter, it is proposed that oversight of the shared service will be through a joint officer board comprising the Finance Directors of the 3 authorities, given their particular interest in ensuring the adequacy and effectiveness of internal audit arrangements. The board will monitor the performance of the Shared Service to ensure that it delivers the standards and expectations set out in the partnership agreement.

5.6 Whilst the partners will jointly oversee the performance of the shared service, the responsibility for the adequacy of the whole system of internal audit will remain with the Councils themselves,.

### **Merton's Governance arrangements**

5.7 Merton will be retaining a Head of Internal Audit, as part of the shared service, who will continue to report to General Purpose's committee.

5.8 General Purposes Committee will retain responsibility for approving audit plans and monitoring delivery and will continue to:

- be responsible for overseeing the effectiveness of the internal audit function at Council level, and holding the Head of Internal Audit to account for delivery
- be responsible for the effectiveness of their respective governance, risk management and control arrangements, holding managers to account for delivery
- Receive regular progress updates on internal audit work, consider key themes and issues, and take them forward as necessary.

## **6. ALTERNATIVE OPTIONS**

- 6.1 An independent review was undertaken in 2013/2014 recommending a shared service delivery model. Although this was not taken forward at the time and the review related to the establishment of a four borough shared service, the principles remain relevant.
- 6.2 The option of not moving to a shared service would leave Merton's Internal Audit Service less effective if future cost efficiencies were required.

## **7. CONSULTATION UNDERTAKEN OR PROPOSED**

- 7.1 Consultation is proposed to commence on the 7<sup>th</sup> July 2015 with all staff. Any concerns or questions arising from this will be responded to and included in the final business case.

## **8. TIMETABLE**

- 8.1 A project plan has been developed to include target dates for the 5 work streams. Frequent meetings will be held to keep the project on course.
- 8.2 The proposed timescales are for the staff consultation to start on the 7<sup>th</sup> July 2015 with a view to starting the shared service on 1<sup>st</sup> October 2015.

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

- 9.1 A financial evaluation of the business case for expanding the Shared Internal Audit Service has been undertaken. The key driver is to establish a more resilient, flexible and effective internal audit service. Any savings will be made through improved audit processes and the development of in-house expertise in areas such as contract and IT audit, currently procured externally. More significant savings are anticipated where other Authorities join the shared service through the sharing of management costs and the generation of greater economies of scale. Project management and implementation related costs will be shared between Kingston and Richmond and Merton and appropriate approval for these will be sought.

## **10. Legal and statutory implications**

- 10.1 Section 151 of the Local Government Act 1972 requires every local authority to

make arrangements for the proper administration of its financial affairs.

10.2 Section 6 of the Accounts and Audit Regulations 2015 states that “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”

10.3 The Council has the necessary legal powers to arrange for the discharge of its functions by another authority. In practical terms, the Council will need to enter into an inter-authority agreement to cover the process up to implementation of the shared service arrangements and, subsequently, a further legal agreement to cover the ongoing arrangements once implemented.

## **11. Human rights, equalities and community cohesion implications**

11.1 A full EIA will be updated and completed by the formal consultation. A full EIA will be completed prior to the decision to settle the structure and will be taken into account as part of the future decision making.

## **12 CRIME AND DISORDER IMPLICATIONS**

None

## **13. Risk management and health and safety implications**

13.1 Project Board will be responsible for managing the key risks and issues arising from the delivery of the project, and a full risk register will be developed during the initiation phase. This is likely to reflect a number of the initial challenges and potential constraints that have already been identified:

- Shaping and responding to the vision of different organisations with separate democratic responsibilities and arrangements
- Different organisational cultures and priorities
- Different employment policies and arrangements across boroughs
- Different terms and conditions of Internal Audit staff across boroughs
- Different scope of current Internal Audit functions — e.g. corporate assurance
- Size of the functions considered, related budget and resilience
- Need to satisfy any procurement legislative requirements

## **13.2 BACKGROUND PAPERS**

A Business case has been established which will be reported to Cabinet.



## **Committee:** General Purposes

**Date:** 25 June 2015

**Agenda item:**

**Wards:** All

**Subject:** 2014/15 Draft Revenue Outturn and Final Accounts

**Lead officer:** Caroline Holland – Director of Corporate Services

**Lead member:** Councillor Mark Allison – Cabinet Member for Finance

**Contact Officer:** Paul Dale - AD Resources 0208-545-3458

**Key decision reference number:** This report is written and any decisions taken are within the Budget and Policy Framework Procedure Rules as laid out in Part 4-C of the Constitution.

### **Recommendations:**

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1. That General Purposes Committee note and comment on the draft Statement of Accounts for the Council for the year ended 31<sup>st</sup> March 2015 before they are authorised (subject to any final, minor, drafting narrative and numerical amendments) by the Section 151 Officer at a date up to the latest of 30<sup>th</sup> June 2015.
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#### **1. Purpose of report and executive summary**

- 1.1 This report presents the Statement of Accounts for the year ended 31<sup>st</sup> March 2015 for note and comment by the General Purposes Committee prior to the commencement of the annual audit of accounts in accordance with the statutory requirements contained in the Accounts and Audit Regulations (2011).
- 1.2 The Statement of Accounts are attached as Appendix 2. A summary of the accounts is also included as Appendix 1.

#### **2. Details**

- 2.1 Regulation 8, “Signing, approval and publication of statement of accounts” of the Accounts and Audit (England) Regulations 2011, requires that the Council’s accounts must be ready for audit by no later than 30<sup>th</sup> June 2015 and that these accounts must be certified by the external auditors and published by no later than 30<sup>th</sup> September 2015.
- 2.2 As a result of changes to the Accounts and Audit Regulations, which took effect from the financial year 2010/11, there is no longer a requirement for a Council Committee to approve the accounts in June. This change brought the approval process into line with all other “large size” organisations. Thus formal Committee approval of the Statement of Accounts is only needed by this Committee at its meeting on 16<sup>th</sup> September 2015. Members should note that the Section 151 Officer is still required to approve the accounts before the 30<sup>th</sup>

June 2015 and together with the Chair of General Purposes Committee, approve them again on 15<sup>th</sup> September 2015.

- 2.3 The audit by our external auditor, Ernst and Young (EY), will begin officially in mid July and will run for approximately six weeks. EY will advise in due course the date upon which they will sign the accounts.
- 2.4 The process of preparing the Statement of Accounts for the financial year represents the end of the financial reporting process. The purpose of this process is to provide Members with information about the overall financial position of the Authority.
- 2.5 The accounts comply with the Code of Practice on Local Authority Accounting 2014 produced by CIPFA. The Code is based upon International Financial Reporting Standards (IFRS) and comprises accounting standards issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC). It also draws upon approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance. There have been few changes to the Code compared to last financial year. Consequently, the emphasis in the financial year 2014/15 has been on further consolidation of the major changes which have taken place in previous years and on improving the overall quality of the accounts.
- 2.6 For 2014/15 the Pension Fund Accounts will again be audited separately to the Authority's overall accounts. The Pension Fund Accounts contain both Pension Fund investment and Pension Scheme data. The Pension Fund Advisory Committee (PFAC) will convene on 23<sup>rd</sup> June 2015 to consider the Pension Fund Accounts.
- 2.7 The Statement of Accounts comprises: -
- **The Statement of Accounting Policies** – this explains the basis for the recognition, measurement and disclosure of transactions and other events in the accounts.
  - **The Movement on Reserves (MRS)** – this shows the movement in the year on the different reserves held by the authority and is used to adjust the net surplus or deficit on the Comprehensive Income and Expenditure Account to the amount chargeable under statute to the Council's General Fund.
  - **The Comprehensive Income and Expenditure Account (CIES)** – this shows the accounting cost in the year of providing services for the functions for which the Council is responsible and demonstrates how they have been financed. The statement is designed to be comparable to the private sector in content in that it contains not only revenue transactions but also realised and unrealised capital gains or losses arising from the Council's capital transactions and changes in the value of pension fund assets and liabilities.

- **The Balance Sheet** – this summarises the Authority’s financial position at the year-end.
- **The Cash Flow Statement** – this summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
- **Notes to the Core Financial Statements** - provide additional information which supports and explains the figures in the Core Financial Statements.
- **The Collection Fund** - reflects the statutory requirement for billing authorities to maintain a separate account that shows the transactions of the Council in relation to non-domestic rates and council tax.
- **Pensions Fund Accounts** - these show the contributions to, and the benefits paid from, the Pension Fund and identifies the investments which make up the assets of the fund.

## 2.8 Accounting and Auditing Standards

- 2.9 The Director of Corporate Services is responsible for the preparation of the attached Statement of Accounts for the year ended 31<sup>st</sup> March 2015 which sets out in detail the overall financial position of the Authority, subject to audit. In accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain, the Statement is required to present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31<sup>st</sup> March 2015.
- 2.10 The Council’s auditors, EY, are required to prepare a report under the International Standard on Auditing 260 (ISA 260). Under this Standard which covers “Communication of audit matters to those charged with governance” the auditor is required to report relevant matters relating to the audit to those charged with governance. This responsibility will be discharged following the conclusion of the audit by reporting relevant matters to the General Purposes Committee on the 15<sup>th</sup> September 2015.

## 3. Revenue outturn and variance analysis

- 3.1 **Overall outturn:** Members have been advised in budgetary control reports, throughout the last financial year, of the Council’s overall revenue position based on the predicted outturn of each service department. The final position is set out in Table 1.
- 3.2 In 2013/14, the overall £2.1m underspend (1.4% of the net budget) had represented a significant reduction in under spending compared to prior years.
- 3.3 In 2014/15 the outturn position is an overspend of £3.7m, or 2.4% of the net budget. Corporate provisions and grants underspent by a combined £2.7m, meaning net service expenditure was overspent by £6.4m.

**Table 1: Revenue Outturn (net direct i.e excluding recharges to services)**

<b>REVENUE OUTTURN 2014/15</b>	<b>Current Budget</b>	<b>Outturn</b>	<b>Variance at year end</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<b>Department</b>			
Corporate Services	29,400	29,128	(272)
Children, Schools and Families	44,755	47,203	2,448
Community and Housing	57,632	60,379	2,747
Public Health	255	255	0
Environment & Regeneration	20,526	21,825	1,299
Net Recharges	(599)	(373)	226
<b>NET SERVICE EXPENDITURE</b>	<b>151,969</b>	<b>158,417</b>	<b>6,448</b>
TOTAL CORPORATE PROVISIONS	10,576	7,964	(2,612)
<b>TOTAL GENERAL FUND</b>	<b>162,545</b>	<b>166,381</b>	<b>3,836</b>
Business Rates	(33,253)	(33,253)	0
Grants	(49,710)	(49,864)	(154)
Council Tax and Collection Fund	(79,578)	(79,578)	0
<b>FUNDING</b>	<b>(162,541)</b>	<b>(162,695)</b>	<b>(154)</b>
<b>NET</b>	<b>4</b>	<b>3,686</b>	<b>3,682</b>

3.4 Prior to 2013/14 there had been major service underspending in the areas of waste, children’s social care and adult social care. This underspending was reduced substantially in 2013/14, following the reduction of previously overprovided budgets.

3.5 In 2014/15 these three service areas shifted to having large overspends, and formed the bulk of the £6.4m overspend on services, as shown by Table 2:



**Table 2: Major factors**

Service Spending 2014/15	Current Budget	Outturn Variance to budget	Outturn Variance to budget	Budget as % of Council Budget	Overspend as % of Overspend
	£'000	£'000	%	£'000	£'000
Adult Social Care	53,399	2,595	4.86%	35.14%	40.25%
Waste	14,486	1,440	9.94%	9.53%	22.33%
Social Care, Youth Inclusion and Commissioning	18,794	1,867	9.93%	12.37%	28.95%
<b>Total 3 major areas</b>	<b>86,679</b>	<b>5,902</b>	<b>6.81%</b>	<b>57.04%</b>	<b>91.53%</b>
The Rest	<b>65,290</b>	<b>546</b>	0.84%	42.96%	8.47%
<b>Total</b>	<b>151,969</b>	<b>6,448</b>	<b>4.24%</b>	<b>100.00%</b>	<b>100.00%</b>

Outside these major services, in recent years, there has been a low aggregate variation from the budget. The bottom line position remains so in 2014/15, but there are other areas within each department with significant under and overspendings, as follows:

- 3.6 **Corporate Services £0.272m net underspend:** The main sources of underspend are from Customer Services (£0.3m), Corporate Governance (£0.4m), Resources (£0.3m), Infrastructure & Transactions (£0.3m) and Business Improvement (£0.3m). These underspends were offset by a £1.3m overspend in the area of Housing Benefits.
- 3.7 **Childrens, Schools and Families £2.448m net overspend:** Aside from Social Care, Youth Inclusion and Commissioning (£1.9m overspend) the other main overspending service is Education (£1.0m), largely due to SEN and FE transport costs. These overspends were partially offset by a £0.4m contribution from Public Health, which was used to offset Early Years costs relating to improving young children's health and wellbeing.
- 3.8 **Community and Housing £2.747m net overspend:** In addition to the £2.6m Adult Social Care overspend, there was a £0.3m overspend in Merton Adult Education. Housing General Fund was underspent by £0.1m.
- 3.9 **Environment & Regeneration £1.299m net overspend:** Aside from Waste (£1.4m overspend) the other main budget variances were in Traffic and Highways (£0.3m overspend), Greenspaces (£0.2m overspend), Transport Services (£0.3m underspend) and Future Merton (£0.2m underspend).

