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# Merton Council

## Standards and General Purposes Committee Agenda

### Membership

#### Councillors:

Peter McCabe (Chair)  
Adam Bush (Vice-Chair)  
Agatha Mary Akyigyina OBE  
Thomas Barlow  
Ben Butler  
John Dehaney  
Brenda Fraser  
Dickie Wilkinson  
David Williams MBE JP  
Pauline Cowper  
Hina Bokhari  
Mary Curtin

#### Substitute Members:

Peter Southgate  
Omar Bush  
Stan Anderson  
Sally Kenny  
Nick McLean  
Jenifer Gould

**Date: Thursday 25 July 2019**

**Time: 7.15 pm**

**Venue: Committee Rooms CDE, Merton Civic Centre, London Road, SM4 5DX**

This is a public meeting and attendance by the public is encouraged and welcomed. For more information about the agenda please contact [democratic.services@merton.gov.uk](mailto:democratic.services@merton.gov.uk) or telephone 0208 545 3357 .

All Press contacts: [communications@merton.gov.uk](mailto:communications@merton.gov.uk), 020 8545 3181

# Standards and General Purposes Committee Agenda

## 25 July 2019

1	Apologies for Absence	
2	Declarations of Pecuniary Interest	
3	Minutes of the previous meeting	1 - 6
4	Final Accounts	7 - 50
	<i>Appendices To Follow</i>	
5	Fee Letters for the Council and Pension Fund Accounts	51 - 60
6	Internal Audit Annual Report	61 - 78
7	Annual Governance Statement	79 - 104
8	Local Government Ethical Standards - A review by the Committee on standards in public life	105 - 118
9	Appointment of Independent Person <i>To Follow</i>	
10	Complaints against Members <i>A verbal update to be provided at the meeting.</i>	
11	Work Programme	119 - 120
12	Exclusion of the Press and Public  To RESOLVE that the public are excluded from the meeting during consideration of the following report on the grounds that it is exempt from disclosure for the reasons stated in the report.	
13	Temporary and Contract Staff update	121 - 130

### **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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# Agenda Item 3

## STANDARDS AND GENERAL PURPOSES COMMITTEE

14 MARCH 2019

(7.15 pm - 9.29 pm)

PRESENT Councillors Councillor Peter McCabe (in the Chair),  
Councillor Adam Bush, Councillor Agatha Mary Akyigyina,  
Councillor Eloise Bailey, Councillor Thomas Barlow,  
Councillor Ben Butler, Councillor John Dehaney,  
Councillor Brenda Fraser, Councillor Dickie Wilkinson,  
Councillor Mark Kenny, Councillor David Williams and  
Councillor Rebecca Lanning

ALSO PRESENT Councillor Mark Allison

Pam Donovan – Independent Person  
Suresh Patel – Ernst and Young  
Ged Curran (Chief Executive), Fabiola Hickson (Head of Law -  
Commercial), Roger Kershaw (Assistant Director of Resources),  
Andrew Robertson (Head of Electoral Services), Kim Brown (HR  
Lead), Howard Joy (Property Management & Review Manager),  
David Keppler (Head of Revenues and Benefits) and Amy  
Dumitrescu (Democratic Services Officer)

### 1 APOLOGIES FOR ABSENCE (Agenda Item 1)

There were no apologies for absence.

Councillor Mark Kenny and Councillor Rebecca Lanning attended the meeting,  
replacing Councillors Pauline Cowper and Joan Henry.

### 2 DECLARATIONS OF PECUNIARY INTEREST (Agenda Item 2)

There were no declarations of interest.

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

RESOLVED: That the minutes of the meeting held on 8 November 2018 were agreed  
as a correct record.

### 4 EXTERNAL AUDIT CERTIFICATION OF CLAIMS REPORT (Agenda Item 4)

The External Auditor presented the report, outlining the recommendations set out  
within the report and giving an overview of the summary of fees. It was noted that the  
additional fees had been agreed with the Council's Director of Corporate Services.

The Head of Revenues and Benefits addressed the recommendations provided as  
follows:

Recommendation 1 – There had been software issues with the CIVICA system which had led to a number of errors, however it was noted that there were fixes for 80% of those errors and there remained a small number still outstanding. This was not an isolated issue specific to Merton as several other authorities had also experienced this issue. The DWP were aware of the issue and had been written to, the Council were at the time of the meeting still awaiting a response.

Recommendation 2 – It was acknowledged that the initial grant claim had been run too early before the software release, however this would not be repeated in the future and therefore would not re-occur.

Recommendation 3 – The Council were now aware of the issues relating to claimants accommodated by Clarion Housing and quality issues relating to that data. There had been lots of additional work completed for the 18/19 grant plan to mitigate this.

Recommendation 4 – Following a number of errors relating to self-employed claimants of Housing Benefit, further training had been provided to staff and a more vigorous checking regime had been implemented as of December 2017 and this should lead to a gradual improvement.

The External Auditor advised that he was satisfied with the officer response.

In response to member questions, the Head of Revenues and Benefits advised that in relation to recovering costs from overpayments, this was assessed on a case-by-case basis and where the residents were aware of the overpayment the Council would look to recover those funds.

In response to further questions, the Head of Revenue and Benefits advised that the issue with CIVICA was a known bug but this had not occurred previously.

In relation to fees, the External Auditor confirmed that the fees reflected the work required and therefore the more issues found the more work required and the higher the fee, however if actions are implemented and there are improvements then the fee should reduce. Once the response was received from the DWP, the work the Council would be required to do would then need to be reviewed by EY which would attract a further additional fee.

## 5 EXTERNAL AUDIT PLANNING REPORT (Agenda Item 5)

The External Auditor presented the report and gave an overview of the risks identified. It was noted primarily that there was a reduction in the level of materiality (from 2% of gross revenue expenditure to 1.8%) due to EY's view of greater focus on local government financial resilience. In addition, for the Council, due to the issues and errors identified in the prior year, EY were applying a testing threshold of 50% of materiality. EY stated that if there had not been the prior year issues, the testing threshold may have been 75% of materiality. EY advised that they had recognised a significant risk around value for money in that there were still gaps in the budget for future years and overspending in the Children Schools and Families division.

The External Auditor gave an overview of the fees, for which a range had been given to allow for additional work in respect of land and building valuations and the application of a testing threshold at 50% of materiality. In addition, additional areas for focus would be pensions and PFI. It was noted that the risks relating to inappropriate capitalisation of expenditure, pensions and new accounting standards were common to most local authorities but the significant risk around the valuation of land and buildings and the risk around PFI were specific to Merton.

#### 6 AUDITED FINAL ACCOUNTS 2018/19 (Agenda Item 6)

The Assistant Director of Resources presented the report which gave an overview of actions to be taken to ensure the accounts were signed off in a timely manner following the challenging previous year due to changes in the dates for the accounts sign-off. There had been early work to ensure that the Council was on top of the issues and had learnt lessons from the previous year. Regular weekly meetings were taking place between the Finance Team and External Audit.

This year External Audit had extended the interim audit period to 6 weeks. The Council has recruited an additional member of staff who has been looking at streamlining the accounts. The EY Client Portal, used to transfer information between the teams, was also being used more effectively and it was felt that with all of these protocols in place the Council was in the best possible position.

RESOLVED: That the Committee noted the work undertaken by officers' to prepare for the closure of the 2018/19 Statement of Accounts.

#### 7 INTERNAL AUDIT PROGRESS REPORT (Agenda Item 7)

The Head of Internal Audit presented the report advising that 28 reviews had been finalised and Internal Audit were on track to complete the plan. There had been a number of issues identified with procurement and this was being looked at.

RESOLVED: That Members noted the report and commented upon matters arising from the Internal Audit Progress Report.

#### 8 INTERNAL AUDIT PLAN (Agenda Item 8)

The Head of Internal Audit presented the report and highlighted a couple of areas which were included in the plan for the upcoming year. In response to member questions, the Head of Internal Audit advised that there was some flexibility in the plan and additional work could be added into the plan, with items assessed according to level of urgency.

RESOLVED: That members reviewed and commented upon the 2019/20 Draft Internal Audit Plan, Strategy and Charter.

#### 9 DRAFT SUBMISSION FOR MERTON COUNCIL TO THE BOUNDARY COMMISSION (Agenda Item 9)

The Deputy Leader and Cabinet Member for Finance presented the report, thanking all officers and members who had been involved in the report and advised that this was a two stage process; the number of Councillors would be looked at first, followed by an assessment of the ward boundaries. Briefings from the Boundary Commission had taken place with members. The size proposed is considered to be the optimum number of councillors to maintain the effectiveness of current governance, scrutiny and partnership arrangements and to support the councillors' representational role in their wards. A proposal of 57 Councillors was appropriate and in line with other Boroughs and would return the number to the same as those appointed in 2002. The Cabinet Member noted that this figure had been discussed with the Labour, Liberal Democrat and Merton Park Ward Independent groups.

In response to member questions, the Head of Electoral Services advised that the Boundary Commission had approached the Council and a strong steer had been given that the number of Councillors should be reduced.

Members discussed the submission in depth and raised several points including:

- The use of technology – whilst some members felt that this reduced workload and had changed the way in which Councillors work, others felt that this had increased their workload. Members noted however that not all residents were using technology and many needed to meet with Councillors face-to-face or speak via telephone calls.
- Future Councillors – members expressed concern that if numbers were reduced and subsequently the workload for remaining councillors increased, this might reduce the potential demographics of those able to be Councillors. Members did not wish for those who, for example were working full time or those with caring responsibilities to be unable to be Councillors due to level of work required. Members felt that diversity and equality should be taken seriously and it was important that Councillors were representative of their communities.
- Reducing number of Councillors per ward - Members were of the view that three member wards should be retained if possible.
- Ways of working – It was raised that the way in which the Council operated was a decision of the Council and therefore could be changed for example having smaller committee sizes or less meetings to allow for further reductions in Councillor numbers.

The Head of Electoral Services advised that the decision on Councillor numbers would be made in mid-April and this would be followed by a consultation on the new ward boundaries. This would be followed by a further consultation before a final decision would be made.

The Chief Executive advised members that all the points raised had been heard and reiterated that a very clear steer had been given by the Boundary Commission in relation to reducing the numbers however there had been dialogue between officers and members to reach a number which they were comfortable putting forward.



The Independent Person added that the important relationships that Councillors had with their constituents was considered as it would be distressing for many to change to different Councillors having built trust and relationships with their current members.

Councillors David Williams, Adam Bush and Thomas Barlow voted against the recommendation and requested that this was recorded.

RESOLVED: That the Committee agreed the Council's draft council size submission to the Boundary Commission.

#### 10 SERVICE TENANCIES (Agenda Item 10)

The Property Management and Review Manager presented the report, giving an overview of the actions taken following a recent Limited Assurance Audit result.

The Head of Internal Audit confirmed that they had been through the actions in the report and whilst there were still some actions remaining, there had been some progress.

RESOLVED: That the Standards and General Purposes Committee noted the content of the report.

#### 11 UPDATE ON RIPA AUTHORISATIONS (Agenda Item 11)

The Head of Law (Property and Commercial) presented the report, advising that one request for directed surveillance had been authorised in relation to fly tipping which had resulted in 14 cases.

Members felt that more should be done in relation to surveillance to deter fly tipping and requested that further work be undertaken by the Council's Communications Team to publicise when prosecutions occurred and to name and shame those responsible. It was noted that there was an article due to be included in the next issue of MyMerton regarding recent successful prosecutions.

RESOLVED: That members noted the purposes for which investigations have been authorised under the Regulation of Investigatory Powers Act (RIPA) 2000.

#### 12 COMPLAINTS AGAINST MEMBERS (Agenda Item 12)

The Committee noted a verbal update from the Head of Law (Property and Commercial), advising that three complaints had been received within the last three months, two of which had been discussed with the Independent Person and had been subsequently closed. These had related to comments on twitter and accusations that a Councillor was rude. The remaining complaint was currently going through the Complaints procedure.

#### 13 WORK PROGRAMME (Agenda Item 13)

The Work Programme was noted and agreed.

14 EXCLUSION OF THE PRESS AND PUBLIC (Agenda Item 14)

RESOLVED: That the public were excluded from the meeting during consideration of item 15 on the grounds that it is exempt from disclosure for the reasons stated in the report.

15 TEMPORARY AND CONTRACT STAFF UPDATE (Agenda Item 15)

The HR Lead presented the report advising that use of contract and temporary staff continued to be closely monitored and processed continued to be in place to ensure that temporary and agency staff were not used long-term. The HR Lead noted that teams were aiming to recruit quickly to avoid using interims and continued to convert temporary staff to permanent contracts where possible, 9 of such conversions were enacted within the last quarter, with 57 conversions having taken place between September 2017 and December 2018.

Members reviewed and discussed the information in the exempt appendix and encouraged the HR Lead to ensure that teams continued to upskill and train existing staff where possible.

RESOLVED: That members noted the progress made to monitor and control the use of temporary workers and consultants.

## **Committee:** Standards and General Purposes

**Date:** 25 July 2019

Agenda item:

Wards: All

Subject: Audited Final Accounts 2018/19

Lead officer: Caroline Holland, Director of Corporate Services

Lead Member: Cllr Mark Allison – Cabinet Member for Finance

Contact officer: Roger Kershaw: Assistant Director of 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.