- 3.10 On Street Parking: The Council maintains a memorandum (across services) account in respect of on street parking to show how the income from it is spent. In 2014/15 the Council made a surplus of £5.85m (£6.24m in 2013/14) and that surplus was applied notionally as a contribution to concessionary fares, the costs of which are in the Community and Housing budget. This contribution was less than the full cost of concessionary fares which were £8.97m in 2014/15 (£8.67m in 2013/14). In the event that the surplus exceeded the cost of concessionary fares, the excess would be applied to fund day-to-day carriageway and footway maintenance, the cost of which was £1.00m in 2014/15 (£1.20m in 2013/14). Were any surplus to exceed both the cost of concessionary and day-to-day maintenance, any remaining excess would be applied to fund carriageway and footway planned maintenance, the cost of which was £2.48m in 2014/15 (£2.49m in 2013/14). Further details relating to the on street parking account are provided in Appendix 4.
- 3.11 **Corporate Provisions £2.612m net underspend:** The main sources of the corporate underspend are income items (£0.9m), pay and price inflation (£0.9m), reserve transfers (£0.4m), investment income (£0.4m) and pension fund (£0.3m). Expenditure on the cost of borrowing exceeded the budgeted figure by £0.2m.
- 3.12 **Transfers to Reserves:** Some transfers to reserves had been agreed in the year or are statutory. After allowing for these the overall overspending is £3.7m or 2.4% of the net budget. This overspend has been funded by an appropriation from the General Fund balance.
- 3.13 **Reconciliation:** The revenue outturn in the statement of accounts has been prepared in accordance with the CIPFA Service Reporting Code of Practice which sets out a standard form for the reporting of services to enable this authority to compare the gross and net cost of its services with all other local authorities. A reconciliation of the Cabinet reporting to the CIPFA Service Reporting Code of Practice is provided in Table 3. The reasons behind the difference in format are explained in Appendix 3.

**Table 3: Reconciliation of Cabinet to Statement of Account figures**

2014/15 Departmental Analysis	Corporate Services	Children, Schools & Families	Community & Housing	Public Health	Environment & Regeneration	Total
	£000	£000	£000	£000	£000	£000
<b><u>INCOME</u></b>						
Fees, charges and other service income	(17,892)	(8,550)	(19,338)	(415)	(27,295)	<b>(73,490)</b>
Government grants	(98,639)	(153,284)	(4,107)	(9,236)	(854)	<b>(266,121)</b>
<b>Total Income</b>	<b>(116,531)</b>	<b>(161,834)</b>	<b>(23,445)</b>	<b>(9,651)</b>	<b>(28,149)</b>	<b>(339,611)</b>
<b><u>EXPENDITURE</u></b>						
Employee expenses	24,644	128,498	18,567	858	23,370	<b>195,937</b>
Other service expenses	120,822	75,880	65,657	9,048	21,890	<b>293,298</b>
Depreciation & Impairment Losses	2,036	27,654	779	0	10,913	<b>41,382</b>
Support service recharges	(16,590)	4,785	5,263	110	4,893	<b>(1,539)</b>
<b>Total Expenditure</b>	<b>130,912</b>	<b>236,817</b>	<b>90,266</b>	<b>10,016</b>	<b>61,066</b>	<b>529,078</b>
<b>Net Cost of Services (Statement of Accounts)</b>	<b>14,381</b>	<b>74,983</b>	<b>66,821</b>	<b>365</b>	<b>32,917</b>	<b>189,467</b>
Items in Cost of Services not in Cabinet Outturn	(14,374)	27,780	6,442	110	11,092	<b>31,050</b>
<b>Total Cabinet Outturn</b>	<b>28,755</b>	<b>47,203</b>	<b>60,379</b>	<b>255</b>	<b>21,825</b>	<b>158,417</b>

#### 4. Collection Fund

- 4.1 The Collection Fund accounts for the income raised from Council Tax and Non Domestic Rates (NDR) and its distribution. The Collection Fund comprises two separate sets of accounts brought together to record income and expenditure relating to local taxation. Under the Local Government Finance Act 2012 the Council now retains 30% of NDR income as part of the Business Rates Retention Scheme, with precepts being paid to the Greater London Authority (GLA) (20%) and Department for Communities and Local Government (DCLG) (50%).
- 4.2 As 31<sup>st</sup> March 2015, there was a deficit of £0.215m on the Collection Fund comprising a £5.990m Council Tax surplus and a deficit of £6.205m relating to NDR. The surplus or deficit represents the difference between the amount collected by the Council (after granting statutory discounts and exemptions and allowing for provisions for non payment) and the amount budgeted for payment

to the General Fund and other preceptors. Table 4 provides a breakdown of the surplus and deficit amounts due between the Council, GLA and DCLG.

**Table 4: Council Tax Surplus and NDR Deficit**

As at 31st March 2015	Council Tax	NDR	Total
	£000	£000	£000
London Borough of Merton (Surplus)/Deficit	(4,716)	1,862	(2,854)
Greater London Authority (Surplus)/Deficit	(1,274)	1,241	(33)
DCLG (Surplus)/Deficit	-	3,102	3,102
<b>Total (Surplus)/Deficit</b>	<b>(5,990)</b>	<b>6,205</b>	<b>215</b>

## 5. Pension Fund

5.1 For accounting purposes a valuation under IAS19 is carried out to produce an accounting figure of surplus or deficit as at the date of the Balance Sheet and in doing this, the methodology used is affected by current assumptions and short-term economic market conditions.

5.2 The Pension Fund deficit, on an IAS19 basis increased from £224m to £294m, a movement of £70m. The Authority's actuary estimated that as at 31<sup>st</sup> March 2015, future liabilities amount to £775m (£654m at 31<sup>st</sup> March 2014) with assets of £481m (£430m at 31<sup>st</sup> March 2014). The £70m increase in the deficit is the result mainly of a change in the assumptions used by the actuaries to calculate the scheme liabilities. The deficit figure bears no relationship to the basis upon which the actuary will value the fund for the purpose of calculating the contributions required.

5.3 The impact of pensions on council tax is dependent on the actuarial valuation of the pension fund carried out every three years. This is carried out using a completely different methodology. The new contributions came into force at 1<sup>st</sup> April 2014.

## 6. Reserves and balances

6.1 Revenue reserves and Fund Balances are shown below in Table 5.

**Table 5: Revenue Reserves and Fund Balances**

Actual Movement in Reserves 2014/15	Balance at 31/3/14	Net Movt. in year	Balance at 31/3/15
	£'000	£'000	£'000
General Fund Reserve	18,838	-3,686	15,152
Earmarked Reserves	35,574	-5,376	30,198
Grants & Contributions	5,398	-2,063	3,335
Schools	19,057	-2,120	16,937
<b>Total Available General Fund Revenue Reserves</b>	<b>78,867</b>	<b>-13,245</b>	<b>65,622</b>
<b>Fixed to Contracts</b>	<b>1,955</b>	<b>0</b>	<b>1,955</b>
<b>Total General Fund Revenue Reserves</b>	<b>80,822</b>	<b>-13,245</b>	<b>67,577</b>

Analysis Earmarked Reserves	Balance at 31/3/14	Net Movt. in year	Balance at 31/3/15
	£'000	£'000	£'000
Outstanding Council Programme Board	11,105	-1,590	9,515
For use in future years for budget	8,252	-2,500	5,752
Revenue Reserves for Capital / Revn.	5,360	702	6,062
Renewable Energy reserve	1,441	0	1,441
Repairs & Renewal Fund	1,424	0	1,424
Transforming families reserve	784	-370	414
Pension Fund additional contribution	1,078	-1,015	63
Local Land Charges Reserve	1,260	159	1,419
Community Care Reserve	1,733	-347	1,385
Performance Reward Grant	265	-265	0
Apprenticeships	949	-301	648
Economic Development Strategy	1,322	-173	1,148
Wimbledon Tennis Courts Renewal	52	25	77
Merton Action Single Homelessness	50	-50	0
Governor Support Reserve	0	52	52
Local Welfare Support Scheme	315	299	614
Corporate Services Reserve( other)	183	0	183
<b>Earmarked Reserves</b>	<b>35,574</b>	<b>-5,376</b>	<b>30,198</b>
Adult Social care contributions	670	-245	425
Culture and Environment contributions	1,204	-757	447
Culture and Environment grant	747	-384	363
Childrens & Education grant	708	-58	650
Adult Social care grants	0	0	0
Housing Planning Development grant	299	-110	189
Housing GF grants	106	0	106
Public Health	1,664	-510	1,154
<b>Grants &amp; Contributions</b>	<b>5,398</b>	<b>-2,063</b>	<b>3,335</b>
<b>Sub-Total</b>	<b>40,972</b>	<b>-7,439</b>	<b>33,533</b>

Insurance Reserve	1,955	0	1,955
<b>Fixed to Contracts</b>	<b>1,955</b>	<b>0</b>	<b>1,955</b>

DSG Reserve	2,728	857	3,585
Schools Reserve	168	-116	52
Schools PFI Fund	4,071	295	4,366
Refund of PFI contributions	0	400	400
Add Schools own reserves	12,090	-3,555	8,535
<b>Schools Reserves</b>	<b>19,057</b>	<b>-2,120</b>	<b>16,937</b>

## Capital Outturn

7.1 A summary of the draft year end position is shown in Table 6.

**Table 6: Capital Outturn**

Department	Gross Programme	Final Budget	Outturn	Underspend Against			
	£000s	£000s	£000s	Gross Budget		Final Budget	
				£000s	%	£000s	%
Community & Housing	3,777	2,716	1,257	(2,520)	(66.71%)	(1,458)	(53.70%)
Corporate Services	9,008	4,887	2,497	(6,511)	(72.28%)	(2,390)	(48.90%)
Children, Schools & Families	28,500	24,566	23,554	(4,946)	(17.35%)	(1,012)	(4.12%)
Environment & Regeneration	20,284	11,736	9,155	(11,129)	(54.87%)	(2,582)	(22.00%)
Items Capitalised from Revenue	0	0	406	406		406	
<b>Total</b>	<b>61,569</b>	<b>43,905</b>	<b>36,852</b>	<b>(24,717)</b>	<b>(40.15%)</b>	<b>(7,053)</b>	<b>(16.06%)</b>

7.2 The Capital Programme for 2014/15 as approved in March 2014 was £54.5 million. Subsequently, slippage from 2013/14 (£2.1m), additional external funding including schools (£2.9m) and internally funded schemes (£1.9m) were added giving an effective opening programme of £61.6m. However, during the financial year £16.8m was re-profiled (moved) into subsequent financial years and £0.8m was removed from the programme. Coupled with the £7.1m underspend there has been effectively a 40% slippage or reduction in schemes from the initial budget plus new schemes.

7.3 Table 6 above shows that levels of slippage and under spending remain high. In 2013/14 the outturn position of £31.6m reflected the lower levels of spend on the primary expansion programme, this year almost 64% of outturn spend is from Children, Schools and Families.

## 8. Whole of Government Accounts

8.1 The Whole of Government Accounts (WGA) comprises of a suite of returns based upon the Council's year end accounts that have to be submitted to HM Treasury. Officers have just started to prepare these returns which have to be submitted in draft format to HM Treasury in early July. The returns are then audited and returned again to HM Treasury (post audit) in October 2015.

## 9. Annual Governance Statement

9.1 The purpose of the Annual Governance Statement is to demonstrate the effectiveness of the Council's corporate governance. The Annual Governance Statement (AGS) is audited at the same time as the Statement of Accounts. There is a separate Committee report on this item on this agenda.

## **10 Next Steps**

- 10.1 Local government electors have rights to inspect the accounts and to ask questions of the external auditors and the following dates have been agreed with the external auditors, EY. Local government electors for the area to which the accounts relate may exercise their rights to question the external auditors from Thursday 30<sup>th</sup> July. They also have the right to inspect and make copies of the accounts and supporting records from Thursday 2<sup>nd</sup> July
- 10.2 A further meeting of this Committee has been arranged for 16<sup>th</sup> September 2015 to consider the external auditors' final report. The ISA 260 requires auditors to report certain matters arising from the audit of the financial statements to "those charged with governance". These may include: -
- Any expected modifications to the audit report;
  - Any unadjusted non-trifling misstatements;
  - Any material weaknesses in accounting and internal control systems;
  - Qualitative aspects of accounting practice and financial reporting;
  - Matters required by other auditing standards to be reported to those charged with governance.
- 10.3 Following the conclusion of the audit, the Audit Commission will publish the Annual Audit Letter, which is addressed to all Members of the Council. Arrangements will be made for EY to present the Annual Audit Letter and for it to be debated in Committee and at Council.
- 10.4 If there are any issues arising from the annual accounts for 2014/15, these would be examined in detail by officers to identify if any had a continuing impact upon the 2015/16 budget and 2016/17 budget process, and which therefore would require further management action. The timing of the presenting of information to the Committee would be looked at as a priority.

## **11. Financial, resource and property implications**

- 11.1 None for the purposes of this report.

## **12. Legal and statutory implications**

- 12.1 As outlined in the report.

## **13. Human rights, equalities and community cohesion implications**

- 13.1 None for the purposes of this report.



**14. Risk Management and health and safety implications**

14.1 None for the purposes of this report.

**15. Appendices - the following documents are to be published with this report and form part of the report:**

Appendix 1: Draft Summary Accounts 2014/15.

Appendix 2: Draft Statement of Accounts 2014/15.

Appendix 3: Explanation of the relationship between management accounts and financial accounts.

Appendix 4: On Street Parking Account 2014/15.

**16. Background Papers**

16.1 The following documents have been relied on in drawing up this report but do not form part of the report:

2014/15 Budgetary Control and Final Accounts Working Papers in the Corporate Services Department.