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### **Recommendations:**

1. That Committee approve the audited Statement of Accounts, including the Group Accounts and the Pension Fund Accounts (Appendix 2), subject to any further comments from the External Auditor.
  2. That Committee note any comments made by the Pensions Fund Advisory Panel regarding the Pension Fund Accounts.
  3. To note EY's Audit Results Report (Appendix 4) for the Pension Fund accounts under the International Standard on Auditing (ISA) 260.
  4. To note EY's Audit Results Report (Appendix 3) for the Statement of Accounts under the ISA 260.
  5. That the Chair signs the Statement of Responsibilities for the Statement of Accounts (Appendix 2).
  6. That the Chair signs Letters of Representation (Appendices 3 and 4) for the Statement of Accounts and Pension Fund Accounts.
- 

### **Purpose of report and executive summary**

- This report presents the audited Statement of Accounts for the year ended 31<sup>st</sup> March 2019 for adoption by Standards and General Purposes Committee in accordance with the statutory requirements contained in the Accounts and Audit Regulations 2015 and the ISA 260.
- The draft accounts are attached as Appendix 2 to this report. A summary of the Statement of Accounts is attached as Appendix 1. Appendices 3 and 4 contain Ernst & Young's (EY's) Audit Results Reports on the main accounts and Pension Fund respectively, including two Letters of Representation, one for the main accounts and one for the Pension Fund. Appendix 5 contains the Council's revenue account, extracted from its Whole of Government Accounts (WGA) submission. *(All to follow)*

## Details

- **Accounting Code of Practice:** Section 21(2) of the Local Government Act 2003 requires local authorities in the United Kingdom to keep their accounts in accordance with “proper practices”. This is defined, for the purposes of local government legislation, as meaning compliance with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom, prepared by the CIPFA/LASAAC Joint Committee. The Code specifies the principles and practices of accounting required to give a “true and fair” view of the financial position and transactions of a local authority. In particular, it prescribes the accounting treatment and disclosures for all normal transactions of a local authority.
- The Code involves adaptations of International Financial Reporting Standards and other pronouncements by the International Accounting Standards Board (IASB) subject to such adaptations as are necessary for local government.
- **Accounts and Audit Regulations:** These specify the timetable for producing the Council’s accounts which is as follows:
  - a) That the Council's statement of accounts must be ready for audit by no later than 31st May 2019 and in particular that the responsible financial officer must sign and date the accounts and certify that it presents a true and fair view of the financial position of the body at the year end and of that body’s income and expenditure for that year. There is no requirement for approval by committee at that stage. This target has been met.
  - b) That the committee of members must approve the Statement of Accounts by the 31st July 2019. The accounts must be signed and dated by the chairman of that committee and then published on the Council’s website. This target has been met.
- **Audit of the Council’s accounts:** Progress: Ernst & Young expect to complete all their work by the date of the committee. Until the audit work is fully complete, it is possible that amendments may arise. If they do, they will be reported to this committee. Subject to satisfactory completion of the remaining audit work, the results of the audit are that the accounts are unqualified, that is, the financial statements give a true and fair view in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.
- Members being satisfied with the audited accounts, Members are requested to recommend that the Council approve the audited accounts.
- **Audit Results Reports:** Ernst & Young has issued its Audit Results Reports (ARRs), under ISA 260. The auditors are required to comply with the Auditing Standards contained under ISA 260, which covers ‘Communications of Audit Matters with those charged with governance’. The auditor is required to report relevant matters relating to the audit to those charged with governance. There is one ARR for the Statement of Accounts and a separate ARR for the Pension Fund accounts.

- Audit Amendments: The audit work may lead to adjustments to the draft accounts. These will be referred to under the “Audit Differences” pages of the Audit Results Report (Pages tbc) and summarised below.
- Letters of Representation: ISA 580, covering Management Representation, requires that the auditor be provided with written representation from management with appropriate responsibilities and knowledge of the financial statements. This applies to the main accounts and the Pension Fund Accounts.
- ISA 260 requires that those charged with governance should sign agreement to the Letter of Representation. After the Committee has discussed and agreed the Letter of Representation, it has to be signed by the Chief Financial Officer. The Chair of the Committee is then required to sign agreement to the Letter of Representation. Copies of the letters to be signed for the main accounts and the Pension Fund accounts are included in Appendices 3 & 4.
- **Financial Summary:** The audit work to date has not resulted in any changes to level of Usable Reserves but it has led to one change to the level of Unusable Reserves.
- Reserves: Table 1 contains a breakdown of all reserves, divided into Usable Reserves (comprising Revenue Reserves and Fund Balances, Unapplied Capital Receipts and Unapplied Capital Grants) and Unusable Reserves.
- Usable Reserves: When the Collection Fund balance is included, Revenue Reserves and Fund balances stand at £66.594m as at 31<sup>st</sup> March 2019 (£61.891m as at 31<sup>st</sup> March 2018). This represents an increase of £4.703m.

- Unusable Reserves: Excluding the Collection Fund, these stand at £191.499m (£197.081m as at 31st March 2018(\* see note below)).

**Table 1: Reserves**

Reserves	2018/19	2017/18
	Draft Accounts	Audited Accounts
	£000	£000
<b>1. Usable reserves</b>		
General fund balance	13,778	12,778
General fund-schools	8,096	7,820
Earmarked reserves (excluding schools)	42,475	33,574
Earmarked reserves-schools	2,721	6,548
<b>Revenue reserves and balances</b>	<b>67,070</b>	<b>60,720</b>
Unapplied capital receipts	9,228	15,513
Unapplied capital grants	17,006	10,479
<b>Other usable reserves</b>	<b>26, 234</b>	<b>25,992</b>
<b>Total usable reserves</b>	<b>93,304</b>	<b>86,712</b>
<b>2. Unusable reserves</b>		
Collection fund	(476)	1,171
Other unusable reserves (*)	191,499	197,081
<b>Total unusable reserves</b>	<b>191,023</b>	<b>198,252</b>
<b>Total reserves</b>	<b>284,327</b>	<b>284,964</b>

(\*) £197,082 reported to November 2018 SGPC.

- Outturn Table 2 shows the final outturn for the year. The departmental figures are those reported to the Cabinet. Net service expenditure was underspent by £1.995m There was an overall underspend on the General Fund (£7.656m) and this, together with the surplus on the Business Rates Retention Scheme (£3.852m), have been transferred to General Fund Balances (£1m) and earmarked revenue reserves (£10.508m).

**Table 2: 2018/19 Outturn and Budget Variances**

<b>Cabinet Outturn Report</b>	<b>2018/19 Current Budget £000</b>	<b>2018/19 Outturn £000</b>	<b>2018/19 Variance £000</b>
<b>Department</b>			
Corporate Services	10,433	7,465	(2,968)
Children, Schools & Families	59,083	61,535	2,452
Community & Housing	63,019	62,914	(105)
Environment & Regeneration	18,111	16,737	(1,374)
<b>Net Service Expenditure</b>	<b>150,646</b>	<b>148,651</b>	<b>(1,995)</b>
Corporate Provisions	(1,889)	(7,550)	(5,661)
<b>Total General Fund</b>	<b>148,757</b>	<b>141,101</b>	<b>(7,656)</b>
Grants	(9,855)	(9,855)	0
Business Rates	(51,463)	(55,315)	(3,852)
Council Tax and Collection Fund	(87,439)	(87,439)	0
<b>Funding</b>	<b>(148,757)</b>	<b>(152,609)</b>	<b>(3,852)</b>
<b>Net underspend (transferred to earmarked reserves)</b>			<b>(11,508)</b>

## **Alternative options**

None for the purposes of this report.

## **Consultation undertaken or proposed**

- Under the Accounts and Audit Regulations 2015, the Council is required to make available, for a 30 working day period, copies of the Statement of Accounts and related information for inspection by any interested person. During this period, interested persons also have the right to question the auditor, by prior appointment, about the accounts. The inspection period ran from 3rd June to 12th July 2019 and was advertised on the Council's website at [www.merton.gov.uk/finance](http://www.merton.gov.uk/finance).
- To date, there have been enquiries on the accounts from two persons.

## **Whole of Government Accounts (WGA)**

- The Whole of Government Accounts (WGA) process consolidates the audited accounts of around 4,000 organisations across the public sector in order to produce a comprehensive picture of the financial position of the UK public sector. WGA is based on International Financial Reporting Standards (IFRS) and is independently audited.
- As an organisation within the WGA boundary, the Council is required each year to complete a WGA return in order that HM Treasury can produce the consolidated WGA accounts.
- Ernst and Young provide an assurance statement to the National Audit Office in respect of the WGA return as part of their audit work on the Council's accounts, EY expect to provide the assurance statement by the 13<sup>th</sup> September 2019.
- The Council's revenue account, extracted from the unaudited WGA return, is attached as Appendix 5. (To follow).

## **Audit of Council's subsidiary companies**

- The Council has two wholly-owned subsidiaries, CHAS2013 Ltd and Merantun. CHAS2013 Ltd will be audited by Ernst & Young from the week beginning 2<sup>nd</sup> September 2019. Merantun will be audited from the week beginning 12<sup>th</sup> August 2019. It is not expected that this work will have any material impact on the Council's accounts.

## **Finance, resource and property implications**

- The cost of the statutory audits is contained in the Council's approved 2018/19 budget.

## **Legal and statutory implications**

- These are contained within the report, Members are referred to the Council's Constitution, and in particular the Financial Regulations, which are set out in Part 4f.



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

- None for the purposes of this report.

### **Crime and disorder implications**

- None for the purposes of this report.

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

- None for the purposes of this report.

### **Appendices (*All to follow*)**

- The following documents are to be published with this report and form part of the report
- Appendix 1: Summary Accounts for the year ended 31<sup>st</sup> March 2019
- Appendix 2: Statement of Accounts for the year ended 31<sup>st</sup> March 2019
- Appendix 3: Ernst & Young Audit Results Report and Letter of Representation – Statement of Accounts
- Appendix 4: Ernst & Young Audit Results Report and Letter of Representation - Pension Fund Accounts
- Appendix 5: Draft Whole of Government Accounts Revenue Account 2018/19
- Appendix 6: Annual Governance Statement

### **Background Papers**

- The papers used to compile this report are held within the Corporate Services Department. Specifically, they include:-
- Statement of Accounts 2018/19
- Working papers for the accounting entries
- Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
- CIPFA- technical bulletins

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# Merton Pension Fund Audit results report

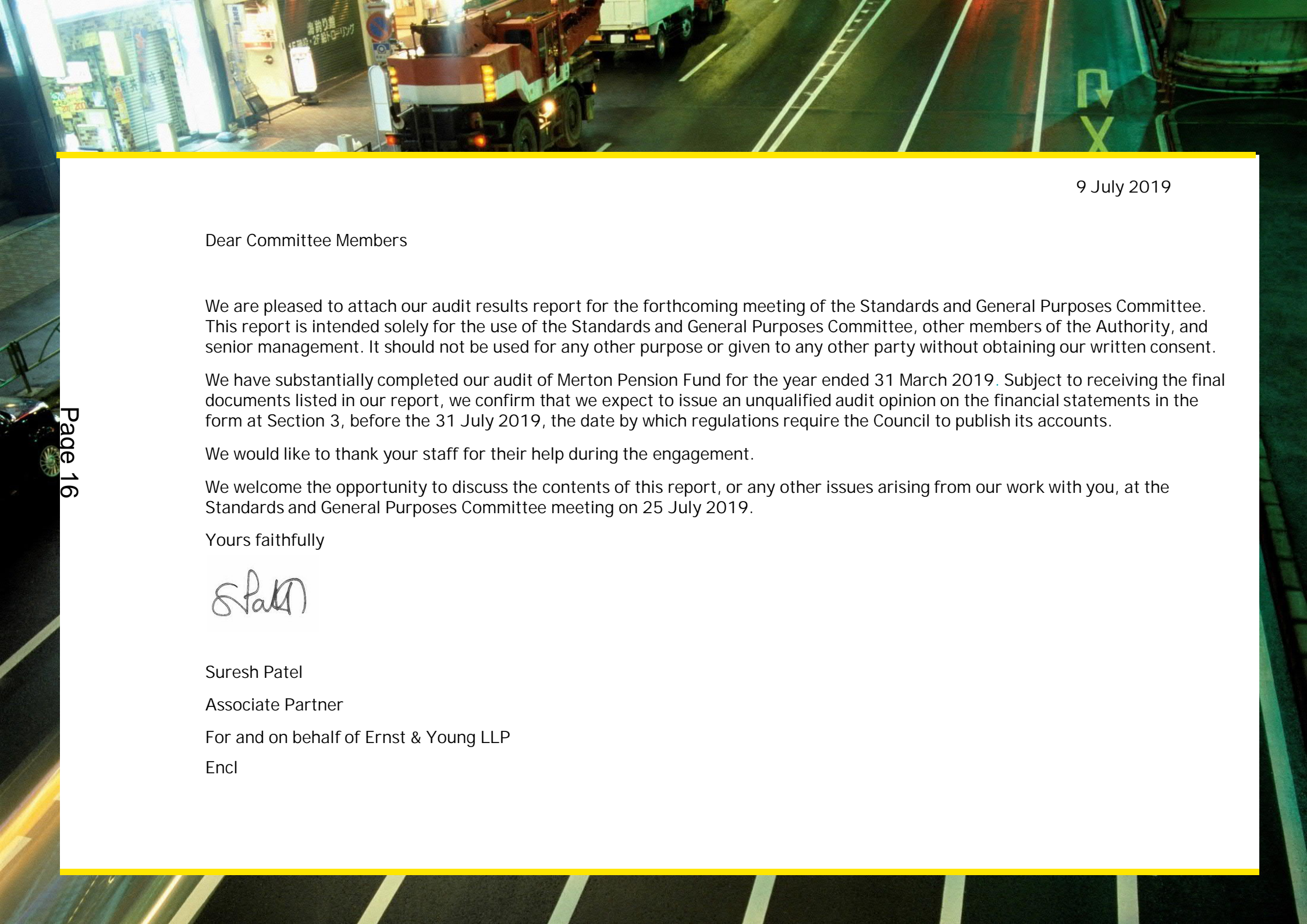
Year ended 31 March 2019

July 2019

Page 15

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y'.