## Appendix 3

### Why do the financial accounts differ from the management accounts?

	<b>Financial Accounts</b>	<b>Management Accounts</b>
1. Purpose	Statutory reporting on a basis which is comparable with other local authorities and measures the economic value of changes in the financial position not impact on the taxpayer.	Internal revenue budgetary control showing the impact on the taxpayer.
2. Accounting Codes	Code of Practice (based on International Reporting Standard)-prescribes statements and disclosures.  Service Reporting Code of Practice (Sercop)-for “below the level of the statement”- prescribes what must be charged to services and the order of services within the Comprehensive Income and Expenditure Account (CIES)	Based on Organisational requirements
3. Key statements	The financial accounts report revenue outturn through two statements- <ul style="list-style-type: none"> <li>• The Comprehensive Income and Expenditure Account (CIES).</li> <li>• The Movement in Reserves (MRS).</li> </ul> <p>The CIES shows ALL gains and losses due to the authority from all sources (including capital and pension fund) . In this respect it is deliberately designed to follow private sector practice and includes items that are notional, in that they do not impact on the taxpayer. The MRS (which included notional reserves to achieves this) reverses out elements in the CIES to match the bottom line to what is chargeable to local taxation. (See 4.)</p>	There are no set formats. but generally follow departmental structures and the council tax bill
4. What is included?	The CIES includes gains /losses from ALL sources as set out below- <ol style="list-style-type: none"> <li>1. Revenue (based upon budget)</li> </ol> Plus- <ol style="list-style-type: none"> <li>2. Additional IFRS-related revenue entries, such as impairments and leasing adjustments</li> <li>3. Capital Gains and Losses- <ol style="list-style-type: none"> <li>(a) Realised gains/losses from fixed asset disposals</li> <li>(b) Unrealised gains/losses</li> </ol> </li> <li>4. Pension Fund- actuarial gains and losses based upon a completely different basis to that used to actually value the fund for contribution purposes</li> </ol>	The management accounts include <ol style="list-style-type: none"> <li>1 Revenue based upon budget.</li> <li>2 Transfers to/from revenue reserves. (Under MRS in financial accounts)</li> </ol>

	<p>All these extra entries (items 2-4) are charged or credited to the CIES but are reversed in the Movement in Reserves Statement and taken to Unusable Reserves so that they do not get charged to taxpayers. Those entries which are proper charges to the tax payer are substituted e.g. Minimum Revenue Provision to repay borrowing replaces depreciation.</p> <p>The Movement in Reserves Statement (MRS) includes only transfers to/from reserves -</p> <ol style="list-style-type: none"> <li>1. The reversal of all the entries which are not chargeable to tax payer and the substitution of replacement entries where applicable</li> <li>2. Transfers to/from earmarked and general reserves</li> </ol>	
5. How are transactions managed to meet the different requirements of management and financial accounting?	A different hierarchical reporting structure (SERCOP) but using same bottom level posting codes as management structure	Management reporting hierarchy to meet needs of the organisation.
6. How are services organised in the CIES?	According to their technical purpose	According to where they are managed.  E.g. Industrial Units are part of Environmental Services.
7. Why are reserves transfers treated differently between Financial and Management Reporting?	Reserves in terms of the financial accounts are not income or expenditure which arise from the generation or consumption of resources respectively. Reserves are transfers of resources; they neither add to nor reduce overall resources. Therefore they feature in the MRS not the CIES.	Reserves are included in the relevant income/expenditure line to show the net impact on the budget.
8. If capital grants are included in Income where is capital expenditure?	Capital expenditure is not reported in the CIES or MRS but is held elsewhere where it receives funding entries from the MRS. The CIES includes capital grants and capital receipts which have been received and which are available to finance capital expenditure. These are transferred by means of the MRS to the Usable Capital Grants or Capital Receipts reserves (if available for funding but not yet applied in this way) or to the Capital Adjustment Account (if available and actually applied to financing capital expenditure).	Management accounts do not include any capital elements in line with legislative requirements that capital grants and receipts cannot be used for revenue purposes.

## Appendix 4

<b>Consolidated Parking Account 2014/15</b>		
<b>Restated 2013/14</b>		<b>2014/15</b>
<b>£</b>		<b>£</b>
	<b><u>INCOME</u></b>	
4,645,420	Penalty Charge Notices	4,498,949
1,089,250	Residents' Parking Permits	1,140,374
-721,199	Residents' Visitors' Parking Permits	-809,778
-222,903	Business Parking Permits	-234,236
-28,314	Teachers Parking Permits	-36,800
2,452,013	On-Street Parking Charges	2,495,527
-225,419	Other Income	-264,163
<b>9,384,518</b>	<b>TOTAL INCOME</b>	<b>9,479,827</b>
	<b><u>EXPENDITURE</u></b>	
911,501	On-Street Parking	1,251,368
90,024	Off-Street Parking Spaces	32,119
301,173	Parking Management & Planning	211,159
1,839,949	Parking Enforcement	2,139,427
6,241,871	Contribution to Public Transport (Concessionary Fares)	5,845,754
<b>9,384,518</b>	<b>TOTAL EXPENDITURE</b>	<b>9,479,827</b>

<b>Detailed Parking Account 2014/15</b>		
<b>On Street Parking</b>	<b>Bus Lanes</b>	<b>Moving Traffic Violations</b>
<b>£</b>	<b>£</b>	<b>£</b>
-2,862,513	-625,549	-1,010,887
-1,140,374	0	0
-809,778	0	0
-234,236	0	0
-36,800	0	0
-2,495,527	0	0
-264,163	0	0
<b>-7,843,391</b>	<b>-625,549</b>	<b>-1,010,887</b>
796,199	173,995	281,175
20,436	4,466	7,217
134,352	29,360	47,446
1,361,237	297,473	480,717
5,531,166	120,255	194,333
<b>7,843,391</b>	<b>625,549</b>	<b>1,010,887</b>

<b><u>MEMORANDUM ITEMS</u></b>		
<b>£</b>	<b>Total Expenditure on:</b>	<b>£</b>
8,674,737	Concessionary fares	8,965,603
1,204,852	Carriageway & Footway Maintenance	1,000,812
2,494,851	Carriageway & Footway Maintenance	2,479,583

**Committee:** General Purposes Committee

**Date:** 25th June 2015

Agenda item:

8 Wards: All

**Subject:** Annual Governance Statement 2014/15

**Lead officer:** Caroline Holland – Director of Corporate Services

**Lead members:** Peter McCabe- Chair of General Purposes Committee

Contact officer: Margaret Culleton- Head of Audit & Investigations

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## **Recommendations:**

That General Purposes Committee agrees the Annual Governance Statement.

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

- 1.1 Merton Council is required to prepare an Annual Governance Statement (AGS) for the year 2014/15. This statement is required in order to comply with Regulation 4(3) of the Accounts and Audit Regulations 2011.
- 1.2 This report was presented to Standards Committee on the 16<sup>th</sup> June 2015 and they recommended an additional comment to the action on Page 31 in relation to DBS checks. 'To carry out a review of DBS to ensure that only those posts requiring this check are carried out and these are completed on the correct level (standard or enhanced)'.

## **2. DETAILS**

- 2.1 The purpose of the AGS is to report on the robustness of the Council's governance arrangements. Corporate governance is defined, for the purposes of this report, as:

“ The framework of accountability to users, stakeholders and the wider community, within which organisations take decisions, and lead and control their functions, to achieve objectives. The quality of corporate governance arrangements is a key determinant of the quality of services provided by organisations.”

- 2.2 The AGS is effectively a commentary on how well Merton Council manages itself. In recognition of this, a Corporate Governance Steering Group was established in 2007/08, the first year when the AGS came in to force, in order to oversee and advice on the preparation of the

AGS. The current membership of this group is:

Caroline Holland	Director of Corporate Services
Margaret Culleton	Head of Internal Audit & Investigations
Evereth Willis	Interim Head of Policy, Strategy and Partnerships
Zoe Church	Head of Business Planning
Fiona Thomsen	Head of Shared Legal Services
Julia Regan	Head of Democracy Services
Karin Lane	Head of Information Governance

2.3 The Framework consists of six core principles:

**Principle 1** Focussing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area

**Principle 2** Members and officers working together to achieve a common purpose with clearly defined functions and roles

**Principle 3** Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

**Principle 4** Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

**Principle 5** Developing the capacity and capability of members and officers to be effective

**Principle 6** Engaging with local people and other stakeholders to ensure robust public accountability

2.4 During 2012, a CIPFA/SOLACE Joint Working Group reviewed the *Delivering Good Governance in Local Government: Framework*, first issued in 2007, to ensure it remains fit for purpose. In December 2012, the Joint Working Group issued an addendum to the framework and a revised guidance note.

2.5 The guidance note highlights a number of developments since the launch of the framework. These areas were covered in the AGS for 2013/14. Recent changes however are detailed below.

### **Transparency**

2.6 The government is committed to increasing transparency across Whitehall and local authorities in order to make data more readily accessible to the citizen and to hold service providers to account. The Department for Communities and Local Government updated the Local Government Transparency code in 2015, which lists the data which councils are required to publish. The council is committed to meeting

the requirements of this code and most of the information has already been published.

- 2.7 Ongoing work in this area includes procurement card expenditure and contract information.

### **Changes to Local Authority governance structures**

- 2.8 Commissioning and Partnerships with other local authorities and sectors are being used more to deliver public services in local authorities. Each partner organisation may have its own governance and accountability structure, its own code of conduct and risk management arrangements. It is important that clear lines of accountability for stakeholders and customers are demonstrated.
- 2.9 In relation to Shared Services with other councils work has started to review the governance arrangements in place (as detailed in the action plan). In 2014/15 a task group was set up to look at difference options for shared services. Further work will be carried out on the governance arrangements in place, during 2015/16.

### **Review of effectiveness**

- 2.10 The council has a responsibility for conducting, at least annually, 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.
- 2.11 An external review was carried out in March 2014 on the effectiveness of internal audit. This review found that the service provided at Merton conformed to the Public Sector Internal Audit Standards.
- 2.12 The review of effectiveness of the system of internal control is informed by the work of the internal auditors. Effectiveness of the system is also conveyed by Directors, Assistant Directors and Heads of Service within the authority that has responsibility for the development and maintenance of the internal control environment. The overall opinion is that the internal control environment is satisfactory.

### **Counter fraud arrangements**

- 2.13 From November 2014, the investigation posts within the Internal Audit and Investigation team transferred to the DWP under the Single Fraud Investigation Service. Between November 2014 and March 2015, investigation work was carried out by Internal Audit. From April 2015, the council joined a five borough fraud partnership led by Wandsworth Council.
- 2.14 The Head of Internal Audit at Merton is a member of the steering group and is responsible for monitoring referrals and reviewing recommended outcomes. Other proactive fraud work will be detailed in fraud plans submitted to Wandsworth Council; this will include Business Rates,

Tenancy Fraud and Blue Badge for 2015/16. Merton's Head of Audit will continue to report all whistleblowing and proactive and reactive fraud cases and outcomes on a regular basis to General Purposes Committee.

- 2.15 Other whistleblowing or concerns received that are not fraud related, will continue to be referred to the appropriate team for investigation, for example HR or management issues may be referred to HR to investigate.
- 2.16 The council has anti fraud policies in place, including strong Whistleblowing arrangements

#### **Disclosure Barring Service**

- 2.17 Following a limited Internal Audit assurance on DBS, a full review is to be carried out to ensure that checks are carried out on all staff requiring a DBS and systems are in place to ensure that these checks are carried out prior to employment

#### **Internal Audit Annual Report**

- 2.18 The council has a responsibility for conducting, at least annually, 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. The review of effectiveness of the system of internal control is informed by the work of the internal auditors. Effectiveness of the system is also conveyed by Directors, Assistant Directors and Heads of Service within the authority that has responsibility for the development and maintenance of the internal control environment.
- 2.19 The Annual Report summarises the work of Internal Audit in 2014/15 and provides the Head of Audit opinion on the adequacy and effectiveness of the internal control environment.
- 2.20 The overall opinion is that the internal control environment is satisfactory. 82% of Internal Audit reviews provided satisfactory or above levels of assurance. This is the higher than last year (79%).
- 2.21 There are some areas that require improvement, in particular in relation to procurement for the following areas: - DFG, Supporting People, community equipment and vehicle maintenance. Other issues identified during audit review were the lack of audit trail or clear processes in particular in service specific areas such as DBS and No Recourse to Public Funds.

### **3. ALTERNATIVE OPTIONS**

- 3.1 There are no alternative options as the AGS is a statutory requirement, as stated at paragraph 1.1 above.



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

- 4.1 No external consultation has taken place or is planned for this document.

#### **4. TIMETABLE**

- 5.1 This report has been prepared to meet the timetable for the approval of the Statement of Accounts.

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

- 6.1 There are no specific financial, resource or property implications apart from the need to implement the AGS Improvement Plan, which will be completed within existing resources

#### **6. LEGAL AND STATUTORY IMPLICATIONS**

- 6.1 The AGS is a statutory requirement, as stated at paragraph 1.1 above.

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

- 7.1 There are no specific human rights, equalities or community cohesion implications, except in so far as this report is wholly concerned with good governance

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

- 8.1 There are no specific risk management or health and safety implications other than the assessment of the Council's risk management arrangements in the AGS

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

- 9.1 Appendix I: Annual Governance Statement 2014/15.

- 9.2 Appendix 2: Internal Audit Annual Report 2014/15

#### **10. BACKGROUND PAPERS – THE FOLLOWING DOCUMENTS HAVE BEEN RELIED ON IN DRAWING UP THIS REPORT BUT DO NOT FORM PART OF THE REPORT**

- 10.1 CIPFA / SOLACE Delivering Good Governance in Local Government – Framework

- 10.2 CIPFA / SOLACE Delivering Good Governance in Local Government – Guidance Note for Local Authorities 2012

- 10.3 CIPFA Rough Guide to Annual Governance Statement



## ANNUAL GOVERNANCE STATEMENT 2014/15

This statement from the Leader and the Chief Executive provides assurance to all stakeholders that within Merton Council processes and systems have been established, which ensure that decisions are properly made and scrutinised, and that public money is being spent economically and effectively to ensure maximum benefit to all citizens of the borough.

### 1. Scope of responsibility

- 1.1. Merton Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Merton Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2. In discharging this overall responsibility, Merton Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.
- 1.3. Merton Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*.
- 1.4. This statement explains how Merton Council has complied with the code and also meets the requirements of regulation 4(3) of the Accounts and Audit Regulations 2011 which requires all relevant bodies to prepare an annual governance statement.