Building a better  
working world

A nighttime photograph of a city street. In the foreground, a large truck with its headlights on is driving away from the camera. To the left, there is a building with a brightly lit entrance and some signage. The street has white lane markings and a green-painted area with a yellow 'X' and a right-turn arrow. The overall scene is illuminated by streetlights and building lights.

9 July 2019

Dear Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Standards and General Purposes Committee. This report is intended solely for the use of the Standards and General Purposes Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We have substantially completed our audit of Merton Pension Fund for the year ended 31 March 2019. Subject to receiving the final documents listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the 31 July 2019, the date by which regulations require the Council to publish its accounts.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report, or any other issues arising from our work with you, at the Standards and General Purposes Committee meeting on 25 July 2019.

Yours faithfully

A handwritten signature in black ink, appearing to read 'S Patel'.

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

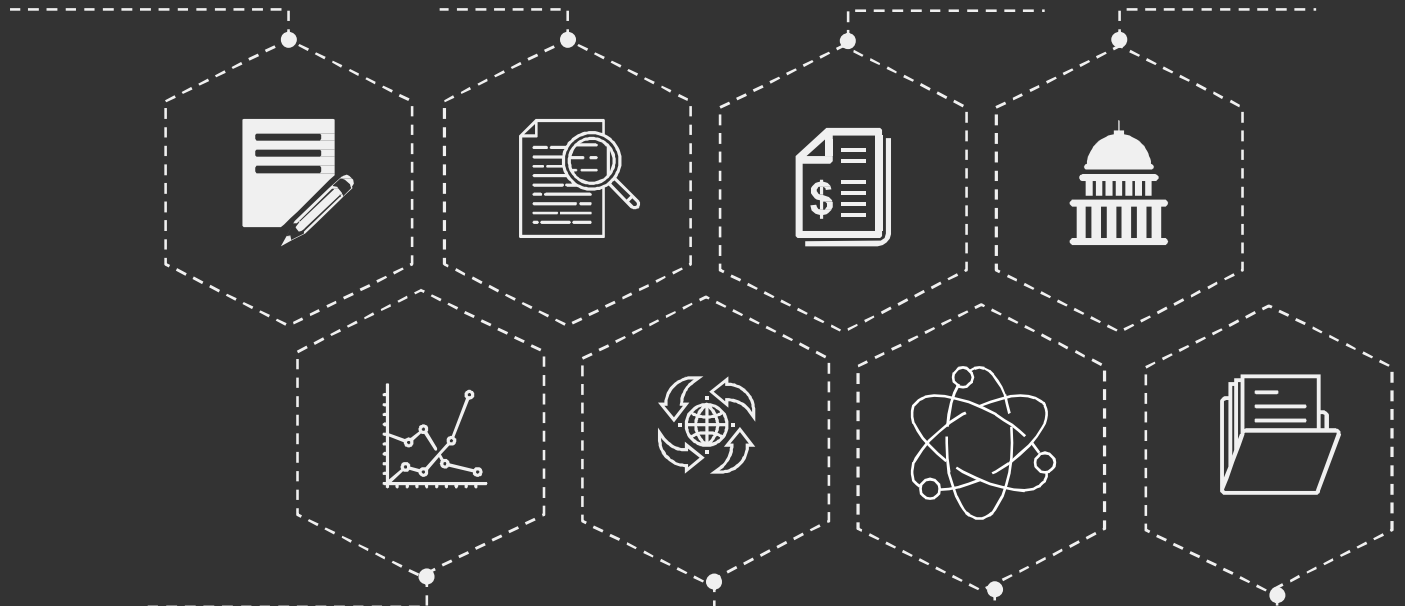
# Contents

01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences



05 Other reporting issues

06 Assessment of Control Environment

07 Independence

08 Appendices

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk)). It is available from the Chief Executive of each audited body and via the PSAA website.

This Statement of responsibilities serves as the formal terms of engagement between 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 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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





01

# Executive Summary

# Executive Summary

## Scope update

In our Audit Plan presented at the 14 March 2019 Standards and General Purposes Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exception:

- Changes in materiality: We updated our planning materiality assessment using the draft financial statements. Based on our materiality measure of net assets, we have updated our overall materiality assessment to £7.2m (Audit Planning Report – £6.6m). This results in updated performance materiality, at 75% of overall materiality, of £5.4m, and an updated threshold for reporting misstatements of £360,000.

## Status of the audit

We have substantially completed our audit of the Pension Fund's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit Plan. Subject to satisfactory completion of the following items we expect to issue an unqualified opinion on Merton Pension Fund's financial statements in the form which appears at Section 3.

Completion of subsequent events review.

Receipt of the signed management representation letter.

Final review of the amended financial statements and annual report.

A national issue has resulted in a relatively late change to the pension fund accounts and IAS26 fund liability disclosure. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The draft pension fund accounts did not recognise this matter, but officers were aware of the issue and intended to disclose it as a contingent liability. However, since the year-end there has been additional evidence, including the legal ruling by the Supreme Court on 27th June 2019 which rejected the Government's appeal, which suggested that the amounts should in fact be able to be fully calculated and so included in the IAS26 liability disclosed within the financial statements. We consider the impact of this on the financial statements further in Section 4.

## Audit differences

Some disclosure changes have been made to both the financial statements and annual report, including changes made by the Fund to Note 14.3 of the draft financial statements, which reconciles movements in investments during the year. Full details of audit differences are set out in Section 4.

# Executive Summary

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## Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Merton Pension Fund's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Standards and General Purposes Committee.

Page 29

## Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

## Other reporting issues

We have no other matters to report.

## Independence

Please refer to Section 7 for our update on Independence. There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.





## 02 Areas of Audit Focus



## Areas of Audit Focus

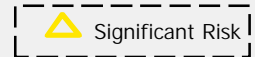
### Significant risk

#### Risk of manipulation of Investment income and valuation

##### What is the risk?

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.

We assessed that the risk of manipulation of investment income and valuation through management override of controls was most likely to affect investment income and assets in the year, specifically through journal postings.



Page 22

##### What did we do and what judgements did we focus on?

- Tested journals at year-end to ensure there are no unexpected or unusual postings;
- Undertook a review of reconciliations to the fund manager and custodian reports and investigated any reconciling differences;
- Re-performed the detailed investment note using the reports we have acquired directly from the custodians or fund managers, including the agreement of investment additions and disposals in the year;
- Sought to obtain further independent support for the valuation of pooled year-end investments where this can be obtained;
- Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports; and
- Reviewed accounting estimates for evidence of management bias,

We utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias and evaluated for business rationale.

##### What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Pension Fund's normal course of business.



## Areas of Audit Focus

### Other area of audit focus

#### IFRS 9 Financial instruments

##### What is the risk?

A new accounting standard , IFRS 9, is applicable for pension fund accounts from the 2018/19 financial year. This impacts:

- How financial assets are classified and measured;
- How the impairment of financial assets are calculated; and
- The disclosure requirements for financial assets.

Page 28

##### What did we do and what management judgements did we focus on?

We:

- Assessed the Fund's implementation arrangements considering application of the new standard, transitional adjustments and planned accounting for 2018/19;
- Considered the classification and valuation of financial instrument assets;
  - Reviewed the new expected credit loss model impairment calculations for assets; and
  - Checked additional disclosure requirements.

##### What are our conclusions?

The transition to IFRS 9 did not have a significant impact on the classification, measurement or impairment of Fund financial assets. Our work identified some minor changes to the disclosure of financial assets which have been made in the updated financial statements.



## Areas of Audit Focus

### Other area of audit focus

#### London Collective Investment Vehicle (LCIV)

##### What is the risk?

During the year the Fund terminated most of the investments it held at the start of the year and reinvested funds both inside and outside of LCIV. This resulted in significant changes to the fund managers and custodian used by the Fund and has resulted in an increase in the number of fund managers and custodians employed compared to previous periods.

##### What did we do and what management judgements did we focus on?

We:

- Considered and documented an understanding of the revised arrangements, including the Fund's arrangements with LCIV. A highly material value of Funds is now invested in the London CIV, exclusively in pooled funds.
- Obtained further independent support for the valuation of pooled Investments at year-end where this was possible.

##### What are our conclusions?

We are satisfied that the Funds were transferred into LCIV in accordance with the Fund's investment strategy and that new fund manager and custodian arrangements are in place. LCIV offer a number of investments to individual members of the CIV. LCIV acts as the fund manager in respect of all of the investments it offers. It, however, delegates management of the individual funds through sub-contracting arrangements to other fund managers acting on its behalf. Merton Pension Fund continues to determine the specific LCIV funds in which it invests. As the Fund continues to exercise this control we have determined LCIV is acting as an agent in terms of the services provided to the Fund.

We were able to agree the year end carrying value of LCIV investments to independent confirmation from the sub-contracted fund managers, the custodian (via the online LCIV portal) and independent market evidence where possible. The change in investment holdings and investment in LCIV has generated additional work for Fund officers and has taken more time and resource to gain audit assurance. We therefore propose to charge an additional fee, subject to Public Sector Audit Appointments agreement, in respect of this.

Some changes have also been made by the Fund to Note 14.3 of the draft financial statements, which reconciles movements in investments during the year.





# 03 Audit Report



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERTON PENSION FUND

##### Opinion

We have audited the pension fund financial statements for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Corporate Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Corporate Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Director of Corporate Services is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

#### Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### Responsibility of the Director of Corporate Services

As explained more fully in the Statement of the Responsibilities set out on page 170, the Director of Corporate Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Corporate Services is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### Use of our report

This report is made solely to the members of Merton Pension Fund, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund's members as a body, for our audit work, for this report, or for the opinions we have formed.





# 04 Audit Differences





## Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

### Summary of adjusted differences

We highlight any misstatements greater than £5.4 million which have been corrected by management during the course of our audit. There are no corrected differences we wish to bring to your attention.

We report to you any uncorrected misstatements greater than our nominal value of £360,000. There are no uncorrected misstatements to bring to your attention.

Page 30

### McCloud ruling

As noted in the Executive Summary a national issue has resulted in a relatively late change to the pension fund accounts and IAS26 fund liability disclosure. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The draft pension fund accounts did not recognise this matter, but officers were aware of the issue and intended to disclose it as a contingent liability. However, since the year-end there has been additional evidence, including the legal ruling by the Supreme Court on 27th June 2019 which rejected the Government’s appeal, which suggested that the amounts should in fact be able to be fully calculated and so included in the IAS26 liability disclosed within the financial statements. The actuary has now estimated the impact of the McCloud ruling on the present value of promised retirement benefits. The estimated increase in value of £7.1 million has now been disclosed at Note 19 to the accounts, with further associated disclosure added to recognise this as a source of estimation uncertainty and post balance sheet event.





# 05 Other reporting issues



## Other reporting issues

### Consistency of other information published with the financial statements.

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

# Other reporting issues

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of Merton Pension Fund's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
  - Any significant difficulties encountered during the audit;
  - Any significant matters arising from the audit that were discussed with management;
  - Written representations we have requested;
  - Expected modifications to the audit report;
  - Any other matters significant to overseeing the financial reporting process;
- Related parties;  
External confirmations;  
Going concern; and  
Consideration of laws and regulations.

We have nothing to report in respect of these matters.





06

# Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

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





Page 36



07

Independence



## Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report dated March 2019. We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this.

We confirm we have undertaken no non-audit work outside the PSAA Code requirements.

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Pension Fund, and its directors and senior management and its affiliates, including all services provided by us and our network to your Pension Fund, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee – Code work	18,170*	16,170	16,170	21,000

\* Includes a proposed fee of £2,000 for additional work arising from the significant changes made to the Fund's investment holdings during the year, movement of funds into LCIV and the resulting in changes in fund manager and custodian arrangements. The proposed additional fee remains subject to approval by Public Sector Audit Appointments Limited (PSAA)

All fees exclude VAT



# 07 Appendices

## Audit approach update




We are required to communicate whether there have been any changes to the audit of the net assets statement from the prior year audit. In 2018/19 we have again taken a fully substantive approach to the audit and there have been no significant changes to our approach.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

## Appendix B

# Summary of communications




Date 	Nature 	Summary 
Throughout the year	Meetings, calls and e-mails	The Associate Partner and Senior Manager have been in regular contact with the Director of Corporate Services and Head of Treasury and Pensions in respect of the Fund's risks, accounts closedown and the audit approach.
Standards and General Purposes Committee  9/9/2018 11/11/2018 4/3/2019  Pension Fund Investment Advisory Panel  18/7/2018 2/10/2018 28/11/2018 28/3/2019	Meetings and reports	The current or previous Associate Partner and/or Senior Manager have attended all meetings of the Standards and General Purposes Committee held during the year and through to the date of issue of this report. The Associate Partner has also attended meetings of the Pension Fund Investment Advisory Panel.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.







# Required communications with the Standards and General Purposes Committee

There are certain communications that we must provide to the audit committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Terms of engagement	Confirmation by the Standards and General Purposes Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	14 March 2019 Standards and General Purposes Committee – Audit Plan	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	14 March 2019 Standards and General Purposes Committee – Audit Plan	
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	25 July 2019 Standards and General Purposes Committee– Audit Results Report	

# Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Public Interest Entities / Major Local Audits	<p>For the audits of financial statements of public interest entities our written communications to the audit committee include:</p> <ul style="list-style-type: none"> <li>• A declaration of independence</li> <li>• The identity of each key audit partner</li> <li>• The use of non-member firms or external specialists and confirmation of their independence</li> <li>• The nature and frequency of communications</li> <li>• A description of the scope and timing of the audit</li> <li>• Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits</li> <li>• Materiality</li> <li>• Any going concern issues identified</li> <li>• Any significant deficiencies in internal control identified and whether they have been resolved by management</li> <li>• Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee</li> <li>• Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof</li> <li>• The valuation methods used and any changes to these including first year audits</li> <li>• The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework</li> <li>• The identification of any non-EY component teams used in the group audit</li> <li>• The completeness of documentation and explanations received</li> <li>• Any significant difficulties encountered in the course of the audit</li> <li>• Any significant matters discussed with management</li> <li>• Any other matters considered significant</li> </ul>	<p>14 March 2019 Standards and General Purposes Committee – Audit Plan and 25 July 2019 Standards and General Purposes Committee– Audit Results Report</p>

# Appendix C





		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<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>	25 July 2019 Standards and General Purposes Committee– Audit Results Report
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	25 July 2019 Standards and General Purposes Committee– Audit Results Report
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	25 July 2019 Standards and General Purposes Committee– Audit Results Report
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Pension Fund</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the Pension Fund, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	25 July 2019 Standards and General Purposes Committee– Audit Results Report

# Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Pension Fund's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management - Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures - Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Pension Fund</li> </ul>	25 July 2019 Standards and General Purposes Committee- Audit Results Report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:</p> <ul style="list-style-type: none"> <li>• Relationships between EY, the company and senior management, its affiliates and its connected parties</li> <li>• Services provided by EY that may reasonably bear on the auditors' objectivity and independence</li> <li>• Related safeguards</li> <li>• Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>• A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> </ul>	<p>14 March 2019 Standards and General Purposes Committee - Audit Plan and</p> <p>25 July 2019 Standards and General Purposes Committee- Audit Results Report</p>
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations



# Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>• Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	25 July 2019 Standards and General Purposes Committee- Audit Results Report
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit.</li> </ul>	25 July 2019 Standards and General Purposes Committee- Audit Results Report
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>• Written representations we are requesting from management and/or those charged with governance</li> </ul>	25 July 2019 Standards and General Purposes Committee- Audit Results Report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	25 July 2019 Standards and General Purposes Committee- Audit Results Report
Auditors report	<ul style="list-style-type: none"> <li>• Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	25 July 2019 Standards and General Purposes Committee- Audit Results Report
Fee Reporting	<ul style="list-style-type: none"> <li>• Breakdown of fee information when the audit planning report is agreed</li> <li>• Breakdown of fee information at the completion of the audit</li> <li>• Any non-audit work</li> </ul>	14 March 2019 Standards and General Purposes Committee - Audit Plan and 25 July 2019 Standards and General Purposes Committee- Audit Results Report

# Management representation letter

Merton Pension Fund

## Management Rep Letter

xx July 2019  
Suresh Patel  
Associate Partner  
1 More London Riverside  
London  
SE1 2AF

Page 46

This letter of representations is provided in connection with your audit of the financial statements of Merton Pension Fund ("the Fund") for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1 April 2018 to 31 March 2019 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2019, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and are free of material misstatements, including omissions. We have approved the financial statements.

# Management representation letter

Merton Pension Fund

## Management Rep Letter

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/2019 that are free from material misstatement, whether due to fraud or error.
6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

### B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible for determining that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.
6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
  - Involving financial improprieties
  - Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements
  - Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties
  - Involving management, or employees who have significant roles in internal control, or others
  - In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
  - Additional information that you have requested from us for the purpose of the audit.
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

# Management representation letter

Merton Pension Fund

## Management Rep Letter

2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have made available to you all minutes of the meetings of the Fund and committees of members of the management of the Fund (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through 2018/19 to the most recent meeting of the Pension Fund Investment Advisory Panel on 18 July 2019, and Standards and General Purposes Committee on 25 July 2019.
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at 31 March 2019. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.
8. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities relating to litigation and claims, both actual and contingent, and have disclosed in Note 24 to the financial statements all guarantees that we have given to third parties.

### E. Subsequent Events

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

### F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the London Borough of Merton Pension Fund Annual Report 2018-19.
2. We confirm that the content contained within the other information is consistent with the financial statements.

# Management representation letter

Merton Pension Fund

## Management Rep Letter

### G. Derivative Financial Instruments

1. We confirm that the Fund has made no direct investment in derivative financial instruments.

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

### I. Pooling investments, including the use of collective investment vehicles and shared services

1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

### J. Actuarial valuation

1. The latest report of the actuary, Alison Hamilton from Barnett Waddingham as at 31 March 2016, has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

### K. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine accounting estimates in the financial statements have been consistently applied and are appropriate in the context of CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/2019.

Yours faithfully,

\_\_\_\_\_  
Caroline Holland  
Director of Corporate Service

\_\_\_\_\_  
Councilor Peter McCabe  
Chair, Standards and General Purposes Committee

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ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

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

25 April 2019

Ref: Fee Letter/19-20

Direct line: 020 7951 2340

Email: [SPatel22@uk.ey.com](mailto:SPatel22@uk.ey.com)

Dear Ged

## Annual Audit 2019/20

We are writing to confirm the audit that we propose to undertake for the 2019/20 financial year at Merton Council and Pension Fund.

From 2018/19, local government and police bodies have been responsible for making their own arrangements for the audit of the accounts and reporting on the housing benefit subsidy claim.

The Secretary of State for Housing, Communities and Local Government has specified Public Sector Audit Appointments (PSAA) as an appointing person under provisions of the Local Audit and Accountability Act 2014. PSAA has appointed auditors for bodies that opted into the national scheme. Appointments were made for the duration of the five-year appointing period, covering the audits of the accounts for 2018/19 to 2022/23.

The appointment of an auditor to report on the Council's housing benefit subsidy claim is no longer covered by the PSAA appointment.

### Indicative audit fee

For the 2019/20 financial year, PSAA has set the scale fee for each opted in body. Following consultation on its Work Programme and Scale of Fees, PSAA has maintained scale audit fees at the same level as for 2018/19, unless there are specific circumstances which require otherwise.

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.

The audit fee covers the:

- Audit of the financial statements;
- Value for money conclusion; and
- Whole of Government accounts.

Our final fee will include the impact of additional risks and/or circumstances that are out of the scope of the scale fee, for example:

- The preparation of group accounts;
- Additional work performed on asset valuations, including the involvement of our valuation specialists;
- Additional work performed on the valuation of the net pension liability, including the involvement of our pension specialists; and
- Additional work arising from the implementation of IFRS 16 Leases.



At this stage, we have set the indicative fee at the scale fee basing it on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different to that of the prior year;
- Officers meet the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion are unqualified;
- Appropriate quality of documentation is provided by Officers;
- There is an effective control environment; 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.

As we have not yet completed our audit for 2018/19, our audit planning process for 2019/20 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 2019/20 £	Planned fee 2018/19 £
Scale Fee	110,493	110,493
Anticipated additional work on property, plant and equipment		5,000 – 15,000*
Anticipated additional work arising from change in materiality and clearance of audit queries		15,000 – 25,000*
Total Code audit fee		130,493 – 150,493
Non-audit services – Housing Benefits claim certification	TBC	20,000**
Non-audit services – Teachers' Pensions limited assurance	TBC	TBC
Pension Fund	16,170	16,170

\* For 2018/19 audit work we include a range of additional fees to reflect the additional work we will need to undertake in respect of the risks we have reported in this plan. We will confirm the exact additional fees as the audit progresses and seek agreement with management and PSAA.

\*\* The Council has engaged us as a reporting accountant for the 2018/19 Housing Benefit claim certification work. The final fee is dependent on the issues we identify.

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. All variations to the scale fee will be subject to PSAA approval.

**Billing**

We will bill the scale fee in 4 quarterly instalments of £27,623 for the Council and £4,043 for the Pension Fund.

**Audit plan**

We expect to issue our audit plan by January 2020. This will communicate any significant financial statement and value for money risks identified, planned audit procedures to respond to those risks and the estimated fee implications of these additional procedures. 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 communicate the revised fee and the matters giving rise to any adjustments to the scale fee in our Audit Results Report which we will present to the Standards and General Purposes Committee.

For a high level overview of our approach and further information on how we intend to work with you under the PSAA contract, please refer to our leaflet 'EY working with you' which is enclosed.

We remain 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, or Janet Dawson as our Government and Public Sector Assurance Leader at [jdawson1@uk.ey.com](mailto:jdawson1@uk.ey.com). If you prefer an alternative route, please contact Steve Varley, our Managing Partner, by writing to him at 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



Suresh Patel  
Associate Partner  
For and on behalf of Ernst & Young LLP

cc. Caroline Holland, Director of Corporate Services  
Councilor Peter McCabe, Chair of the Standards and General Purposes Committee.

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Confidential

# EY working with you

An overview of our approach

March 2019

Page 55

# Contents



1

Our commitment to you

1

Page 56



2

Working with you

2



3

Value beyond the audit

3





# Our commitment to you



Merton Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which started in 2018/19. PSAA appointed EY as your auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, [www.psa.co.uk](http://www.psa.co.uk).



Janet Dawson – Partner

I am the lead partner for this contract, and EY's Global Government and Public Sector Assurance Leader. I have been a partner in Government and Public Sector (GPS) assurance services for 14 years, and have over 20 years of experience and knowledge from working in the sector. My work across health and central government brings an understanding of the broader context of the environment that you operate within.

My appreciation of the value of audit, transparency, and the importance of working in partnership with the public sector aligns with PSAA in promoting and supporting those values through our work. I have asked Suresh Patel to lead your engagement on behalf of EY. Our commitment to quality and culture of consultation means that they will draw on the expertise within the firm in fulfilling this responsibility.

Our extensive experience of providing a range of assurance services has demonstrated that strong relationships, clear communication, and investing time with our clients to understand their issues delivers the highest quality outcomes.

This is our commitment to you.

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach, and what clients can expect from us. A summary of the key points of the method statement follows. It is provided as a guide and reference for liaising with us, and a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.



# Working with you

## Communication

Our experience shows that close, constructive working relationships are built on trust and open dialogue.

Suresh Patel is your engagement lead and responsible for our relationship protocols, overall audit service and quality. We meet regularly with Officers and Members, discussing sector challenges and bringing insights from our network. Your engagement manager, Simon Mathers, is a key contact and brings significant experience of managing local authority audits.

Our relationship protocols allow you to escalate concerns to Janet Dawson (Contact Partner) or Steve Varley (UK Managing Partner) should you need to.

Our Audit Planning Report contains further information on our planning approach and timetable, giving you a risk based, tailored audit. We ensure our senior leaders are accessible for management and members.



## Knowledge and training

Significant investment in the development of dedicated GPS teams is part of our commitment to improve skills in the public sector. Our structured recruiting and training approach delivers the best audit quality. All our training is developed by technical specialists and is quality and risk assessed. Staff must pass online tests following training, to demonstrate they can apply the learning in practice.

GPS sector specific training including emerging opportunities and risks, new requirements and specific technical areas, e.g., capital accounting, group accounts, LG pensions and other areas.

Topics are derived from our sector knowledge and stakeholder engagement.

We share these insights with you via our Audit Committee Briefings, Public Sector Accounting Workshops, Audit Committee Forums and other bespoke training sessions.



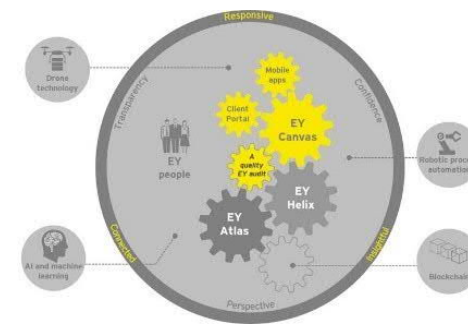
## Quality and Innovation

Audit quality is our primary goal in ensuring confidence in public services in a landscape of constant change and uncertainty. Factors which contribute to achieving consistently high quality audits are our people, tailored audits, consultation, and engagement quality reviews.

Our consultation policies are built upon a culture of collaboration, whereby audit professionals are encouraged to share perspectives on complex accounting, auditing and reporting issues.

Audit quality is at the heart of our innovation strategy.

We will continue to innovate and integrate new technologies into our audit process. The technologies discussed so far are just the start of our journey, designed to grow and be enhanced with additional functionalities.