### 2. The purpose of the governance framework

- 2.1. The governance framework comprises the systems and processes, culture and values by which the authority is directed and the activities through which it accounts to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.
- 2.2. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of London Borough of Merton policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.
- 2.3. The governance framework has been in place at the London Borough of Merton

for the year ended 31 March 2015 and up to the date of approval of the annual report and statement of accounts.

### **3. The governance framework**

- 3.1 The London Borough of Merton has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit & Investigation's annual report, and also by comments made by the external auditors and other review agencies and inspectorates
- 3.2 As part of this review a Corporate Governance steering group has been established and terms of reference agreed. Monthly meetings have been held and an evidence pack compiled to consider a combination of economy, efficiency and effectiveness factors. The results of this review are detailed in the six principles below and areas of improvement in section 13.

### **4. Principle 1: Focusing on the purpose of the authority and creating and implementing a vision**

- 4.1 The Merton Community Plan has been developed by the Merton Partnership and sets the overall direction and vision for the borough until 2019. This is supported by the Council's Business Plan and Departmental Service Plans. These are reviewed and updated annually.
- 4.2 The Council's Business Plan 2014-18 sets out the following vision:

'By 2015 Merton Council will be smaller, reducing in size. Our top priority will continue to provide safe services of the best possible quality. Providing value for money services to our residents is at the heart of our business and we must be able to demonstrate that all of our services represent best value for money. We will do this by finding innovative solutions to maximise future efficiency.

We will deliver services that customers want and need and, where possible, involve our customers in service specification and design.

Delivering quality and value services in an era of significantly reduced resources will require strong and determined leadership. A single business view is essential to ensure a 'One Council' approach is followed in everything we do. Leaders at all levels will be visible and lead by example.

Change of this magnitude will only be achieved through a unified effort.

- **Get Involved!** – identify and implement improvements.
- **One team** – Directors, managers and staff have an equal part to play.
- **Learn** – from each other, our mistakes and from what our customers say.
- **Determination** – to try out new ideas'.

### **Performance management**

- 4.3 The council has robust performance management arrangements in place and as part of the service planning process, performance indicators are challenged by the Business Planning team, Departmental Management Teams (DMT), Corporate Management Team, reviewed by members and Overview and Scrutiny.
- 4.4 Performance data on the service plan indicators are published on both the intranet and internet on a monthly basis. Progress on performance is regularly reviewed by DMTs and members
- 4.5 Review and challenge of PIs are established as part of service planning for example if a PI this year is different from last year's. There are also reviews and challenges on the monthly, quarterly and annual returns e.g. if outcomes are markedly different.
- 4.6 The council also uses London Authority Performance Solutions data. They provide current comparison data across London Councils for approximately 30 Indicators, which are used for comparison purposes and where markedly different are reported to Corporate Management Team for discussion.
- 4.7 Performance reports on partnership working are produced for the Merton Partnership Executive Board.

### **Financial strategy and financial management**

- 4.8 The council has approved a four year Medium Term Financial Strategy (MTFS) for the years 2015/16 to 2018/19, which is aligned and integrated with its business plan priorities, and incorporates the revenue and capital expenditure implications of budget proposals. The MTFS is reviewed, and rolled forward annually in order to ensure that the council's scarce resources are focused on achieving the council's vision, strategic objectives, and statutory functions as set out in the Business Plan.
- 4.9 Merton's financial performance is reported on a monthly basis to the Corporate Management Team, and action plans are prepared if any likely major variations are identified. Regular reports are made to the overview and scrutiny commission and panels, and to the council's cabinet. These are used to inform the MTFS process. Quarterly reports are submitted to the Financial Task Group a sub-group of the Overview and Scrutiny Committee to review the Authority's financial position. Ongoing implications of current year spending pressures are incorporated into the MTFS and future years' budgets as appropriate.

### **Partnerships**

- 4.10 The Merton Partnership – the local strategic partnership – is the overarching strategic partnership and is responsible for the delivery of the Merton Community Plan (the Sustainable Community Strategy). The Merton Partnership Governance Handbook and the Performance Management Framework set out the respective governance and performance management arrangements for the Merton Partnership, including the thematic partnerships

sitting under the Partnership and Executive Board (namely the Health and Wellbeing Board, the Children's Trust, the Sustainable Communities and Transport Board, and the Safer and Stronger Strategy Group [which also serves as the Crime & Disorder Reduction Partnership]). The Merton Partnership website is [www.mertonpartnership.org.uk](http://www.mertonpartnership.org.uk)

- 4.11 The principles guiding the relationship and conduct between the council and voluntary, community and faith sector is set out in the Merton Compact (last refreshed in 2011). The Merton Compact is monitored by the Compact Board, comprising representatives from Merton Council (political and officer), representatives from the voluntary, community and faith sector, and representatives from other public sector bodies, as well as the local Chamber of Commerce.
- 4.12 The Merton Community Plan was refreshed in 2013. This involved consulting over 1,000 residents, partner organisations and a wide range of representatives from the voluntary, community and faith sector. The Merton Community Plan sets out the achievements of the Partnership over recent years and priorities for the next five years.
- 4.13 The council maintains a Partnerships Register which captures details of partnership bodies the council is involved in that are outside the standing bodies of the council, but which inform policy development or implementation. The Partnerships Register is reviewed annually to ensure it is up to date, and is published on the council's intranet and website. An internal Audit review of the governance arrangements for partnership received a satisfactory assurance. Recommendations made are in progress for implementation.

## **5 Principle 2: Members and Officers working together to achieve a common purpose with clearly defined function and roles**

- 5.1 Elected Members are responsible for the governance of the council. The council's governance arrangements are enshrined in the constitution. Within this framework, the council is able to provide clear leadership to the community; take decisions efficiently and effectively; improve service delivery; and hold decision makers to account.
- 5.2 The constitution is updated regularly. Amendments are recommended to Council by the General Purposes Committee, following reference by the Chief Executive as the statutory Head of Paid Service, the Assistant Director of Corporate Governance, and the Standards Committee.

### **Delegations**

- 5.3 The council's constitution sets out the roles and responsibilities of the executive, non-executive, scrutiny and officer functions.
- 5.4 The functions of Council are set out in Article 4 of the constitution. These include responsibility for adopting and changing the constitution, policy framework and budget
- 5.5 Cabinet (Article 7) has responsibility for carrying out all of the Council's

functions which are not the responsibility of any other part of the local authority.

- 5.6 Part 3B of the constitution sets out responsibility for non-executive council functions, including those carried out by Standards Committee, Appointments Committee, Planning Applications Committee, Licensing Committee, Appeals Committee, General Purposes Committee and the Borough Plan Advisory Committee.
- 5.7 Overview and Scrutiny (Article 6 and Part 3B) discharges the functions conferred by the Local Government Act 2000, Local Government Act 2003, Health and Social Care Act 2001, Police and Justice Act 2006 and the Local Government and Public Involvement in Health Act 2007. Its operation is set out in more detail in section 6 of the report.
- 5.8 Except for matters reserved to members or other decision makers, all other matters relating to the Council's executive and non-executive functions are delegated to the Chief Executive.
- 5.9 The constitution includes a scheme of delegation that sets out the powers delegated to officers, and provides for Financial Regulations, Contract Standing Orders and a range of operational and departmental procedures which govern the council's discharge of its functions. These have all been reviewed and updated during 2014/15 except for Community & Housing (last refreshed in 2012).
- 5.10 Statutory officers are documented within the constitution. The Chief Executive (Head of Paid Service) works with members and Directors to deliver the council's themes.
- 5.11 The Monitoring Officer is responsible for ensuring agreed procedures are followed and that all applicable statutes and regulations are complied with.

#### **Chief Financial Officer**

- 5.12 The authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

#### **Internal Audit**

- 5.13 Internal Audit is an assurance function that provides an independent and objective opinion on the control environment. It operates to defined standards as set out in the Public Sector Internal Audit Standards. An external assessment was carried out in March 2014, which concluded that Merton's Internal Audit function complied with the standard.
- 5.14 An annual report is produced by the Head of Audit & Investigations which provides an opinion on the adequacy and effectiveness of the internal control environment.
- 5.15 A review has been undertaken on the 5 elements of the CIPFA statement on the role of the Head of Audit & Investigations in public sector organisations. These

elements are all met.

## **6 Principle 3: Values of good governance and standards of behaviour**

### **Codes of Conduct**

- 6.1 The Council has an Employee Code of Conduct that applies to all council employees without exception, as well as to non-employees who are engaged (e.g. agency workers) or contracted by the council. The summary code of conduct is available on the intranet, is given to all new members of staff and discussed as part of the induction process. The code of conduct is currently in the process of being reviewed.
- 6.2 The Members' Code of Conduct is included in the council's Constitution and includes the principles of public life and information on declaring and registering interests. Each year (after Annual Council) Members are asked to declare their interests and mechanisms are in place to update these regularly when there are changes. An internal Audit review in 2014/15 on member's declaration of interest has recommended that the council's current policy is reviewed; a report is being presented to members to consider this.
- 6.3 The Standards Committee receives annual reports on gifts and hospitality declared by staff and Members.

### **Standards Committee**

- 6.4 The Standards Committee has overall responsibility for corporate governance. The Committee is also concerned with the promotion and maintenance of high standards of conduct within the council; the enforcement of the Member Code of Conduct; and advising the council on ethical governance matters. The Committee monitors the registers maintained in relation to gifts and hospitality received by councillors and offered to and accepted by staff. The Committee comprises eleven members, three of whom are non-voting co-opted members.

### **General Purposes Committee**

- 6.5 The council operates a General Purposes Committee, that fulfils the role of an Audit Committee in accordance with CIPFA recommended best practice, and this committee has overall responsibility for ensuring controls are adequate and working effectively
- 6.6 This Committee is responsible for a range of non-executive functions, including electoral matters and personnel issues. It also has responsibility for considering and making recommendations to Full Council on any changes to the council's Constitution. Its functions include ensuring compliance with relevant laws and regulations, internal policies and procedures, and overseeing council accounts and audit activity.
- 6.7 A review was carried out on the effectiveness of the General Purposes Committee against Cipfa's guidance, Audit Committees: Practical Guidance for Local Authorities. This found that the Committee was meeting regularly and covered the range of governance issues, except risk management. Risk is



however reported to Cabinet and Overview and Scrutiny on a regular basis as well as to Council on an annual basis as part of the business plan.

## **7. Principle 4: Making transparent decisions which are subject to scrutiny and risk management**

- 7.1 The council has an anti-fraud and corruption strategy. Integral to these arrangements is the Whistleblowing Policy which is communicated to staff via the intranet, leaflets and posters to outbuildings. All Whistleblowing cases and actions are reported annually to the General Purposes committee.
- 7.2 The council also participates in the National Fraud Initiative (NFI) a computerised data matching exercise, currently led by the Cabinet Office (from 1/4/15) designed to detect fraud perpetrated on public bodies.
- 7.3 As part of Central Government Single Fraud Investigation Service, all Housing Benefit fraud investigation work and staff undertaking this work transferred to the Department for Work and Pension on the 1<sup>st</sup> November 2014. Merton joined the five borough fraud partnership led by Wandsworth Council from April 2015.

### **Complaints**

- 7.4 The Complaints Policy is reviewed regularly to ensure on-going continuous improvement on how we deal with complaints. Complaints handling is included in departmental induction and specific training on how to respond positively to complaints has been provided to teams who have high volumes of complaints. Work is on-going with service departments in identifying Policy complaints so that they can be dealt with appropriately and also ensuring we learn from complaints. Performance is steadily improving with fewer complaints escalating to Stage 2, 5.47% for 2014/15 compared to 8.33% in 2013/14. The council's performance in responding to complaints is reported to the Corporate Management team on a monthly basis and also published on the council's website via the performance monitoring dashboard and the annual complaints report is also published on the council's website.

### **Transparency agenda**

- 7.5 The council publishes most of the information specified by the government's Open Data requirements on the council's Open Data webpage. Work is in progress to publish the outstanding data of the council's organisation chart and the new requirements of the 2014 Transparency Code. The current data published on the council's website includes:
- Spending over £500
  - Senior employees' salaries
  - Job descriptions of staff earning over £50k
  - Pay multiple
  - Pay policy statement
  - Payments to councillors – allowances and expenses
  - Councillors attendance at meetings

- Democratic data including the Constitution, minutes, decisions and election results
  - The Business Plan, policies, performance, audit and inspections
  - Finance data and counter fraud statistics
  - Merton's contract register
  - Funding to the voluntary and community sector
  - Structure charts
  - Parking income and expenditure
  - Details of on-street and off-street parking spaces
  - List of property assets
  - Trade union activity
- 7.6 The Protection of Freedoms Act 2012 requires the council to publish datasets that are requested.
- 7.7 Merton Council publishes an Information Requests Disclosure Log which gives brief details of the requests received that week under the Freedom of Information Act 2000 and the Environmental Information Regulations 2004.
- 7.8 Under the Freedom of Information (FOI) Act, a public authority must respond to an FOI requests within 20 working days. The council is measured against a corporate target of 90% of FOI requests dealt with in time .Performance has dropped slightly for 2014/15 in responding to FOI requests to 87.37. Performance is reported to the Corporate Management team monthly and is also published on the council's website via the performance monitoring dashboard.

### **Data Security**

- 7.9 The council has established processes to manage the risk of the loss of personal data, of which a significant amount is held across many business areas. The processes include mandatory training for staff, publication of guidance and an Information Security Policy. Prompt reporting of any security incident is required to enable appropriate remedial action to be taken. Each reported incident is followed up by the Information Governance Team to ensure that any lessons learnt are quickly deployed. The Head of Information Governance will decide whether cases are to be reported to the Information Commissioner's Office, and no cases reported during 2014/15 have resulted in any sanctions or monetary penalties against the council, due to the effectiveness of the policies and procedures that are in place.
- 7.10 The council's progress towards more flexible working has brought new challenges for the security of the personal data that we use, and the team constantly revises the content of the weekly staff bulletin items to give guidance about the latest risks and issues.