# Value beyond the audit

In line with the firm's broader vision to build a better working world, EY's commitment to, and investment in, the public sector is focussed on delivering sustainable social value.

We are the first of the Big 4 firms to establish an apprenticeship programme awarded 'employer status' by the Skills Funding Agency, that specifically addresses the needs of deprived communities. 'EY Business Apprenticeships' is a way of investing in local people, directly challenging the UK skills gap, whilst prioritising those from deprived communities, and disadvantaged backgrounds. Our work under the PSAA contract enable us to create around 165 additional apprentice roles.

EY was also the major graduate recruiter to change our minimum entry requirements, increasing inclusivity by opening up opportunities for talented individuals regardless of their background and education.



## Economic and Social

We deliver socio-economic improvements by carefully aligning existing initiatives to our clients' objectives, for example, local authorities' focus on local employability.

Examples include: Removing barriers to employment and education: our 'Smart Futures' initiative provides Year 12 students access to paid work experience, employability workshops and career talks plus 10-months of mentoring from an EY employee. We deliver this from 11 EY offices across the UK. The benefit to you is that we focus on state schools and prioritise those on free school meals. In addition, our 'Stay Curious' and 'Employability Support' initiatives raise awareness of audit career opportunities to STEM students and provide CV advice, networking, mock interviews and assessment centres. Collectively the improvement outcomes include increased employability for young people in the community, connecting schools, universities, employers and building confidence in the students themselves.

Supporting local businesses for prosperity in the community: the EY Foundation, our independent charity, supports collaboration between young people and local businesses. The benefit is a community better connected, focussed on key issues, and providing a voice to the under privileged.

Our global EY Ripples programme enables our staff to donate time to make use of their knowledge, skills and experience to support young people and impact entrepreneurs, by providing mentoring support, business skills training, and more equitable access to resources – to drive sustainable inclusive growth.

## Environmental

We protect the environment by minimising waste and using resources efficiently, e.g., we proactively manage and monitor the environmental impacts of our supply chain, and our own people. We encourage carbon footprint reduction through initiatives such as Bike to Work, Flexible Working Policy, and our sustainable travel strategy. We have also made changes to our processes from procurement to recruitment to minimise the environmental impact of them on the wider world.

## EY | Assurance | Tax | Transactions | Advisory

### About EY

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ED None

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**Committee:** Standards and General Purposes Committee

**Date:** 25 July 2019

Agenda item:

Wards: All

**Subject:** Internal Audit Annual Report

Lead officer: Caroline Holland Director of Corporate Services

Lead member: Peter McCabe Chair of Standards and General Purposes Committee

Forward Plan reference number:

Contact officer: Margaret Culleton Head of Internal Audit

margaret.culleton@merton.gov.uk

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**Recommendation:**

That Committee review and comment on the Internal Audit Annual Report 2018/19

---

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

1.1 The council has a responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of effectiveness of the system of internal control is informed by the work of the internal auditors. This is detailed in the Accounts and Audit Regulations 2015

**Regulation 5** requires an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance

**Regulation 6** requires bodies to review the effectiveness of the system of internal audit once a year and for the findings of the review to be considered by a committee of the body, or by the body as a whole, as part of the consideration of the system of internal control referred to in regulation 5.

1.2 The guidance accompanying the Regulations states that in practice councils are likely to take assurance from the work of Internal Audit when discharging their responsibility for maintaining and reviewing the system of internal control. External Audit and other review agencies and inspectorates are also potential sources of assurance.

1.3 The Annual Report summarises the work of Internal Audit in 2018/19 and provides the Head of Audit opinion on the adequacy and effectiveness of the internal control environment.

## **2 DETAILS**

- 2.1 The overall opinion is that the internal control environment is satisfactory. During 2018/19 91% of Internal Audit reviews provided substantial or above levels of assurance. This is an increase from last year (78%).
- 2.2 Concerns still remain in procurement, with audits on Corporate Procurement and Contract Monitoring of Commissioned places (Adult Services) providing a limited assurance. A full follow up audit on Corporate Procurement is included in the 2019/20 audit plan. An audit on declaration of interests (officers) also provided limited assurance as key officers had not completed declarations and guidance was not available. All the actions from these audits will be followed up by Internal Audit as well as included in discussions with the AGS working group.
- 2.3 The limited assurance audits in the previous year have been followed up and actions implemented, except CM2000 and service tenancies where the implementation dates are due in 2019/20. A follow up audit has been included in the 2019/20 audit plan for CM2000.
- 2.4 Fraud investigations in 2018/19 have resulted in housing properties recovered, right to buys cancelled and non-eligible housing applications removed from the housing waiting list
- 2.5 Employee investigations have resulted in 1 employee dismissed through disciplinary, 2 being prepared for disciplinary hearings and 1 case awaiting a court hearing.

## **3 ALTERNATIVE OPTIONS**

- 3.1 There are no alternative options as the annual report is a key component of the Annual Governance Statement, which is a statutory requirement,

## **4 CONSULTATION UNDERTAKEN OR PROPOSED**

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

## **5 TIMETABLE**

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

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

- 6.1 None for the purposes of this report.

## **7 LEGAL AND STATUTORY IMPLICATIONS**

- 7.1 The report sets out a framework for Internal Audit to provide an annual report for 2017/18. The Local Government Act 1972 and subsequent legislation sets out a duty for Merton and other Councils to make arrangements for the proper administration of their financial affairs. The provision of an Internal Audit service

is integral to the financial management of Merton and assists in the discharge of these statutory duties.

7.2 This report is designed to meet the requirements of the Accounts and Audit Regulations 2015

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

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

## **9 CRIME AND DISORDER IMPLICATIONS**

9.1 This report has already summarised activities in relation to fraud and irregularities

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

10.1 A review of Risk Management has been included in this report.

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

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

Appendix 1 Annual Report

Appendix A Internal Audit Activity 2018/19

## **12. BACKGROUND PAPERS**

Internal Audit files and papers.





# **LONDON BOROUGH OF MERTON**

## **INTERNAL AUDIT ANNUAL REPORT YEAR ENDING 31<sup>ST</sup> MARCH 2019**

# Contents

	<b>Page</b>
1. Head of Audit Assurance Opinion	3
2. The Internal Audit Assurance Framework	3
3. Planned coverage and output	4
4. Internal Audit Assurances 2018/19	5
Governance	6
Procurement	6
Financial Systems	7
IT audits	7
Service specific	7
Schools	8
5. Implementation of recommendations	8
6. Review of the Effectiveness of the System of Internal Audit	8
7. Fraud Investigations	9
Fraud Partnership	9
Investigation caseload	9
Housing fraud	10
Housing applications	10
Corporate fraud (internal)	10
National Fraud Initiative	10

## 1. Head of Audit Assurance Opinion

1.1 As Head of Internal Audit for the London Borough of Merton, I am required to provide the Council with an opinion on the adequacy and effectiveness of the internal control environment: I base my opinion upon:

- All internal audit assignments undertaken during the year
  - Any follow up action taken in respect of previous audit work
  - Any significant recommendations not accepted by management and the consequent risks
  - Matters arising from previous reports to the Standards and General Purposes Committee
  - Any limitations, which may have been placed on the scope of the internal audit.

### Opinion

**I am satisfied that sufficient internal audit work has been undertaken to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's control environment. In giving this opinion, it should be noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided subject to the limited assurance opinions detailed in this report.**

1.2 Where weaknesses in controls have been identified, action plans are in place. 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 the main accounting system, payroll, Council Tax and Housing Benefits. There are 4 levels of assurance provided:-

- a) Full Assurance
- b) Substantial Assurance
- c) Limited Assurance
- d) No Assurance

- 2.5. In addition, each recommendation emanating from the audit review is given a priority rating of 1, 2 or 3 for implementation, with priority 1 being a high risk requiring immediate attention. All recommendations are followed up by Internal Audit to ensure that they have been implemented.
- 2.6. The audit plan for 2018/19 covered those area of high fraud risk, as identified through the Council's own assessments and through information from CIPFA, and other sources, where fraud risks are highlighted. Examples of these are procurement cards, business rates, and direct payments.
- 2.7. 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.

### **3 Planned coverage and output**

- 3.1. The total number of audit days commissioned for 2018/19 was 765 days. We can report that we have completed 100% of the total number of commissioned audit days.
- 3.2. The plan was compiled with reference to the Council's Strategic Risk register and following discussions with each departmental management teams (DMTs). This ensured that audit work was focused on the Council's key risks and targeted areas where senior managers required independent assurance over controls in their service areas.
- 3.3. Changes to the plan and updates on progress were discussed at DMT's quarterly and significant changes reported to the Standards and General Purposes Committee in the progress reports.
- 3.4. In terms of reports delivered by the audit team, the audit plan at the start of the year included 42 audits. The plan is always flexible to allow for movement in the number of audits in the plan and the days delivered reflecting changing client needs. The overall number of reports will be subject to change over the course of the year as audits may be deferred or no longer required. However, additional reviews may be added if concerns are raised about a specific control area or existing reviews may have their budgets increased. During the year, there were 7 additional audits requested. These have ranged from full audits to focused audit investigations. These included:
- Mobile phone usage
  - Controls on assets/cash
  - Voluntary organisation review
  - 2 Planning reviews
  - Grant funding review
  - Review of payment to a care home

- 3.5 Internal Audit has also undertaken substantial testing on the social care system, Corelogic.
- 3.6 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 need to be flexible to be able to respond to these changing and emerging risks.
- 3.7 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.

**4. Internal Audit Assurances 2018/19**

- 4.1. There were 42 audits on the Internal Audit plan for 2018/19. To date, 38 audits are at final or draft. Of these, four relate to grant claims or signing off accounts.
- 4.2 There were 31 substantial assurances provided and 3 limited assurances, while 4 audits are in progress.
- 4.3 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.
- 4.4 The following tables summarise the results by audit type:

**Table 1 Internal Audit Assurances by Audit Type 2018/19**

<b>Assurance</b>	<b>assurance</b>	<b>Limited</b>	<b>Totals</b>
<b>Procurement</b>	1	2	3
<b>Establishments</b>	9	0	9
<b>Financial Systems</b>	8	0	8
<b>IT</b>	2	0	2
<b>Service Specific</b>	10	0	10
<b>Corp Gov/grants</b>	1	1	2
<b>Totals</b>	<b>31</b>	<b>3</b>	<b>34</b>

**Key Areas for 2018/19**

- 4.5 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.
- 4.6 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.

- 4.7 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.
- 4.8 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.

### **Governance**

- 4.9 There were 2 reviews included on the 2018/19 audit plan, covering corporate governance. These were declaration of interests and GDPR. The review on declaration of interest resulted in a limited assurance report. Since this audit a reminder has gone to employees to complete a declaration of interest form. The new form and guidance is in the process of being reviewed. Implementation of the audit actions will be followed up and reported back to committee.

**Declaration of Interest – Officers (summary of audit findings)**The council has a process for declaring conflicts of interest for officers, although at the time of audit review the guidance was not readily available and officers were not routinely completing the forms, in particular those officers in a senior role, budget holder or those responsible for procurement. The declaration of interest form has been in the process of being updated for the last few years but has not been agreed.

- 4.10 A review on the Council's arrangements for GDPR provided a substantial assurance. Although there were areas still in progress, the Council had made good progress with implementing these changes and putting a process in place through the Information Governance board to have oversight of this and review any breaches.
- 4.11 During 2018/19 the Head of Internal Audit worked closely with other teams in the Corporate Governance Division including leading on the working group for the 2018/19 Annual Governance Statement. Internal Audit have been involved with a number of governance reviews that have identified areas for improvement across the Council.

### **Procurement**

- 4.12 There were 3 procurement audits on the plan: SEN Taxi contract received a substantial assurance; Corporate Procurement and Contract monitoring of commissioned places received a limited assurance. The actions on both of these reviews are in the process of being implemented. Regular training sessions are now provided to officers on Contract Standing Orders. A follow up review has been included in the 2019/20 audit plan to undertake further testing on Corporate Procurement to provide assurance on improvements made.

**Corporate Procurement (summary of audit findings)**



**Sample testing found that 78% of quotes or bids had not gone through the e-tendering portal Pro Contract as required by CSO's and the Procurement Toolkit and 88% not published on the Council's Contract Register.**

**There was a lack of information, clarity and transparency around the reporting of extensions including the number of extensions allowed under the contract.**

**Department OPG minutes found that Forward Plans were not up to date and not complete.**

**Contract Monitoring of commissioned services (summary of audit findings)**

**Sample testing found 70 per cent of contracts had followed CSO in relation to tendering or seeking appropriate exemption.**

**Signed contracts or extensions letters (by both parties) were not in place for 80 per cent of the contracts tested.**

**Contract monitoring was found to be limited with priorities given to contracts where significant concerns have been identified, based predominantly around safeguarding concerns**

4.13 In the previous audit year (2017/18), we reported 2 limited assurance audits on procurement; CM2000 and schools meals. The audit actions on CM2000 still have two priority 1 actions in progress. A follow up audit has been included in the 2019/20 audit plan to provide assurance on improvements in this area. The two outstanding actions relate to-

- Contract extension- update: The exemption to January 2020 was sought to align with the project plan for the new Home Care contracts. The system used has implications for providers, who have to interface it with their rostering systems.
- Contracts in place for all off-contract providers update: The new contract requires contracted providers to use CM2000. It will take time to migrate all care to the new arrangements.