### **Risk management**

- 7.11 Risk management is a central part of the organisation's system of internal control. The focus of the risk management strategy is to ensure the identification and treatment of risk as part of everyday management.

- 7.12 The Corporate Risk Management Group (CRMG) meets quarterly to review and challenge the risk registers and share best practice. Key Strategic Risks are reported quarterly as part of the financial monitoring report to cabinet and overview and scrutiny and annually included as part of the business plan to Council
- 7.13 The corporate risk strategy was reviewed as part of the annual refresh of the Business Plan 2015-19, which is submitted to Council in March. . The strategy makes reference to the authority's risk tolerance levels, to recognise that some risks can be tolerated and others must be mitigated against. Work has been undertaken with a "Risk Management" specialist through our insurance arrangement to review departmental and corporate risk registers, separating "risks" and "issues" and standardising classification. An internal Audit review carried out in November 2014, provided a satisfactory assurance.
- 7.14 Risk analysis is also included in the service review process, where managers are required to risk rate their proposed budget savings and service level projects for the coming years

### **Policy and decision making**

- 7.15 Policy and decision making is conducted within a leader and cabinet structure. The cabinet leads on the preparation of the council's policies and budget, and makes recommendations to the full council on the major policy plans and the budget and council tax. Where there is a relevant policy, the cabinet takes decisions within the adopted framework of plans and the procedural rules to implement them.
- 7.16 The constitution provides that the responsibility for the adoption and alteration of policy documents within the council's strategy framework lies with the full council. New policies and proposed changes are considered in the first instance by the General Purposes Committee, and are also subject to scrutiny
- 7.17 A forward plan of proposed key decisions is published and updated each time a new key decision is added to the list. This sets out details and the proposed timing of key decisions (as defined by law and Article 13 of the constitution) to be made by the council. The Council has introduced new processes in relation to reports containing exempt information in order to comply with The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 which came into force on 10 September 2012
- 7.18 Council, on 19 November 2014, considered and agreed procedures for recording and publishing non-key delegated executive decisions to comply with the statutory requirement under the Openness of Local Government Bodies Regulations 2014. Council agreed a definition for these decisions and also agreed that, as well as being published, all such decisions made should be subject to call-in to allow greater openness and transparency. Council officers have been briefed on the new requirements, guidance notes and forms have been published on the intranet. The decisions themselves are published on the website.

## Overview and Scrutiny Commission and Panels

- 7.19 The Overview and Scrutiny Commission and Panels are responsible for holding the executive to account, influencing the decision making process, and shaping the development of new policy. Scrutiny oversees the development of the council's business plan and budget and takes an active role on financial and performance monitoring of council services. Three scrutiny panels cover all portfolios, and all areas of council activity. The Commission comprises fourteen members, four of whom are co-optees. The chair of the Commission is the leader of the Merton Park Ward Independent Resident Group.
- 7.20 The External Scrutiny Protocol sets out scrutiny powers, duties and responsibilities of the council and its partners. The protocol seeks to ensure all partners, statutory and non-statutory, adhere to the same principles for effective scrutiny, provide information, consider recommendations and respond to the relevant overview and scrutiny panel within an agreed time frame. The protocol forms part of the council's constitution.
- 7.21 The key principles of scrutiny in Merton, set out in the scrutiny handbook, are that it should be member-led, consensual, evidence-based and relatively informal. The handbook also contains advice for councillors and officers on their respective roles, guidance and practical steps on how to achieve successful scrutiny. It is based on experience of scrutiny in Merton, best practice research and examples from other local authorities.
- 7.22 Under the Council's constitution an annual report is presented to Council, outlining the work of the overview and scrutiny function over the course of the municipal year. This is used as an opportunity not only to showcase the work carried out but also to demonstrate some of the outcomes achieved and the ways in which local residents have been involved in scrutiny.

## Health and Safety

- 7.23 The council's safety management system ensures compliance of employers under the Health and Safety At Work Etc. Act 1974, The Management of Health and Safety At Work Regulations 1999 and all sister regulations.
- 7.24 Primary functions are to
- Promote good health and safety practice across the council,
  - Implementing and monitoring arrangements for Managing Asbestos across the council
  - Develop and implement corporate policies and guidance to safeguard the health, safety and welfare of the Council's employees, clients, and members of the public and other persons.
  - Provide departmental management teams with suitable systems and procedures to ensure compliance with their duties under the legislation.

- Introduce priority action and follow-up processes as part of the inspection and audit program ensures that resources are directed to dealing with the more important items first.
- Produce an annual report to CMT updating them on audits and training completed, impacts of any changes to legislation and general state of H&S across the council. Including information on emergency planning and business continuity.

### **Civil Contingencies, business continuity and emergency planning**

- 7.25 There has been a sustained period of change within civil contingencies and emergency management. The revision of the Minimum Standards for London during 2013 placed increased responsibility on local authorities to self-regulate and provide greater resilience on supporting community cohesion and community recovery post incident. This increase in workload has come with no additional resource. As part of the pan London arrangements the MSL's will be peer reviewed this year.
- 7.26 Following the delivery of Business Continuity training to Managers and staff of critical services Safety Services has started testing the business continuity plans and departmental arrangements as part of the on-going assurance to London Resilience Team that Merton is compliant with Civil Contingencies both at a local level and as part of the London resilience planning process.
- 7.27 Following two years of review of the council's business continuity arrangements and alignment with the DR plan more robust BC plans are now in place and tested. These plans are now undergoing an internal audit review and will implement any recommendations when received.

## **8 Principle 5: Developing the capacity of members and officers to be effective**

- 8.1 Members –A members' development plan is in place and this is adapted to meet arising needs. Induction training is provided for all new and existing members. In May last year a series of workshops were designed and delivered to support new members. The workshops included: Overview of the Council, standards and ethics, information security and managing casework, the role of a Councillor; introduction to overview and scrutiny, introduction to finance, safeguarding community leadership, licensing, planning, risk management and the importance of developing personal development plans.
- 8.2 In addition to the induction topics covered above; in house sessions were arranged to explain specific items i.e. Housing Benefits, Public Health. Generic training will be provided to include public speaking, understanding equalities, using social media, IT skills, speed reading, chairing meetings, influencing skills, personal organisation, personal safety – this is not an exhaustive list. Personal Development Plans are in place for members and these will be reviewed on an annual basis to ensure learning needs are met and other areas for development identified.

8.3 Officers – All council employees (except those on probation) will have an annual appraisal. Training needs are identified through staff appraisals and training can now be booked on the council's iTrent System. The Council has Induction workshops throughout the year for new starters and for employees who change their roles. There is a managers' induction session for managers new to the Council or new to role. Training is available to all staff to ensure they have the skills and knowledge to undertake their roles. The management behaviours have been included in the appraisals for the Collective Departmental Management Teams for 2015/16 with the view to rolling it out to other management grades after the appraisal analysis in September to coincide with the launch of the Council's vision.

## **9. Principle 6: Engaging with local people and stakeholders**

- 9.1 A wide range of communications channels are used by the council to target different audiences. The Council magazine, My Merton, is delivered to every household in the borough four times a year. The Council also uses online and social media channels to target different audiences. Some services have developed bespoke communication channels to reach particular target audiences.
- 9.2 A wide range of engagement forums are used, some led by the council, others by the community, to communicate the council's vision and to consult local people, for example the Interfaith Forum, LGBT Forum, BAME Forum, Involve, Community Forums, Youth Parliament, and Young Advisors
- 9.3 The council follows the principles for engagement agreed by the Merton Partnership in 2010 and refreshed in 2014 as part of the Get Involved - Community Engagement Strategy. These principles let residents know what they can expect from council consultations and they are invited to report on occasions when consultations fall short of these expectations.
- 9.4 All our consultations and many of our partner's consultations are listed in our online database. Residents and stakeholders can sign up for alert emails to be updated when new consultations are in place on the system so they can find out how to get involved.

## **10. Other areas of corporate governance and assurances**

- 10.1 A review of the effectiveness of the governance arrangements for the council have been carried out also using the following areas:
- Performance management
  - Internal Audit
  - External Audit
  - Risk management
  - Other Inspection Reports
- 10.2 This evidence has been considered by the Steering Group as the review of effectiveness of the Corporate Governance Framework and Internal Control.

Internal Audit Annual Report (see Appendix A).

10.3 External Audit Value for money review – Good Governance framework for local government include the following supporting principle ‘ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money’.

10.4 Comments from external audit on the 2013/14 accounts were

‘In accordance with guidance issued by the Audit Commission, in 2013/14 our conclusion was based on two criteria:

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

We reviewed the Council's systems and processes relevant to both criteria and we had no issues to report. We issued an unqualified value for money conclusion on 19 September 2014. Our audit did not identify any significant matters.’

10.5 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Corporate Governance working group to the General Purposes committee that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below

## 11. Follow up of 2014/15 Improvement Plan

11.1 The working group reviewed progress on the actions from the AGS review of 2013/14, which resulted in an improvement plan for 2014/15. There were seven recommended improvement actions, of which 2 have been completed, 5 actions to carry forward to the 2015/16 improvement plan. These are detailed below

Action	Action Taken
<b>To review and update Constitution including financial regulations and procedures</b>	<p><b>Carry Over</b></p> <p>The constitution has been reviewed and updates are being considered by members at the Council meeting in July 2015 in relation to the declaration of non-pecuniary interest requirements and standing orders in relation to the employment of statutory officers.(carry forward)</p> <p>The financial Regulations have been updated and these went to Standard in October and General Purpose’s and Council in November (complete). The financial Procedures will be updated by October 2015 (carry forward).</p>

<p><b>Strengthen compliance systems by rolling out compliance software</b> Roll out compliance software to assist in ensuring compliance with operational policies</p>	<p><b>Carry forward</b> This is currently in progress of being procured and will include the following key policies:</p> <ul style="list-style-type: none"> <li>• IT Policy</li> <li>• Code of Conduct for Employees (including discipline and disciplinary rules)</li> <li>• Sickness absence reporting</li> <li>• Equality and diversity policy</li> <li>• Health &amp; Safety policy</li> <li>• Information Governance Policy (including Data Protection and Freedom of Information)</li> </ul> <p>The system will be implemented by 30 November 2015</p>
<p><b>Declaration of Interests On-Line form</b> New on-line form for staff to complete their annual returns. This will include declaration of staff relationships</p>	<p><b>Carry forward</b> This action was put on hold last year as the relationship policy was reviewed. This action is now ready to be actioned and a pilot test is due to be undertaken in July 2015, with full roll out by September 2015.</p>
<p><b>Management behaviours</b> To roll out the management behaviour system for all managers to ensure a consistent and suitable level of competency</p>	<p><b>Carry forward</b> This has continued at Department Management level for 2015 appraisals. This will be rolled out in September 2015.</p>
<p><b>Transparency Agenda</b> To publish the remaining requirements of the DCLG Code of Recommended Practice for Local Authorities on Data Transparency</p>	<p><b>Complete</b> Head of Information Governance Many of the sets of information required by the mandatory requirements in the Code have been published. There are still some issues with tidying up the property and HR data in their new formats, and finalising what is required in respect of contract information and procurement card data. However, no complaints have been received about missing information. This is on-going but will be closed.</p>



<p><b>Implement External Audit recommendations in the Whistleblowing report</b> in relation to the procedures for the appointment of interim staff, reviews, and exemptions to CSO and staff relationship policy.</p>	<p><b>Completed</b>  <u>Comments from Head of HR</u>  A range of actions of been implemented to reflect the recommendations made by Ernst and Young and agreed by GPC in March 2014:</p> <ol style="list-style-type: none"> <li>1) Council officers should report all interim placements to the HR function – a database has been established and is regularly maintained and updated by HR, and cross-referenced with departments for accuracy. Details of the database have been reported to GPC meetings over the past year.</li> <li>2) HR should challenge departments in their use of interim appointments, the charge rates, and to ensure external recruitment is considered. Regular monthly meetings are held by HR with DMT's to review the database of interim appointments and to challenge accordingly.</li> <li>3) HR should be involved in any recruitment process including interims. HR retains control of all interim appointments and issuing of contracts of employment/ placement contracts. The recruitment and selection procedure has been amended to reflect the need for HR to be involved in all interim placements and HR maintains control through the central register as set out in 1) above.</li> <li>4) The Council should review its interview process to include interim appointments.</li> <li>5) The Council's procedure has been amended to reflect that all interim placements should be interviewed.</li> <li>6) The Council should review its policy on personal relationships at work. The policy has been re-drafted and approved by CMT.</li> </ol> <p><u>Comments from Head of Commercial Services</u>  I was a member of the working group which was set up following the Whistleblowing Report. The action on me was to review and revise the procedure for exemptions. This I have done and the revised form has been through GP and will be uploaded onto the Procurement intranet site shortly</p>
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<p><b>Shared Services –</b> review of governance arrangements of each shared service including how FOIs are managed</p>	<p><b>Carry forward</b> The Council's Commission established a task group review of shared services in March 2015 to examine a range of examples of shared services provision and report back in July 2015. This task group is intended to be the first in a series of task group reviews that will help scrutiny members to understand the different models of service provision and to identify the best approach to scrutinising each model.</p> <p>The Head of Information Governance liaises with neighbouring boroughs regarding how any complex or contentious FOIs are managed when they relate to any of the council's shared services</p>
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## 12. Assurances by Directors and Heads of Services

- 12.1 All heads of services have completed self-assessment questionnaires on corporate governance and internal control. These are reviewed and signed off by the appropriate director.
- 12.2 No major weaknesses in Corporate Governance and Internal Control were identified from the self-assessments however the following key areas of development/improvement were identified:

### Children, School and Families

- Implementation of the Children's Act
- Delivery of TOM's and continuous improvement plans.

### Environmental and Regeneration

- Improvements being led by newly established Procurement Board which has included reviewing and improving contracts register. Training is being rolled out which will include details of new "remedies" legislation. Established Departmental Operational Procurement Group chaired by HOS (SSW). Work to further extend arrangements across Department
- Governance arrangements are being developed for new contracts arrangements for waste disposal and treatment as this is being procured in partnership with three other Council's. Merton is the lead authority in this respect. This is continuing with the second phase and third phase Governance arrangements in place comply with Scheme of Delegation and CSD
- Map under review processes being streamlined. Development of TOM's plus implementation plans on target. TOM refresh planned for 15/16
- The agreement of collaboration will be reviewed periodically, especially with the expansion of the Shared Regulatory Services Partnership. The Joint Committee will continue to meet 3 or 4 times a year.
- IT systems which manage customer interactions, are currently under

review within the council in order for the council to use one system to deliver a seamless customer interaction and improve overall service delivery and customer information

- To review asset system of borough litter bins locations with highways ensuring all data is recorded and sections, waste and highways have access to the information. Specification for a new asset management system is currently being developed with a view to procurement later this year
- Improve cross section working with debt control/transactional services to minimise commercial waste outstanding invoices
- Plans to make great use of IT systems to encourage greater community engagement.
- The introduction of new systems for customer contact and CRM will significantly enhance and improve processes plus Love Clean Streets app for streamline reporting
- Performance meetings to have a greater emphasis on improvements actions.
- New IT systems in Waste to track performance through on-line dashboard

#### Community and Housing

- Refreshment of the Information Security Training will be undertaken this year
- Review policies and procedures within adult social care to comply with Care Act and other developments
- Consultation regarding library developments (Donald Hope and West Barnes).
- Ensuring capacity in procurement to avoid a repeat need for widespread exemption reports
- Full Review of Business Continuity Plan this coming year.

#### Corporate Services

- Open Data to be published promptly
- Implementation of TOM projects.
- Extend corporate asset management system to include all of the councils non-operational properties
- Currently reviewing the current free visitor Wi-Fi arrangements to identify opportunities to improve accessibility to services.
- Customer contact project to include various aspects to streamline contact with customers including self-service.
- New Financial system due from April 16
- Shared Internal Audit Service from October 2015

- HR -\_Work is being undertaken with our software supplier to embed the scheme within management processes through our payroll and employee record database
- Follow up on DBS audit and findings

12.3 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the General Purposes committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below'.

### 13. Significant governance issues (Improvement Programme 2015/16)

13.1 The improvement actions below have been identified as a result of the review carried out. Progress will be followed up during 2015/16 and reported to General Purpose's committee.

Action	Lead	Proposed Completion date
<b>Members Declaration of Interest.</b> To review the current arrangements to consider extending the requirements to declare links to voluntary sector etc.	AD Corporate Governance	July 2015
<b>Potentially Violent Persons</b> The Policy on dealing with potentially violent people is currently under review by the Information Governance team, in conjunction with Health and Safety. This is to ensure that the policy complies with the Data Protection Act, specifically the ICO guidance on how to manage any PV markers on records.	Head of Information Governance	October 2015
<b>To review and update financial procedures</b>	Head of Business Planning	October 2015
<b>Strengthen compliance systems by rolling out compliance software</b> Roll out compliance software to assist in ensuring compliance with operational policies	Head of Policy	November 2015
<b>Declaration of Interests On-Line form</b> New on-line form for staff to complete their annual returns. This will include declaration of staff relationships	Head of HR	October 2015
<b>Management behaviours</b> To roll out the management behaviour system for all managers to ensure a	Head of HR	March 2016

consistent and suitable level of competency		
<b>Shared Services</b> – review of governance arrangements of each shared service including how FOIs are managed	DMT/Business Partners-co-ordinated through the Head of Democracy	March 2016
<b>Disclosure &amp; Barring Service (DBS)</b> To carry out a full review of DBS to ensure that posts requiring this check are completed and at the correct level and to implement audit recommendations.	Head of HR	August 2015

13.1 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: \_\_\_\_\_ **Leading Member**

Signed: \_\_\_\_\_ **Chief Executive**

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# **LONDON BOROUGH OF MERTON**

## **INTERNAL AUDIT ANNUAL REPORT YEAR ENDING 31<sup>ST</sup> MARCH 2015**

## Contents

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## **1. Head of Audit & Investigations Assurance Opinion**

- 1.1 Internal Audit has reviewed the effectiveness of the Council's systems of internal control for 2014/15 and has taken into account appropriate assurances obtained from other relevant internal and external sources. The opinion, based on this work, is that the Council's systems of internal control are generally sound and effective although the expected high standards of control have not been achieved in a limited number of council activities (detailed below). There is therefore a requirement to improve in these areas.
- 1.2 Appropriate action plans are in place in response to internal audit actions where necessary. It is important that departments ensure that audit actions are implemented in a timely manner to ensure effective controls are in place.

## **2 The Internal Audit Assurance Framework**

- 2.1. A key responsibility of Internal Audit is to give the organisation assurances about the levels of internal control being exercised in the areas of risk and in particular where there are transactions that are considered "material" to the Council.
- 2.2. Internal Audit seeks to ensure that Merton's systems adhere to recognised standards and that public accountability can be demonstrated and is transparent.
- 2.3 Overall, whilst issues have been identified and resolved, the systems of control within the Council are such that reliance can be placed upon them.
- 2.4. In order to give such an assurance, a balanced programme of Internal Audit reviews is constructed each year. This Annual Internal Audit Plan contains elements of all the Council's activities selected using a "Risk Based" approach. There are many tools used to achieve a balanced plan including undertaking systems reviews, regularity audits (e.g. schools), contract and computer audit, fraud and misappropriation reviews and an annual review of major financial systems such as Council Tax, cash and bank and Housing Benefits.
- 2.5. In order to contribute to the Annual Governance Statement, all Internal Audit reports give an audit assurance as follows:
  - a) Substantial Assurance
  - b) Satisfactory Assurance
  - c) Limited Assurance
  - d) No Assurance
- 2.6. In addition each recommendation emanating from the audit review is given a high, medium or low risk priority for implementation. All recommendations are followed up by Internal Audit to ensure that they have been implemented.
- 2.7. The audit plan for 2014/15 covered those area of high fraud risk, as identified through the councils own assessments and through information from CIPFA, the Audit Commission and other sources, where fraud risks are highlighted. Examples of these are Student Council Tax exemptions, council tax refunds and procurement cards, and . These audits reviewed the controls in place, although

no fraud was identified in any of these reviews, a number of recommendations were made to improve the controls.

2.8 In addition to the agreed audit plan, additional audits and reviews at the request of Management have been completed. These have ranged from full audits to focused audit investigations. Examples of these additional pieces of work included:

- Student CTAX exemptions
- Payroll overpayments
- Mayor's trust
- Staff vouchers
- Councillor's declaration of interests
- AYSE grant
- A3 hardware grant
- System Access Policy
- Compromise agreements
- HB subsidy claim
- Performance Related Grant review

2.9 These referrals to Internal Audit help to demonstrate the continued good engagement from departments and their awareness of the role of Internal Audit and the work that they can undertake to support their service. The Council's risk profile is constantly changing. Therefore, Internal Audit and the internal audit plan needs to be flexible to be able to respond to these changing and emerging risks.

2.10 The Internal Audit function is conscious of the significant pressure on resources that the Council is facing and has continued to identify where we can support management through looking to identify potential efficiencies and making recommendations for possibly fewer but better controls wherever possible.

### **3. 2014/15 Internal Audit Assurances**

3.1. During 2014/15 there were 61 internal audit reviews completed and given a level of assurance.

3.2 A full list of the assurances can be found in Appendix A. Action Plans for improvements are in place for all audits. Discussions are being held with Departments and action plans are still to be finalised in some instances.

3.3 The following tables summarise the results by audit type:

**Table 1 Internal Audit Assurances by Audit Type 2014/15**

Assurance	assurance	Limited	N/a	Totals
Procurement	4	4	0	8
Establishments	9	1	0	10
Financial Systems	8	1	0	9
IT	0	1	0	1
Service Specific	19	4		23
Corp Gov/grants	4	0	6	10
<b>Totals</b>	<b>44</b>	<b>11</b>	<b>6</b>	<b>61</b>

3.4 Table 2 summarises results for the last three financial years in the form of number of reviews and % for satisfactory and limited assurance.

**Table 2 Internal Audit Assurances 2012/13- 2014/15**

Assurance				Limited Assurance		
	2012/13	2013/14	2014/15	2012/13	2013/14	2014/15
C&H	4 (57%)	4 (67%)	<b>5 (63%)</b>	3 (43%)	2 (33%)	<b>3 (37%)</b>
CS	18 (69%)	16 (76%)	<b>24 (86%)</b>	8 (31%)	5 (24%)	<b>4 (14%)</b>
E&R	4 (44%)	9 (75%)	<b>10 (83%)</b>	5 (56%)	3 (25%)	<b>2 (17%)</b>
CSF	18 (86%)	15 (83%)	<b>8 (89%)</b>	3 (14%)	3 (17%)	<b>1 (11%)</b>
All depts.		4 (100%)	<b>3 (75%)</b>		0	<b>1 (25%)</b>
<b>Total</b>	44 (70%)	48 (79%)	<b>50(82%)</b>	19(30%)	13 (21%)	<b>11(18%)</b>

3.5. Overall the number of audit assurances achieving a satisfactory or above rating has slightly increased. In all cases action plans are in place for agreed areas of improvement. Management summaries for each limited report were regularly submitted to the General Purposes Committee.

3.6. When analysing these statistics between years the following factors need to be taken into account:

- a) The same areas are not audited every year hence a like for like comparison cannot be made. Individual audits differ considerably in terms of scope and objectives.
- b) The numbers of audits carried out in the year (small numbers in an area can give misleading results in % terms.)
- c) There have been changes in the departmental responsibilities over the three-year period.

**Key Areas for 2014/15**

3.7 Internal Audit has continued to improve their level of engagement with all levels of management. This has been achieved by attending regular DMT's to discuss audit progress, meeting with key stakeholders prior to the start of the audit to agree the audit brief.

3.8 When the audit plan is set, discussions are held with all key people for input, this engagement has enabled the Internal Audit team to focus on the key areas of

risk as well as work closely with management to formulate actions to address areas where improvement is required.

- 3.9 As set out in the above section we have identified areas of good practice and an effective control environment across the majority of the systems, processes and establishments reviewed. This includes the Council's key financial systems as set out below.
- 3.10 However there are a number of areas where further improvements are required to strengthen the control environment and we have summarised the key themes identified below

Procurement

- 3.11 A review was carried out this year on the corporate procurement arrangements in place in the council; this was provided with a satisfactory assurance as we found that overall improvements had been made since the last review in 2013/14, although there are still improvements to be made. A sample of eight areas reviewed found that 4 areas received a limited assurance as their procurement arrangements needed improvement: DFG, supporting people, community equipment service and vehicle maintenance where recommendations for improvement are currently in progress.

Financial systems

- 3.12 Of the 7 main financial systems reviewed this year, one received a limited assurance, Treasury Management. The iTrent system is currently being reviewed.

**Table 3 Financial systems audit assurance for last 3 years**

Financial System	Assurance 2014/15	Assurance 2013/14	Assurance 2012/13
Cash and bank	Not audited	Satisfactory	Limited
Payroll (iTrent)	In progress	Limited	Limited
Carefirst	Not audited	Not audited	Limited
Accounts Payable	Satisfactory	Not audited	Satisfactory
Fixed Assets	Satisfactory	Satisfactory	Not audited
Debtors	Not audited	Satisfactory	Satisfactory
Housing benefits	Not audited	Satisfactory	Satisfactory
Treasury management	Limited	Not audited	Satisfactory
Council Tax	Satisfactory	Not audited	Satisfactory
National Non-Domestic Rates (NDR)	Satisfactory	Not audited	Satisfactory
General Ledger	Not audited	Satisfactory	Not audited
Budgetary Control	Satisfactory	Satisfactory	Not audited

- 3.13 The Payroll (iTrent) audit is being carried out as part of a joint review for London Borough's:-Sutton, Merton, Richmond and Kingston and was undertaken by Moore Stephens. At the time of writing this report, the results of the audit review not been received.
- 3.14 Smaller financial reviews were also carried out on oyster cards, petty cash imprests and council tax refunds all receiving assurance, with minor recommendations to strengthen the controls.

### **Service Specific**

- 3.15 There were 23 service specific audits carried out, Of these 4 received a limited assurance where staff did not following a proper process in financial arrangements leading to weak controls. These limited reviews were in a range of service reviews, monitoring of school returns, service tenancies, DBS and staff vouchers.
- 3.16 During 2014/15 the Head of Internal Audit & Investigations worked closely with other elements of Corporate Governance, including leading on the working group for the 2014/15 Annual Governance Statement. In addition Internal Audit has been involved with a number of governance reviews which have identified areas for improvement across the Council. These are Risk Management, Partnerships and Members declaration of interests.

## **4. Follow up's**

- 4.1 During 2014/15 Internal Audit made a total of 455 recommended improvement actions, at the time of this report 341 actions (75%) were fully implemented. 114 actions have yet to be implemented, of these 11 actions are overdue
- 4.2 For those outstanding actions, an expected implementation date is provided by the manager. Monthly reports are sent out to all managers for actions due, where these are over two months overdue, the Head of Service also receives a copy. If an action is more than 3 months overdue, then the appropriate Director is informed. Any overdue outstanding audit actions are then reported to General Purposes committee.
- 4.3 Where reports are given a limited assurance and therefore have a number of recommendations a full follow up audit is usually carried out in the subsequent year to gain assurance that these recommendations have been actioned.