**Financial systems**

4.14 Of the 5 main financial systems reviewed this year, four received a substantial assurance and one is in progress and will be reported in the 2019/20 update report.

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

Financial System	Assurance 2016/17	Assurance 2017/18	Assurance 2018/19
------------------	-------------------	-------------------	-------------------

Cash and Bank	Satisfactory	Not audited	Not audited
Payroll (iTrent)	Satisfactory	Satisfactory	Substantial
Accounts Payable	Not audited	Satisfactory	Substantial
Fixed Assets	Not audited	Satisfactory	Not audited
Debtors	Satisfactory	Not audited	Not audited
Housing benefits	satisfactory	Satisfactory	Not audited
Treasury management/pension investment	Not audited	Limited	Substantial
Council Tax	Satisfactory	Not audited	Not audited
National Non-Domestic Rates (NNDR)	Not audited	Satisfactory	Not audited
General Ledger	Satisfactory	Satisfactory	Substantial
Mosiac	n/a	Satisfactory	In progress

4.15 The Payroll (iTrent) audit has been carried out as part of a joint review for London Borough's Sutton, Merton, and Kingston undertaken by Mazars.

4.16 The actions on the limited assurance audit on pension investments in 2017/18 have been followed up and these have now been actioned. A review on treasury was included in the 2018/19 audit plan and received a substantial assurance.

#### **IT audits**

4.17 There were 2 Information Technology audits this year, both received a substantial assurance. These audits covered IT asset management and software licences. The audit actions on the limited assurance review in 2017/18 on Mayrise (environmental system) post implementation have been followed up and have now been actioned.

#### **Service Specific**

4.17 There were 11 service specific audits carried out, these all received a substantial assurance.

4.18 There were 3 limited assurance audits reported in 2017/18, the actions on these have regularly been followed up. The actions have now been completed on Direct Payments, and Court of Protection and there are 9 priority 1 actions on Service Tenancies (due to be implemented by December 2019, which we will continue to follow up).

#### **Schools**

4.19 There were 9 school audits carried out this year. These all received a substantial assurance. There were 2 limited assurance reviews reported in 2017/18, the actions from these reviews have now been implemented.

4.20 Internal Audit work closely with finance throughout the year to be aware of any concerns at schools in relation to budget deficits and late returns. Where concerns are raised, these are taken into account in the audit planning for each year.

## **5. Implementation of recommendations**

5.1 During 2018/19 Internal Audit made a total of 236 recommended improvement actions, at the time of this report 193 actions (82%) were fully implemented. 43 actions have yet to be implemented, of these no actions are overdue.

5.2 For those outstanding actions, an expected implementation date is provided by the manager. Monthly reports are sent out to all managers for actions due and 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 Standards /General Purposes committee.

5.3 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.

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

6.1 A requirement laid down in the Accounts and Audit (England) Regulations 2015 states that 'the relevant body shall, at least once a year, conduct a review of the effectiveness of its internal audit'. An annual self-assessment against CIPFA's Code of Practice for Internal Audit in Local Government has to be carried out each year and an external assessment every 5 years.

6.2 A self assessment has been undertaken against the Public Sector internal audit standard (PSIAS). This demonstrated substantial compliance with the standards. An external Assessment against the PSIAS was carried out in May 2018 and provided substantial assurance. Where actions have been identified these will be reviewed and included in the Quality Action Implementation Plan and progress reviewed.

6.3 The key focus of the review of the effectiveness of internal audit is the delivery of the service to the required standard in order to produce a reliable assurance on internal controls and the management of risks in the authority. In coming to a view on the effectiveness of the system of internal audit, the following factors are all indicators that should be taken into accounts.

- Performance of the internal audit provider (in-house and/or contractors) in terms of both quality and cost.
- Views of external audit & reliance placed on work by internal audit.
- Role and effectiveness of the Standards and General Purposes Committee.

- The extent to which internal audit adds value to the organisation and helps delivery of objectives.

6.4 During 2018/19, the internal audit service has achieved the following:-

- Delivery of 100% of the audit plan
- 100% client satisfaction for audit work

## 7 Fraud Investigations

7.1 The Council's Anti-Fraud and Corruption strategy sets out the Council's 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 2018 and by the Council's 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.

### Fraud Partnership

7.2 The South West London Fraud Partnership was established on the 1<sup>st</sup> April 2015 as a 5 borough shared fraud investigation service between LB Merton, RB Kingston, LB Sutton, LB Richmond and led by LB Wandsworth.

7.3 During 2018/19, the SWLFP has undertaken counter fraud activities in the following areas:

- National Fraud Initiative (NFI)
- Blue badge/parking permits
- Council tax reduction/discount
- Employee fraud
- NNDR/Business rate relief
- Social care fraud
- Housing tenancy fraud/abuse

### Investigation caseloads

7.4 In total 245 cases have been opened as a result of the referrals received and concerns highlighted through proactive fraud drives and NFI matches during the year. A breakdown of fraud referrals accepted for investigation is shown in the table below:

2018/19 Fraud Category	Sanction Target	Open Cases b/fwd	New Cases in Year	Total Cases	Closed No Sanction	Closed With Sanction	Open Cases c/fwd
Tenancy Fraud	10	31	50	81	31	9	41

Right to Buy	5	15	3	18	3	8	7
Hsg Apps Rejected	20	1	160	161	3	156	2
Blue badge	n/a	5	7	12	7	2	3
Employee	n/a	5	10	15	6	1	8
CTR/SPD/HB	n/a	2	10*	12	1	3	8
Other	n/a	11	2*	13	6	1	6
<b>Totals</b>	<b>n/a</b>	<b>70</b>	<b>242</b>	<b>312</b>	<b>54</b>	<b>180</b>	<b>75</b>

### Housing Fraud

- 7.5 Nine properties were recovered in 2018/19. This allows for those on the Councils waiting list to be provided with the opportunity for a housing tenancy. Work is ongoing, including 3 cases with legal for consideration of legal action.
- 7.6 Right to buy applicants are passed to the Fraud partnership and the application checked to Housing Benefit: eight RTB applications have been withdrawn following intervention by the SWLFP.

### Housing Applications (waiting list)

- 7.7 To date, 156 applications have been cancelled because of NFI matches, which found that LBM housing waiting list included deceased persons.

### Corporate Fraud (internal)

- 7.8 The corporate fraud cases involving employees for 2018/19, resulted in: -
- 1 disciplinary hearing (dismissed)
  - 1 Prosecution in progress
  - 5 No Further action
  - 7 in progress

### National Fraud Initiative (NFI)

- 7.9 The NFI matches are: - Creditors, Market Traders, Personal Alcohol Licences, Parking, Payroll, Pensions, Personal Budgets, Residential Care, Council Tax & Electoral Registration. This data is matched between councils and within Merton.
- 7.10 NFI 2018 – Reports have been released; with additional matches having been released on 31<sup>st</sup> May 2019. SWLFP are currently reviewing the reports to determine and agree with service the programme of work.

NFI	TOTAL	Closed	In progress	fraud	To review w
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NFI 2018/19 – Main NFI	4,491	142	417	1	3,931
Re-Check - Ctax to ER –2018	1,657	0	0	0	1,657
Re-Check - Ctax to ER –2019	1,629	0	0	0	1,629
	<b>7,777</b>	<b>142</b>	<b>417</b>	<b>1</b>	<b>7,217</b>

7.11 At the 1<sup>st</sup> April 2019 for the main NFI;

- 1 case has been identified as fraud.
- **£3,240.00** has been identified as a saving due to 1 Waiting List application which has been cancelled as a result of the NFI match.



## Audit Assurances 2018/19

Abbotsbury Primary School	CSF	School	Substantial Assurance
All Saints Primary School	CSF	School	Substantial Assurance
Contract Monitoring of Commissioned Services	CH	Procurement	<b>Limited Assurance</b>
Corelogic Mosaic (Stage 2)	CH	Financial	in progress
Corporate Asset Management Plan	CS	Service specific	Substantial Assurance
Declaration of Interests	ALL	Governance	<b>Limited Assurance</b>
Dundonald Primary School	CSF	School	Substantial Assurance
Financial Assessment	CH	Service specific	Substantial Assurance
Garfield Primary School	CSF	School	Substantial Assurance
General Ledger (Main accounting system)	CS	Financial	Substantial Assurance
Holy Trinity CofE Primary School	CSF	School	Substantial Assurance
Management of taxi contract	ER	Procurement	Substantial Assurance
Planning Application	ER	Service specific	in progress
Purchasing Cards Expenditure	CS	Financial	Substantial Assurance
Reviews of Care Plans	CH	Service specific	Substantial Assurance
Sacred Heart Primary School	CSF	School	Substantial Assurance
School Insurance	CS	Service specific	Substantial Assurance
Section 106-CIL	ER	Service specific	Substantial Assurance
Singlegate Primary School	CSF	School	Substantial Assurance
St John Fisher Primary School	CSF	School	Substantial Assurance
St Mary Primary School	CSF	School	Substantial Assurance
Budget Setting and Control	CS	financial	Substantial Assurance

Commercial Rent	ER	Service specific	Substantial Assurance
Corporate Procurement	CS	Procurement	<b>Limited Assurance</b>
Deprivation of liberty safeguards assessments	CH	Service specific	Substantial Assurance
GDPR	CS	Governance	Substantial Assurance
Interims Staff Review	CS	Service specific	Substantial Assurance
IT Asset Management	CS	IT	Substantial Assurance
Monitoring of School Returns	CS	Service specific	Substantial Assurance
Petty Cash Imprests	CS	Financial	Substantial Assurance
Shared iTrent	CS	Financial	Substantial Assurance
SLWP - refuse and parks contract	ER	procurement	in progress
Software Licenses	CS	IT	Substantial Assurance
Treasury Management	CS	Financial	Substantial Assurance
Troubled Families Grant	CSF	Grant	n/a
Unaccompanied Asylum Seeking Children	CSF	Service specific	in progress
Mayors Office (Charitable Trust)	CS	Accounts	n/a
Merton & Sutton Joint Cemetery Board	CS	Accounts	n/a
Annual Governance Statement 2018-19	ALL	Governance	n/a
Creditors	CS	Financial	Substantial Assurance
Fixed assets	CS	Financial	Substantial Assurance
West Wimbledon Primary School	CS	School	Substantial Assurance

**Committee:** Standards and General Purposes Committee

**Date:** 25 July 2019

Agenda item: Wards:

All

**Subject:** Annual Governance Statement 2018/19

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

**Lead members:** Peter McCabe- Chair of Standards and GP Committee

Contact officer: Margaret Culleton- Head of Internal Audit

margaret.culleton@merton.gov.uk telephone: 0208 545 3149

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**Recommendation:**

That Committee agrees the Annual Governance Statement.

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

1.1 Merton Council is required to prepare an Annual Governance Statement (AGS) for the year 2018/19. This statement is required in order to comply with Regulation 6(3) of the Accounts and Audit Regulations 2015. The CIPFA framework and guidance has been updated from April 2017, to move from 6 core principles to 7.

**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 order to oversee the preparation of the AGS. The membership of this group is:

Caroline Holland	Director of Corporate Services
Paul Evans	AD Corporate Governance
Margaret Culleton	Head of Internal Audit
Zoe Church	Head of Business Planning
Fiona Thomsen	Head of Legal Services
Julia Regan	Head of Democracy Services
Karin Lane	Head of Information Governance
Kim Brown	Head of Organisational Development & HR Strategy
John Dimmer	Head of Partnerships

2.3 The Framework consists of seven core principles:

**Principle 1** Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.

**Principle 2** Ensuring openness and comprehensive stakeholder engagement.

**Principle 3** Determining outcomes in terms of sustainable economic, social, and environmental benefits.

**Principle 4** Determining the interventions necessary to optimise the achievement of the intended outcomes.

**Principle 5** Developing the entity's capacity, including the capability of its leadership and the individuals within it.

**Principle 6** Managing risks and performance through robust internal control and strong public financial management,

**Principle 7** Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

2.4 A new *Delivering Good Governance in Local Government: Framework*, (CIPFA/Solace, 2016) applies to annual governance statements prepared for the financial year 2016/17 onwards. The concept underpinning the Framework is that it is helping local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. The Framework is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities
- there is sound and inclusive decision making
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

### **3.1 New Areas to include in AGS**

- 3.1.1 A review was carried out by the Committee on Standards in Public Life on Local Government Ethical Standards in January 2019, which recommended areas of best practice to improve ethical standards in local government. They state that these should be considered a benchmark of good ethical practice, which they expect all local authorities can and should implement. These will be reviewed by the council during 2019/20. One of the areas of best practice relates to including information relating to council owned companies in their AGS.

Best Practice 14: Councils should report on separate bodies they have set up or which they own as part of their annual governance statement, and give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan Principles of openness, and publish their board agendas and minutes and annual reports in an accessible place.

- 3.1.2 Information relating to the councils two companies have been included in the AGS report.

### **3.2 Actions from the governance working group**

- 3.2.1 The working group has carried out a review of the council's arrangement against the new standard and we found that the arrangements can continue to be regarded as fit for purpose in accordance with the governance framework. We have identified a number of areas requiring updating or improving and these will be considered and action taken during 2019/20. The more significant areas identified are detailed below:-

#### Financial Pressure

This is an area of high risk to the council as decisions are made on reduced services. The current uncertainty on future funding makes it difficult to plan as the comprehensive spending review is due in Autumn 2019 and will determine how much funding the council will receive. It is anticipated that there will be a significant budget gap by 2022/23 of £6.078 million.

#### Asset Valuations

A significant error on the valuation calculation spreadsheet had a material impact on the 2017/18 financial accounts of the Authority. The valuation process used by Merton's in house professionally qualified valuers has been reviewed in detail and material misstatements corrected. An internal review will be undertaken to ensure that future valuation work is both accurate and timely.

#### Public Contract Regulations/Contract Standing Orders

This is currently identified as an area of high risk and further work identified to embed good practice. An on-line toolkit was launched in September 2018, training is being rolled out to promote the use of the portal and new documents and templates. Action: Operational Procurement Group reviews to be undertaken to ensure they are more effective. Commissioning Strategies to be refreshed and reviewed. Progress will be reviewed by the Corporate

Procurement board. An internal Audit follow up review is scheduled in 2019/20.

#### New financial system

This action was carried forward from 2018/19 and is in progress. Action: To complete the review of internal controls in light of new financial system.

#### Brexit

A working group of members and officers has been established to monitor the impact of Brexit. Action: The working group will monitor developments and potential impact on areas such as suppliers, recruitment and potential NRTPF. A report is due to cabinet later in the year.

### **3.3 Limited assurance report – Internal Audit**

- 3.3.1 The Internal Audit work for 2018/19 provided three limited assurance reports. These will feed into the annual report of the Head of Internal Audit, which supports the AGS. (Separate paper to committee).

#### Declaration of Interest

The guidance was not readily available and officers were not routinely completing the forms, in particular those officers in a senior role, budget holders or those responsible for procurement. Action on this has commenced and a new declaration of interest form will be made available during 2019/20.

#### Corporate Procurement

Sample testing found that e-tendering portal Pro Contract was not always used as required by CSO's and the Procurement Toolkit. Audit sample testing identified contract not published on the Council's Contract Register.

There was a lack of information, clarity and transparency around the reporting of extensions including the number of extensions allowed under the contract.

Department OPG minutes found that Forward Plans were not up to date and not complete.

#### Contract monitoring of commissioned services (Adult services)

Non compliance with CSO- Sample testing found evidence of contracts not tendered, signed contracts or extensions letters (by both parties) not in place. Limited contract monitoring.

### **3.4 Corporate Working group**

- 3.4.1 A recent review of corporate working undertaken by a project team in February 2019, this used the previous CPA Key Lines of Enquiry to measure the council against in relation to ambition, prioritisation, capacity and performance

management. This has resulted in a number of recommendations for CMT to consider during 2019/20.

- 3.4.2 One of the areas identified found that the council operates a number of governance boards with similar or overlapping responsibilities. It has recommended that CMT should review and streamline internal governance to assist with more timely decisions, by reviewing the purpose and responsibilities of each board.

### **3.5 Review of effectiveness**

- 3.5.1 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.
- 3.5.2 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.

## **4. ALTERNATIVE OPTIONS**

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

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

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

## **6 TIMETABLE**

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

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

- 7.1 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

## **8 LEGAL AND STATUTORY IMPLICATIONS**

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

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

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

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



10.1 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

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

11.1 Appendix I: Annual Governance Statement 2018/19.

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

12.1 Annual Governance Statement 2017/18

12.2 CIPFA / SOLACE Delivering Good Governance in Local Government – Framework 2016

12.3 CIPFA / SOLACE Delivering Good Governance in Local Government – Guidance Note for Local Authorities

## **ANNUAL GOVERNANCE STATEMENT 2018/19**

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 (2016)*
- 1.4. This statement explains how Merton Council has complied with the code and also meets the requirements of regulation 6(1b) of the Accounts and Audit Regulations 2015 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 2019 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, standards and general purposes committee, the Head of Internal Audit annual report, and also by comments made by the external auditors and other review agencies and inspectorates and others as appropriate.
- 3.2 The council's code of governance has been reviewed to reflect Cipfa Delivering Good Governance guidelines 2016.
- 3.3 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 seven principles below and areas of improvement in section 14..

### **4. Principle 1 Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

#### **Constitution**

- 4.1 The constitution sets out the decision making structure. Full Council is the ultimate governing body, scrutiny and Standards and General purposes committee provides robust challenge. Committees are appointed on the basis of political proportionality. Decision making is transparent. Decision reports and committee minutes are published on the councils website.

The constitution sets out the roles and responsibilities of members and senior officers. The role of the corporate management team, including the statutory chief officers, such as the Head of Paid Service, Monitoring officers and Section 151 officer, is to support members in the policy and decision-making process by providing assessments and advice to ensure that decision making is rigorous.

#### **Codes of Conduct**

- 4.2 The Council has an Employee Code of Conduct (last updated March 2014) 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. This code includes a requirement for staff to declare any conflicts of interest.
- 4.3 The Members' Code of Conduct approved by the Council on 11 July 2012 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. These details are published. Members also declare any conflicts at the start of each committee meeting. A member complaints procedure and form are available on the internet.

- 4.4 The whistleblowing policy was last reviewed and approved by S&GP Committee 2018 and is available on the intranet and internet.
- 4.5 The declaration of interest for officers process was reviewed by Internal Audit in 2018/19, this has provided with a limited assurance and actions are due to be implemented in 2019/20.

### **Standards and General Purposes Committee**

- 4.6 The Standards and General Purposes Committee has overall responsibility for promoting corporate governance and ensuring controls are adequate and working effectively. 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 twelve members, and the Council's two Independent Persons regularly attend as observers.
- 4.7 This committee also 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
- 4.8 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.
- 4.9 Meetings are held in public. Agendas and minutes are published on the Council's website in line with statutory requirements.
- 4.10 A review was carried out on the effectiveness of the Standards and 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, therefore reliance could be placed on this.

### **Commissioning**

- 4.11 Contract Standing Orders updated December 2017 forms part of the constitution The Procurement Strategy updated in 2018 sets out the aims and objectives for procurement.

- 4.12 A Procurement Toolkit has recently been updated in 2018 and provides clear guidance on the correct procurement route depending on contract value thresholds; A list of contracts with spend greater than £ 5,000 not on the Contracts Register is regularly reported to each Department Operational Procurement Group. The Commercial Services are currently undergoing a restructure to enable the implementation of Category Management across the Council
- 4.13 A recent Internal Audit review found improvement were required on the use of the e-tendering portal Pro Contract system, updating the contract register and ensuring that forward plans are up to date and reasons for extensions are clear.

5. **Principle 2: Ensuring openness and comprehensive stakeholder engagement**

- 5.1 The decision making process is clear, meetings are held in public, committee dates, agenda and decisions are published. The council publishes its annual accounts and the external audit findings and overall conclusion.

**Transparency agenda**

- 5.2 The Protection of Freedoms Act 2012 requires the council to publish certain datasets that are requested .The council publishes the information specified by the government's Open Data requirements on the council's Open Data webpage. A review will be carried out in 2019/20, to ensure that data is updated in a timely manner.
- 5.3 Merton Council publishes an information requests disclosure log which gives brief details of the requests received each week under the Freedom of Information Act 2000 and the Environmental Information Regulations 2004.
- 5.4 Under the Freedom of Information (FOI) Act, a public authority must respond to FOI requests within 20 working days. Performance is reported to the Corporate Management team monthly and is also published on the council's website via the performance monitoring dashboard.

**Complaints**

- 5.5 The Complaints policy is reviewed periodically to ensure it remains relevant and supports improvement in the way the council deals with complaints. New staff are introduced to effective complaints handling through their departmental inductions and all new managers receive through their specific manager's induction. Training and advice is provided on request to teams and targeted training is provided for teams which regularly deal with complaints.
- 5.6 Work is on-going with service departments to identify policy complaints so departments can deal with them appropriately. Departments receive feedback to help them identify areas for improvement and departmental actions are monitored to assess whether changes that are made make a difference.
- 5.7 The council's performance in responding to complaints is reported to the Corporate Management team on a monthly basis and is published on the

council's website via the performance monitoring dashboard. An annual report on complaints is presented to the Standards and General Purposes Committee and is published on the council's website.

## **Partnerships**

- 5.8 The Merton Community Plan 2013 -2019 is in the process of being reviewed. This involved consulting over 1,000 residents, 1,300 children, 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.
- 5.9 The Merton Partnership is responsible for the delivery of the Merton Community Plan (the Sustainable Community Strategy). The Partnership is chaired by the Leader of the Council and hosts an annual themed conference. It has an Executive Board, also chaired by the Leader of the Council that meets quarterly and whose role is to set the strategic direction of the Partnership and manage the delivery of the priorities and targets set out in the Community Plan.
- 5.10 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 Communities (which also serves as the Community Safety Partnership).
- 5.11 The Merton Partnership and its thematic Boards and working groups provide a mechanism for the Council to engage with key stakeholders. The majority of Partnership Boards meet quarterly and have clear governance arrangements. The MVSC are being commissioned to provide training to community groups. There will be a Merton Partnership away day in 2019.
- 5.12 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 a partnership agreement between local public bodies and the voluntary and community sector to improve the relationships. The Merton Compact subscribes to the principles of the National Compact, setting out principles and values of the partnership and aims to achieve a Compact way of working
- 5.13 The Merton Compact is monitored by the Compact Board, comprising of representatives from public bodies including Merton Council (political and officer), Merton CCG, the police, the Fire Brigade and South Thames College and local representatives from the voluntary, community and faith sector. A dispute resolution procedure has been developed to help organisations through the difficulties associated with disputes and disagreements.
- 5.14 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.

5.15 The Merton Partnership developed a new Voluntary Sector and Volunteering Strategy in 2017 to inform and guide our collective approach to sustaining a thriving voluntary sector. This new Strategy will guide the requirements for the Council's Strategic Partner programme that commissions advice and information services, as well as support for the voluntary sector as a whole.

5.16 The Council publishes an annual report setting out expenditure with the Voluntary and Community Sector, including notional funding and business rate discounts

## **6. Principle 3: Defining outcomes in terms of sustainable economic, social, and environmental benefits**

6.1 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. The council has an ambition to be 'London's Best Council' by 2020.

6.2 The Council's Business Plan 2018-22 sets out the following vision:

By 2020 Merton Council will be transformed by the fruition of a number of change projects which will maximise the use of information technology and streamline processes and service provision. 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 continuing to finding innovative solutions to maximise future efficiency.

6.3 The financial reality facing local government dominates the choices the council will make for the future of the borough. The development of the Business Plan is therefore based on the set of guiding strategic priorities and principles, as adopted by the council on 13 July 2011:

Merton should continue to provide a certain level of essential services for residents. The order of priority of services should be:

- i) Continue to provide everything that is statutory.
- ii) Maintain services – within limits – to the vulnerable and elderly.

After meeting these obligations Merton should do all that it can to help residents. This means we should address the following as priorities in this order:

- i) Maintain clean streets and keep council tax low.
- ii) Keep Merton as a good place for young people to go to school and grow up.
- ii) Be the best it can for the local environment.
- iii) All the rest should be open for discussion.



The financial pressures facing Merton mean we should no longer aim to be a 'place-maker' but be a 'place-shaper'. The council should be an enabler, working with partners to provide services.

Our top priority will continue to be to provide safe services of the best possible quality within financial constraints and the July 2011 principles. We will deliver services that customers want and need and, where possible, involve our customers in service specification and design.

The Authority is utilising best practice in project management/ transformation to assess the future direction of services and the required staff, process and IT development to deliver this change. Internal decision making structures have been established to maximise Authority wide assessment and development.

- 6.4 The annual financial planning process, includes two rounds of budget scrutiny each year where the public are able to make representations in writing and at meetings. Budget monitoring reports are also presented and discussed at the quarterly Overview and Scrutiny Commission financial monitoring task group.

There is an aligned Medium Term financial strategy and Capital programme.

## **7. Principle 4: Determining the interventions necessary to optimise the achievement of the intended outcomes**

### **Delegations**

- 7.1 The council's constitution sets out the roles and responsibilities of the executive, non-executive, scrutiny and officer functions.
- 7.2 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
- 7.3 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.
- 7.4 Part 3B of the constitution sets out responsibility for non-executive council functions, including those carried out by Standards and General Purposes Committee, Appointments Committee, Planning Applications Committee, Licensing Committee, Appeals Committee and the Borough Plan Advisory Committee.
- 7.5 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 8 of the report.
- 7.6 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.

- 7.7 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.
- 7.8 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.
- 7.9 The Monitoring Officer is responsible for ensuring agreed procedures are followed and that all applicable statutes and regulations are complied with.

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

- 7.10 The council has approved a four-year Medium Term Financial Strategy (MTFS) for years 2018/19 to 2021/22 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.
- 7.11 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

### **Policy and decision making**

- 7.12 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.
- 7.13 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 Standards and General Purposes Committee, and are also subject to scrutiny.
- 7.14 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. It includes 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

- 7.15 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 are regularly briefed on decision making requirements and have access to guidance notes and forms that have been published on the intranet. The decisions themselves are published on the website.