## **5. Review of the Effectiveness of the System of Internal Audit**

- 5.1 The Annual Audit Plan for 2014/15 was agreed by General Purposes Committee Members at the start of the year. At the year-end 92% of the audit plan was completed and 90% of audit actions implemented by the agreed date.
- 5.2 Internal audit has contributed to the overall corporate governance of the council's activities by:
- Completion of the audit plan

- Member of the corporate risk strategy group.
- Chair of AGS working group
- Providing advice/training on corporate policies and procedures and control issues

5.3 The Public Sector Internal Audit Standards defines the level of effective audit service expected for all public sector audit services. There is a requirement to undertake an annual internal review of compliance to the standard, an internal review of the standard to confirm conformity has been carried out in 2014/15.

5.4 The standard also requires an independent external assessment to be carried out every 5 years. This was undertaken as part of a peer review in March 2014, and resulted in a conclusion that Merton internal Audit service is compliant with the standard.

## 6 Anti-Fraud

6.1 The council Anti-Fraud and Corruption strategy, was last reviewed in 2011 to include the Bribery Act, this strategy sets out the councils approach to detecting, preventing and investigating fraud and corruption This strategy is supported by the council s whistleblowing policy, which was reviewed and updated in 2013 and by the councils code of conduct. The Internal Audit section has a key role in implementing this strategy and to ensure that the internal controls in place are robust to prevent fraud occurring or to tighten controls where fraud has occurred.

6.2 The number of investigators employed by Merton until the end of October 2014 was 7.6 posts, with total available days of 783. From the 1<sup>st</sup> November 2014, the responsibility for investigating Housing Benefit fraud was transferred to the DWP. The investigation team transferred on this date.

6.3 The work of the investigation team for this period is set out as follows

**Table 6 Investigation team outcomes 2014/15 (up to 31<sup>st</sup> October 2014)**

Area	Referrals +on-going	Cases closed	passed to DWP	Cautions/ disciplinary	Prosecutions	Total sanctions
HB	96	49	37	5	5	10
Blue badge	n/a	n/a	n/a	13	0	13
Corporate	4	2	n/a	1	1	2

6.4 The total value of fraud detected for Merton was £101,166, a breakdown of this is as follows:-

- Housing Benefit £85,472
- Council Tax Benefit £13,737
- Corporate fraud £ 1,957

6.5 The amount quoted above for Housing Benefit (HB) relates to the level of HB overpayments made. The council always seeks to recover all overpayments. The

council is also able to claim 40% of this back through their subsidy grant). In 2014/15 £1,600 was recovered for ad-pens issued previously.

- 6.6 In addition to the above there were 30 concerns investigated by Internal Audit. Some of these have been received through whistleblowing, others through management referral or identified through audit reviews.

The results of these investigations are as follows:-

Prosecution	2
Recommended Disciplinary action	2
Reclaim housing assistance	1
Improved controls	7
Investigated and requiring no further action	16
On-going	2

#### **Other anti-fraud work**

- 6.7. In January 2015, the Council Tax section employed Civica Services to carry out a review of Single Person Discount. This review involves matching the council's data to other credit data to establish entitlement. This resulted in 1,053 SPD cancelled with £180,646 debits raised from the date of the match.
- 6.8 Other proactive work being undertaken is on the National Fraud Initiative, where the council's data is matched to data from other councils and organisations to identify potential fraud. The results of this match were received in January 2015 and work is currently on-going to check the matches.
- 6.9 Duplicate creditor data identified through NFI has all been reviewed and where relevant duplicate data such as creditor name, address and bank account have been closed. One duplicate payment has been refunded.
- 6.10 From April 2015, the council joined a five borough fraud partnership with Wandsworth, Sutton, Richmond and Kingston. Funding from the DCLG was received to cover set up costs. The partnership is based at Wandsworth Council and all fraud referrals will be passed to them to investigate. Regular steering group meetings are held with the Heads of Audit. The main focus of the partnership work will be external fraud:- tenancy, business rates, council tax benefit and blue badge fraud as well as ad-hoc requests to investigate allegations of internal fraud.

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## Internal Audit Reviews 2014/15

Appendix A

Year	Department	Audit Title	Type	Assurance
14/15	all	Grants to Vol. Sector	grants	assurance
14/15	all	Corporate procurement	procurement	assurance
14/15	all	Procurement cards	procurement	assurance
14/15	CH	Meadowsweet close res home	establishment	assurance
14/15	CH	Riverside drive res home	establishment	assurance
14/15	CH	Public health	procurement	assurance
13/14	CH	Housing Nominations -allocations	service specific	assurance
14/15	CH	Review of libraries	service specific	assurance
14/15	CS	Risk management	corp governance	assurance
14/15	CS	Members declaration of interest	corporate	assurance
14/15	CS	Brightwell respite centre	establishment	assurance
14/15	CS	Oyster card review	financial	assurance
14/15	CS	Petty cash imprests	financial	assurance
14/15	CS	Creditors	financial system	assurance
14/15	CS	Fixed Assets	financial system	assurance
14/15	CS	Budget Management	financial systems	assurance
14/15	CS	Business Rates	financial systems	assurance
14/15	CS	Partnerships	Corporate governan	assurance
14/15	CS	Bailiff Service	service specific	assurance
14/15	CS	Compromise agreements	service specific	assurance
14/15	CS	Concessionary fares	service specific	assurance
14/15	CS	Local Welfare Support Scheme	service specific	assurance
14/15	CS	Registry Office	service specific	assurance
14/15	CS	Telecommunications	service specific	assurance
14/15	CS	Youth service	service specific	assurance
14/15	CSF	Bond primary	establishment	assurance
14/15	CSF	Poplar primary school	establishment	assurance
14/15	CSF	Priory C&E primary school	establishment	assurance
14/15	CSF	SS Peter & Paul Primary School	establishment	assurance
14/15	CSF	St teresas primary school	establishment	assurance
14/15	CSF	St Thomas of Canterbury primary	establishment	assurance
13/14	ER	Passenger transport	procurement	assurance
13/14	ER	Residents parking	service specific	assurance
14/15	ER	Commerical property rents	service specific	assurance
14/15	ER	Commerical waste services	service specific	assurance
14/15	ER	Penalty Charge Notices	service specific	assurance
14/15	ER	Pitch lettings	service specific	assurance
14/15	ER	Section 106 & CIL	service specific	assurance
14/15	ER	SLWP	service specific	assurance
14/15	All	Service tenancies	service specific	<b>limited</b>

## Internal Audit Reviews 2014/15

Appendix A

14/15	CH	Community Equipment Services	procurement	<b>limited</b>
14/15	CH	DFG housing grants	procurement	<b>limited</b>
14/15	CH	Supporting people	procurement	<b>limited</b>
14/15	cs	Treasury Management	financial systems	<b>limited</b>
14/15	CS	DBS checks	service specific	<b>limited</b>
14/15	CS	Review of staff vouchers	service specific	<b>limited</b>
14/15	CS	Monitoring of school returns	service specific	<b>limited</b>
14/15	CSF	Sherwood primary School	establishment	<b>limited</b>
14/15	ER	Mango system	IT	<b>limited</b>
14/15	ER	Vehicle Maintenance	procurement	<b>limited</b>
14/15	CS	Mayor Trust Account	grants	n.a
14/15	CS	Council Tax refunds	financial system	n/a
14/15	CS	A3 hardware grant	grants	n/a
14/15	CS	Use of car	service specific	n/a
14/15	CSF	Adoption reform grant	grants	n/a
14/15	CSF	ASYE grant return	grants	n/a
14/15	ER	City Cycle	grants	n/a
14/15	ER	MSJCB	grants	N/A
14/15	CS	Payroll overpayment	service specific	proactive
14/15	CS	Student exemption	service specific	proactive
14/15	CS	Council tax systems	financial system	sub assurance

## WORK PROGRAMME

### SEPTEMBER

- External audit: Audit Results Report for the audit of the Council and the Pension fund
- Internal audit: Progress on annual audit plan
- Finance: Final Accounts

### NOVEMBER

- External auditor: annual audit letter
- Polling places
- Constitutional amendments
- Feedback on EY whistleblowing report

### MARCH

- External audit: certification of claims report
- External audit: Audit Progress Report
- External audit: Audit Plans for audit of the Councils and Pension Fund
- Internal audit: Progress report
- Internal audit: Plan, strategy and terms of reference
- Internal audit: Whistleblowing policy and annual update
- Democratic services: Update report on Non-Key Delegated Executive Decisions

### JUNE

- Internal audit: Annual Governance Statement
- Internal audit: Annual Report
- External auditor: fee letters for audit and for the Council and Pension fund
- Finance: Draft Accounts

### OTHER STANDARD ITEMS

#### SPECIFIC ITEMS

- Constitutional changes (when necessary)

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## Local government audit committee briefing

### Contents at a glance

**Government and economic news**

**Accounting, auditing and  
Governance**

**Regulation news**

**Key Questions for the Audit  
Committee**

**Find out more**

This sector briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving. It covers issues which may have an impact on your organisation, the Local government sector and the audits that we undertake. The public sector audit specialists who transferred from the Audit Commission form part of EY's national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by the rich resource of wider expertise across EY's UK and international business. This briefing reflects this, bringing together not only technical issues relevant to the local government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Local Authority bodies. We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.



## Government and economic news

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### EY Item Club Spring 2015 Forecast

In its latest quarterly forecast the EY Item Club forecasts strong economic performance with GDP growth of 2.8% this year, rising to 3% in 2016. The Consumer Prices Index (CPI) Inflation is expected to average 0.1% for 2015, but expected to rise above 1% this winter, paving the way for possible base rate rises in spring 2016. Consumption is forecast to grow by 2.8% this year (mainly due to a real income increase of 3.7%) and strong growth over the medium term supported by buoyant incomes rather than borrowing. An additional driver for growth is the fall in the Euro against the pound. Business surveys indicate that the effect of this exchange rate move on export competitiveness has been countered by the strength of the European market.

The report highlights that its forecasts are far more positive than the Office of Budget Responsibility (OBR) which it accepts needs to be cautious, seeing room for expansion in the consumer and housing markets without significant adverse effect on household debt or house prices. Additionally long term output growth prospects are better than indicated by OBR projections. The forecast suggests that the outlook for the government post-election will be more positive than official statistics.

### Manchester devolution

On the 27 February 2015, a memorandum of understanding was signed between Greater Manchester's 10 local authorities, 12 NHS clinical commissioning groups and 15 NHS providers, as well as NHS England chief executive Simon Stevens and Chancellor George Osborne. This memorandum builds on the devolution

settlement for Manchester which was signed in November 2014, and proposed the devolution of powers to Greater Manchester in various areas including transport, planning and housing.

NHS England worked with the Manchester bodies to develop a plan for further joined up and integrated health and social care. The next stage will be the development of a roadmap, followed by production of a business plan. Due for publication in October, the outline business plan will outline the scope for possible savings through integration; as well as setting out the capital investment that will be needed to deliver the proposed shift from acute care to the primary and community sectors.

Under the plan, a new joint decision-making process for all £6bn of health and social care spending will be developed. A Greater Manchester Strategic Health and Social Care Partnership Board will be set up, and will oversee the development of the health and care system. A joint commissioning board will be responsible for financial plans and budget proposals for the sizeable budget, which represents approximately a quarter of all public spending in the region.

George Osborne has said that this reform was "exactly what we want to see more of in our health care."

Greater Manchester Combined Authority chair Lord Peter Smith confirmed his commitment to working with NHS colleagues in the city: "By ensuring that decisions about health for Greater Manchester are taken in Greater Manchester, we can ensure we have a system specifically tailored to the needs of people in our area."



## Government and economic news

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This radical change follows on from the Community Budget programme, of which Manchester was one of the four pilots. This programme was intended to pool funds to improve the effectiveness of public spending across the city's 10 councils. An analysis from EY commissioned by the Local Government Association concluded that more than £4bn could be saved every year if all areas adopted a Community Budget approach and were able to cut the unnecessary waste, duplication and red tape. Of these, it was estimated 80% would come from the budgets of central government departments and agencies.

### DWP Welfare Reforms

The NAO has produced a report which considers the changes made by the Department for Work & Pensions (DWP) over the past five years and its mixed record of implementation. The report is intended to provide the DWP and other readers with an opportunity to learn from experience. They have also produced a briefing with more general relevance – *'Lessons for major service transformation'* which draws out broader principles from their DWP review.

Eleven lessons are identified which may be helpful for authorities seeking to transform services and processes in the face of budget constraints:

- ▶ Transformation programmes raise the greatest risks of failure
- ▶ Set realistic goals and be honest about what really matters
- ▶ Policy development must take account of implementation
- ▶ Don't be tempted to score benefits early
- ▶ Do identify tangible short-term gains
- ▶ Recognise the (senior) organisational cost of transformation
- ▶ Don't underestimate what you can learn from engagement
- ▶ Recognise the value of learning and market development
- ▶ Do anticipate the need to make changes in live running
- ▶ Recognise the opportunities and limits of technology
- ▶ Set out clear decision-making and challenge



# Accounting, auditing and governance

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## Transport Infrastructure Assets

**What are transport infrastructure assets (TIA) and why are they relevant to highway and non-highway authorities?**

The *Code of Practice on Transport Infrastructure Assets (TIA Code)* was first published in 2010 and updated in 2013. The key aim of this document was to improve the asset management of TIA. The TIA Code classified TIA as:

- ▶ Carriageways
- ▶ Footways and Cycleways
- ▶ Structures
- ▶ Street Lighting
- ▶ Traffic Management Systems
- ▶ Street Furniture

The TIA Code also sought to provide the basis for improved financial information by setting out a move to valuation of such assets on a Depreciated Replacement Cost (DRC) basis, which in simple terms is the difference between the current costs of replacing an asset less an allowance (depreciation) for the age of the current asset.

Local Government continued to use depreciated historic cost (DHC) as the valuation approach for infrastructure assets when the *Code of Practice on Local Authority Accounts in the United Kingdom (Accounting Code)* moved to an IFRS basis effective from 1 April 2010. Thus one of the key elements for full implementation of the TIA Code, valuing assets using DRC, was not in place within Local Government.

Following consultations over a number of years, CIPFA initially announced through the 2014/15 Accounting Code, and confirmed in the 2015/16 Accounting Code, that TIA within local government

will be valued at DRC with effect from 1 April 2016. It has been estimated centrally that this will add some £200bn to the net worth of local government balance sheets. Our work to date with clients suggests that this is a significant underestimate. At an individual client level the inclusion of TIA, at this different valuation basis, will transform the balance sheet.

Although the above will apply to all highway authorities there will also be a number of non-highway authorities who hold material TIA under the new valuation basis. In particular, cycleways, structures and roads on industrial estates may lead to material levels of TIA at non-highway authorities. It is important to note that for those non-highway authorities the full requirements of the TIA Code will have to be met.

### What are the implications?

This is a fundamental change in approach which will require new accounting and estimation approaches as well as amendments to existing systems, or implementation of new systems design and operation. Early engagement and project planning were highlighted as core requirements in *LAAP BULLETIN 100: Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17*, to the effective delivery of this change within the tight timetable.

The change is to be applied retrospectively and thus will require valuations as at 1 April 2015 and comparative values for 2015/16. CIPFA issued specific Guidance Notes on TIA in May 2015 and have identified a number of proposed changes to the Accounting Code for 2016/17 that will be consulted upon over the summer.

Close working through the implementation period with external auditors is highlighted as being pivotal to successful implementation. We have identified a number of areas that are crucial to the delivery of this project and will be discussing these with officers over the coming months.





## Accounting, auditing and governance

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The additional audit work involved in this area was recognised by the Audit Commission in their 2015/16 fee consultation. It did not however, identify a fee; leaving that to local negotiation due to the scale of work required. Following local fee discussions we will be looking to have carried out initial detailed work for all audit clients by the end of the calendar year. This work could range from confirming with non-highway authorities that they do not have material TIAs and therefore do not have to implement the changes, to major systems reviews at highway authorities.

At all authorities with material TIA, further work will be required to address the results of the changes proposed in CIPFA's consultation on the 2016/17 Accounting Code. Our intention is to have reviewed the remaining areas of implementation before the end of the 2015/16 financial year at all audit clients.

### Working together

In addition to the work undertaken locally, following requests from clients, we will be running specific transport infrastructure assets workshops for officers of highway authorities across the country in July and August at the following venues:

- ▶ 28 July 2015 – London Becket House
- ▶ 29 July 2015 – EY Birmingham Office
- ▶ 5 August 2015 – London Becket House
- ▶ 6 August 2015 – EY Newcastle Office
- ▶ 13 August 2015 – EY Manchester Office
- ▶ 14 August 2015 – London MLP

Formal invitations will be issued in early June. If you have any questions regarding these events please contact Neil Gibson on [ngibson@uk.ey.com](mailto:ngibson@uk.ey.com).

For non-highway authorities with material TIA we will, in addition to our local work, facilitate contact between clients and, if there is demand, arrange similar workshops for them.

As with all major changes, early engagement with your local audit team will assist in a smooth implementation of the changes.

### Thought leadership – board effectiveness

EY has worked with The Investment Association to produce a thought leadership report 'Board effectiveness – continuing the journey'. The report is based on debates on board effectiveness held as a series of individual meetings and roundtables with leading chairmen, board directors and senior investors. Whilst the report recognises that all boards are different, it aims to identify leading practice and point to new ideas for boards to improve and demonstrate their effectiveness. It addresses board effectiveness across seven themes:

- ▶ Role of the chairman
- ▶ The role of non-executive directors (NEDs)
- ▶ Progress on diversity
- ▶ Board succession and the work of the nomination committee
- ▶ The purpose and impact of board evaluations
- ▶ Information flows to the board
- ▶ The role of investors

To encourage discussion between management, NEDs and stakeholders, the report includes a checklist of questions under each of the seven themes.



# Accounting, auditing and governance

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## 2015-16 work programme and scales of fees

Public Sector Audit Appointments Ltd (PSAA) has now confirmed the work programme and scale fees for the audit of the accounts for 2015-16 for local government, fire, police and health bodies.

For most local government, fire, and police bodies scale fees show a reduction of 25% to the fees applicable for 2014-15. This does not, however, apply to pension fund audits (where fee pressures have been rising due to the increasing complexity of the funds audited) or to local government audited bodies with 2014/15 scale audit fees below £20,000.

The current expectation is that these fee reductions will apply until the end of the audit contracts (subject to annual review).

The current contracts with audit suppliers run until 2017, with a possible extension for up to three years. Under its responsibility to manage the audit contracts, PSAA is required to consult on and set fees for 2016-17.

In addition to the core accounts audit work, auditors have a responsibility to satisfy themselves about an audited body's arrangements to secure economy, efficiency and effectiveness in its use of resources, and in some cases certification of claims. Fees to cover the costs of any special investigations, (e.g., arising from disclosures under the Public Interest Disclosure Act 1998) are charged as a variation to the scale fee.

The scale audit fees for individual bodies and the work programme are published on the PSAA website, with the aim of supporting transparency and helping audited bodies compare their fees with those of similar bodies. They are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.

It is a matter for the auditor to decide the work necessary to complete the audit. Where an auditor considers more or less work

is required than is represented in the scale fee, they are required under the audit contracts to seek approval from PSAA for a variation to the scale fee, and to agree the amount of this variation with the audited body. PSAA also consider the reasonableness of the explanations provided before agreeing to any variation to the scale fee.

## Whole of Government Accounts: 2013-2014

The Comptroller and Auditor General, Amyas Morse, released his audit report on the 2013/14 Whole of Government Accounts at the end of March. This is the fifth year that the Treasury has produced the Whole of Government Accounts, which is intended to show in a single document the overall financial position of the UK public sector by consolidating the financial activities of more than 5,400 organisations across the public sector into a single set of audited accounts. The bodies that are consolidated include central and local government bodies, as well as other public corporations including the Bank of England.

The audit opinion has again been qualified this year on six counts:

- ▶ The application of the WGA accounting boundary
- ▶ Inconsistencies in the underlying accounting treatments within the WGA
- ▶ Disagreement on the accounting treatment of 3G/4G mobile licences
- ▶ Lack of evidence in support of the completeness and valuation of school assets
- ▶ Underlying material qualifications of the Department for Education and Ministry of Defence accounts
- ▶ Inaccuracies in the elimination of intragroup transactions and balances



## Accounting, auditing and governance

Overall, Amyas Morse has commended the progress made by HM Treasury, whilst noting areas for improvement:

**“We are strongly supportive of the way HM Treasury is moving forward with the Whole of Government Accounts project. The Department is improving the content of the WGA and the document has been produced faster than ever. This is welcome and represents a significant step forward for the WGA. The Department is also taking steps to make sure that more information is being given to taxpayers on how government spends their money and longer terms risks on the balance sheet are being highlighted. However, there are opportunities to exploit the WGA’s potential more fully and to improve the WGA to enable me to remove my qualifications. The Treasury also needs to work with the bodies that provide data to improve the timeliness and accuracy of the information that it receives. Furthermore, better analysis by the Department of trends in government’s assets and liabilities will help to demonstrate the full financial impact of changes in the delivery of public service in the next Parliament.”**

### Financial reporting simplification agenda

The need to simplify and streamline local government financial statements has been a topic of discussion since the introduction of International Financial Reporting Standards (IFRS) in 2010/11. In December 2013 CIPFA issued *Financial Statements: A Good Practice Guide for Local Authorities* which includes a chapter around materiality and clutter. The report highlighted the negative impact of two types of clutter identified by the Financial Reporting Council in their report *Cutting Clutter*, namely:

- ▶ Immaterial disclosures that inhibit the reader’s ability to identify and interpret relevant information
- ▶ Explanatory information that remains unchanged from year to year

Since the publication of the good practice guide, CIPFA carried out a specific consultation on the potential for simplifying and streamlining local authority accounts during the summer of 2014. As a result greater emphasis was placed in the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and 2015/16* on removing immaterial disclosures. CIPFA also issued a second edition of its report *How to Tell the Story: Local Authority Financial Statements, including this within the Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for Practitioners 2014/15*.

CIPFA/LASAAC and CIPFA remain committed to enable the financial reporting of local government bodies to relate a more streamlined story that is understandable to the varied users of their financial statements. It has been stated that the consultations on the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* will include more fundamental changes.

Key proposals are expected to include a:

- ▶ New funding statement that more clearly reconciles the accounting and funding regimes
- ▶ Refocussing of the Comprehensive Income and Expenditure Statement
- ▶ Revision of the existing Movement in Reserves Statement

The progress on these changes will impact on the detailed approach that local government bodies make to achieve the earlier closedown requirements from 2018. Thus that work should be fully integrated with the streamlining agenda.

EY has also produced a think piece on earlier closedown; if you have not already received a copy, please contact your audit team for more information.



## Regulation news

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### The Transparency Code

The Local Government Transparency Code 2014, intended to increase democratic accountability by giving people the tools and information they need to enable them to contribute to the local decision making process, was published by DCLG on 3 October 2014.

It is governed by three main principles:

- ▶ Demand led – new technology should support transparency and accountability. Public bodies should release data in a way that allows the public and other interested parties to use it
- ▶ Open – availability of public data should be promoted and publicised. Presentation should be helpful and accessible
- ▶ Timely – data should be made public as soon as possible following production

The Code is a statutory requirement for local government bodies; however, it does not apply to Police and Crime Commissioners. It sets out the minimum data and information that all local authorities must publish; the frequency at which it should be published and how it should be published.

One of the mandatory disclosures contained in the Code is the requirement to publish information on senior managers' salaries. The Accounts and Audit (England) Regulations (2011) and section 3.4 of the Accounting Code set out the disclosure requirements in relation to senior management remuneration required for the financial statements.



## Key questions for the audit committee

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### What questions should the Audit Committee be asking itself?

- ▶ Have we fully considered opportunities for integration with other local services and whether this could offer improvements to service delivery as well as cost savings?
- ▶ Have we reviewed the NAO briefing 'Lessons for major service transformation' and is there anything that could be taken from it to increase the likelihood of successful implementation of projects?
- ▶ Are we as an organisation fully aware of the implication of future accounting requirements for TIA and do we have a plan in place to meet these?
- ▶ Have we considered the EY report 'Board effectiveness – continuing the journey' and whether it can support the improvement and effectiveness of our Committee?
- ▶ Are we aware of the 2015-16 scale fee/work programme and confident that arrangements ensure that accounts provided for audit are materially correct and fully supported, and that it has sufficient resources to support the audit process?
- ▶ What steps are we taking to plan for the earlier financial statement closedown arrangements for 2017/18?
  - ▶ Have we critically reviewed the accounts and identified areas where they can be streamlined?
  - ▶ Have we identified any disclosures or other areas which could be prepared early?
  - ▶ Is resourcing within finance areas sufficient? Are there any areas which will need additional support?
  - ▶ Do we have plans in place to start producing interim financial statements at month nine if this is something that we do not already do?
  - ▶ Do we engage in early discussions with our auditors over working paper requirements and any proposed amendments to the accounts compared to the prior year?
  - ▶ Do we engage in early discussions with our auditors over key areas of judgement and technical accounting areas well before closedown?
- ▶ Are we aware of the disclosure requirements contained in the transparency code and are we actively monitoring compliance?
- ▶ Have we engaged with our local communities to identify the areas where there is an appetite for more data to be shared?
- ▶ Do we publicise the access that is available to public data?
- ▶ Is the data that we make publicly available easily accessible both in terms of its location and its format?



## Find out more

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### **EY Item Club spring 2015 forecast**

For details of the EY Item Club's latest forecast, see <http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections>

### **Manchester devolution**

For a copy of the Memorandum of Understanding for Greater Manchester Health and Social Care devolution, see [http://www.agma.gov.uk/cms\\_media/files/mou.pdf](http://www.agma.gov.uk/cms_media/files/mou.pdf)

### **DWP Welfare Reforms**

For copies of the NAO's reports, see <http://www.nao.org.uk/wp-content/uploads/2015/05/Welfare-reform-executive-summary.pdf> and [http://www.nao.org.uk/wp-content/uploads/2015/05/Briefing\\_Lessons\\_for\\_major\\_service\\_transformation.pdf](http://www.nao.org.uk/wp-content/uploads/2015/05/Briefing_Lessons_for_major_service_transformation.pdf)

### **Transport Infrastructure Assets**

For more information about Transport Infrastructure Assets, please contact Neil Gibson for details of how to attend one of the EY courses.

### **Thought leadership – board effectiveness**

The report can be found at [http://www.ey.com/Publication/vwLUAssets/EY-UK-board-effectiveness-report/\\$FILE/EY-UK-board-effectiveness-report.pdf](http://www.ey.com/Publication/vwLUAssets/EY-UK-board-effectiveness-report/$FILE/EY-UK-board-effectiveness-report.pdf)

### **2015-16 work programme and scales of fees**

Details of the 2015-16 work programme and scales of fees are at <http://www.psaa.co.uk/wp-content/uploads/2015/03/Work-programme-and-scales-of-fees-2015-16-Local-Gov-FINAL-250215.pdf>

### **Whole of Government Accounts: 2013-14**

For the Certificate and Report of the Comptroller and Auditor General on the 2013-14 Whole of Government Accounts, see <http://www.nao.org.uk/wp-content/uploads/2015/03/Whole-government-account-2013-14.pdf>

### **Financial reporting simplification**

For more information about the Financial reporting simplification agenda, please contact your local audit team.

### **The Transparency Code**

For a copy of the new transparency code, see [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/360711/Local\\_Government\\_Transparency\\_Code\\_2014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/360711/Local_Government_Transparency_Code_2014.pdf)



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