### **Performance management**

- 7.16 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.
- 7.17 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
- 7.18 Review and challenge of PIs are established as part of service planning e.g. if PI this year is different from last years. Review and challenge with monthly, quarterly and annual returns e.g. monitor if changes markedly from prior measure. London Authority Performance Solutions provides current comparison data across London for approximately 30 Indicators – compare and challenge if our data changes markedly and report to Corporate Management Team - this is not published as agreed by constituent authorities
- 7.19 Performance reports on partnership working are produced for the Merton Partnership Executive Board.

### **8. Principle 5: Developing the entity's capacity, including the capability of its leadership and the individuals within it**

- 8.1 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.
- 8.2 The constitution is updated regularly. Amendments are recommended to Council by the Standards and General Purposes Committee, following reference by the Chief Executive as the statutory Head of Paid Service and the Assistant Director of Corporate Governance as the Monitoring Officer.
- 8.3 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 (2015).

### **Development needs members/officers**

- 8.4 Members –A members’ development plan is in place and this is adapted to meet arising needs. Induction training is provided for all new members. The programme in place for new members post May 2018 were:-
- Workshop 1: welcome reception: meet with the Corporate Management Team, standards and ethics.
  - Workshop 2: The role of the councillor (part 1) covering different aspects of the councillor’s role, an outline of support available, information security and managing casework and introduction to personal development plans.
  - Workshop 3: Introduction to overview and scrutiny.
  - Workshop 4: Introduction to finance and business planning
  - Workshop 5: Keeping our people safe
  - Workshop 6: Community Leadership.
- 8.5 In November 2017 Committee agreed that the following modules would be mandatory for all members to participate during the four year term: safeguarding (adults and children), equalities and information security. Prior to sitting on a Planning or Licensing Committee members must be trained.
- 8.6 In addition to 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.
- 8.7 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.
- 8.8 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. Lunchtime sessions have also been offered once a month on the council’s decision making. Further monthly training on procurement has been offered to staff in 2019/20.
- 8.9 The leadership and core behaviours have been included in the appraisals of all staff. As part of the Council’s ambition to be London’s Best Council in 2020 a development programme was launched for the Collective DMTs and the

Leadership Team the sessions delivered so far have included Coaching, Resilience and Emotional Intelligence. A workforce strategy (2018 – 2021) has been developed and has an action plan to ensure the priorities outlined are achieved. The priorities are:

- Workforce planning
- Recruitment and Retention
- Organisation and Workforce Development
- Morale, Health and wellbeing
- Leadership
- Apprenticeships

8.10 A leadership/managers programme was launched in 2018, starting in the Legal partnership.

## **9. Principle 6: Managing risks and performance through robust internal control and strong public financial management.**

### **Overview and Scrutiny Commission and Panels**

9.1 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 statutory co-opted members. The chair of the Commission is the leader of the Merton Park Ward Independent Resident Group.

9.2 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.

9.3 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.

9.4 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.

- 9.5 Each year a survey of all members is undertaken to seek their views on the effectiveness of the scrutiny function and suggestions for improvement. The results are reported to the Overview and Scrutiny Commission together with an action plan containing measures for innovation and improvements over the coming year.

### **Risk management**

- 9.6 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.
- 9.7 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
- 9.8 The corporate risk strategy was reviewed as part of the annual refresh of the Business Plan 2018-22, 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..
- 9.9 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.

### **Anti Fraud and Corruption**

- 9.10 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 action are reported annually to the General Purposes committee.
- 9.11 The council also participates in the National Fraud Initiative (NFI) a computerised data matching exercise, led by the Cabinet Office to detect fraud perpetrated on public bodies.

### **Communication**

- 9.12 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.
- 9.13 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 Faith and Belief Forum, LGBT Forum, BAME Forum, Involve, Community Forums, Youth Parliament, and Young Advisors

- 9.14 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.
- 9.15 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. Principle 7 Implementing good practices in transparency, reporting, and audit to deliver effective accountability**

### **Internal Audit**

- 10.1 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 annual internal review has been completed and concluded that the service is compliant. An external assessment was carried out in May 2018, which concluded that the Internal Audit function complied with the standard.
- 10.2 An annual report is produced by the Head of Audit which provides an opinion on the adequacy and effectiveness of the internal control environment.
- 10.3 A review has been undertaken on the 5 elements of the CIPFA statement on the role of the Head of Audit in public sector organisations. These elements are all met.

### **Data Security**

- 10.4 The council holds a significant amount of personal data across its many business areas and has put in place actions to manage the risk of possible loss of this data. These include annual mandatory training for all council and partner staff with access to council systems, publication of guidance and an Information Security policy.
- 10.5 Staff are required to report any security incident promptly to the Information Governance team so an investigation and appropriate remedial or mitigating action can be taken. Each reported incident is followed up by the Information Governance team to identify lessons to be learned and to implement changes to reduce the risk of further similar incidents in the future. Security breaches are reported to the Information Governance Board quarterly. The Head of Information Governance assesses each security breach, in line with the Information Commissioners guidance, to identify whether an incident should be reported to the Information Commissioner's Office. During 2018/19 no enforcement action or monetary penalties were issued against the council,



reflecting the effectiveness of the policies and procedures in place.

- 10.6 To support the council's introduction of greater flexible and mobile working, updated procedures have been put in place to ensure the secure handling of personal data. Staff using mobile technology must have passed their online security training and are issued guidance on good practice in handling personal information on a mobile device. The Information Governance team send out a weekly data security tip of the week in the staff bulletin, to ensure staff are regularly reminded of good information handling.
- 10.7 There is a robust framework for managing information to ensure legal compliance and access to NHS information.
- 10.8 Caldicott Guardians are responsible for protecting the confidentiality of service user information and enabling appropriate information sharing.

## **11. Council Owned companies**

- 11.1 A review was carried out by the Committee on Standards in Public Life on Local Government Ethical Standards in January 2019, which recommended areas of best practice.

Best Practice 14: Councils should report on separate bodies they have set up or which they own as part of their annual governance statement, and give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan Principles of openness, and publish their board agendas and minutes and annual reports in an accessible place.

- 11.2 Merton council has 2 companies set up;

**CHAS 2013 Ltd (CHAS)**. The company was incorporated on the 28<sup>th</sup> March 2013, to provide both desktop and onsite supplier/contract risk management assessment and services. There are 4 directors, the Director of Environment and Regeneration, the Assistant Director of Business Improvements, the Head of Legal Services and a managing director. The accounts are audited by EY and filed and published with Companies House. A note is also included in the councils main accounts.

**Merantun Development Limited**. The company was incorporated on the 9<sup>th</sup> August 2017, to undertake new housing build for 77 residential units. There are 2 council officers listed as directors, the Assistant Director of Resources and the Assistant Director of Sustainable Communities. The recruitment of a managing director is in progress.

The shareholders board (Merantun Development Limited subcommittee) has 3 councilors; the Leader of the council, Cabinet Member for Regeneration, Housing and Transport and the Deputy Leader and Cabinet Member for finance. The sub committee meets 3 or 4 times a year and minutes and agendas are published on the council's website. The accounts are audited by EY and are filed and published with Companies House.

**12. Other areas of corporate governance and assurances**

12.1 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

**13 Internal Audit Outcomes**

13.1 The Head of Internal Audit is required to provide the Council with an opinion on the adequacy and effectiveness of the internal control environment. In the Annual Report on the work of Internal Audit during 2018/19 the Head of Internal Audit is satisfied that sufficient internal audit work has been undertaken to draw a reasonable conclusion as to the adequacy and effectiveness of the Council’s control environment, subject to the limited assurance opinions..

13.2 This year there is reasonable assurance that the Council has an adequate and effective control process to manage the achievement of its objectives. This is caveated by the limited assurance audit reviews on procurement and declaration of interests and outstanding audit actions. The limited assurance work in 2018/19 found inconsistency in practice in areas reviewed. Implementation of audits actions will be included in the follow up process and Procurement is included as an action in the AGS improvement plan.

**14 Sources of assurance**

<b>Internal Audit reviews</b>	<b>External reviews</b>	<b>Scrutiny reviews</b>	<b>other</b>
Internal audit review – Corporate procurement – Limited assurance	Ofsted Focused visit to Merton local authority children’s services	South West London Joint Health Overview and scrutiny committee	Internal Peer Review undertaken in Feb/March 2019.
Internal Audit review- Declaration of interest officers- limited assurance	External Audit Reports, incl. Grant Claims and Statement of Accounts	Overview and Scrutiny commission-	Corporate and departmental risk registers

Internal Audit review – Corporate Asset Management Plan – substantial assurance		Overview and scrutiny commission – financial monitoring task group meeting 3 times a year.	Reports to the Information and Security Governance Board GDPR working group Mandatory Information security training for staff
Annual Internal Audit Report and Fraud Referral Reports		Children and Young People Overview and Scrutiny Panel meetings	Residents survey – 92% satisfaction

14.1 This evidence has been considered by the Steering Group as the review of effectiveness of the Corporate Governance Framework and Internal Control.

14.2 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 Standards and 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.

## 15. Follow up of 2018/19 Improvement Plan

15.1 The working group reviewed progress on the actions from the AGS review of 2017/18, which resulted in an improvement plan for 2018/19. There were six recommended improvement actions, of which 4 have been complete/closed, 2 actions to carry forward to the 2019/20 improvement plan. These are detailed below:-

Action	Action taken
To review and update <b>financial procedures</b>	<b>Completed</b> The financial Procedures have been updated and will dovetail into the new financial system. The new financial procedures will be presented at the next Standard and General Purposes committee and then onto Council
<b>Potentially Violent persons Policy</b> to be agreed at DMT and CMT and process to be put in place with new core systems	<b>Closed</b> The policy has been updated in line with Data Protection Act and ICO guidance. Process needs to be put in place but dependent on rollout of new core systems.

<p><b>New financial system</b> – to review internal controls in light of new financial system.</p>	<p><b>This work is in progress.</b> Further work to be done.</p>
<p><b>Disclosure &amp; Barring Service (DBS)</b> To carry out a full review of all staff to be DBS checked to ensure they are done and to implement audit recommendations</p>	<p><b>Completed</b> DBS checks is part a rolling programme and managers have been contacted to establish who needs to have a DBS. This exercise was completed – i.e. processing those identified as part of the process advised by LB Kingston July 2018.</p>
<p><b>Asset Valuations</b> The valuation process used by Merton’s in house professionally qualified valuers has been reviewed in detail as part of the 2017/18 Account Closure and material misstatements have had to be corrected. It has therefore had a material impact on the financial accounts of the Authority and the completion of the statements by the required deadline.</p>	<p><b>On-going</b> Independent land valuations have been commissioned and DRC property valuations are being re-calculated. The recasting of the three financial years of accounts was undertaken and reviewed internally and external audit will review revised property valuations. Weekly meetings held to progress the action plan. Also regular meetings with EY. Independent valuations being undertaken</p> <p>Other action Reconciliation between facilities, schools and E&amp;R to be undertaken and Insurance to facilities assets register</p>
<p><b>GDPR</b></p>	<p><b>Action closed</b> Work is on-going in ensuring continuing organisational compliance with GDPR and the Data Protection Act 2018. An internal audit has recently been undertaken on the council’s compliance. When the report is published an action plan will be drawn up to address any areas of concern and to ensure compliance</p>

15.2 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Standards and 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.

**16. Significant governance issues (Improvement Programme 2019/20)**

16.1 The improvement actions below have been identified as a result of the review

carried out. Progress will be followed up during 2019/20 and reported to Standards and General Purposes committee.

Action	Action to be taken
<p><b>Financial Pressure</b> The comprehensive spending review is due in 2019 and will determine how much funding the council will receive. It is anticipated that there will be a significant budget gap by 2022/23 of £6.078 million</p>	<p>Once feedback from the Comprehensive Spending review and fair funding formula are received, the Medium Term financial strategy and saving plans will be revisited. This will be kept under close review by CMT.</p>
<p><b>Asset Valuations</b> The valuation process used by Merton's in house professionally qualified valuers has been reviewed in detail as part of the 2017/18 Account Closure and material misstatements have had to be corrected. It has therefore had a material impact on the financial accounts of the Authority and the completion of the statements by the required deadline.</p>	<p>An internal review will be undertaken to ensure that future valuation work is both accurate and timely.</p>
<p><b>Public Contract Regulations/Contract Standing Orders</b> This is currently identified as an area of high risk and further work identified to embed good practice. An on-line toolkit was launched in September 2018, training is being rolled out to promote the use of the portal and new documents and templates.</p>	<p>Operational Procurement Group reviews to be undertaken to ensure they are more effective. Commissioning Strategies to be refreshed and reviewed. Progress will be reviewed by the Corporate Procurement board. An internal Audit follow up review is scheduled in 2019/20.</p>
<p><b>New financial system</b> This action was carried forward from 2018/19 and is in progress.</p>	<p>To complete the review of internal controls in light of new financial system</p>
<p><b>Brexit</b> A working group of members and officers has been established to monitor the impact of Brexit</p>	<p>The working group will monitor developments and potential impact on areas such as suppliers, recruitment and potential NRTPF. A report is due to cabinet later in the year.</p>

16.2 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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## **Committee: Standards and General Purposes Committee**

**Date: 25 July 2019**

Wards: All

### **Subject: Report published by the Committee on Standards in Public Life on Local Government Ethical Standards**

Lead officer: Paul Evans, Monitoring Officer

Lead member: Councillor Peter McCabe, Chair, Standards and General Purposes Committee

Contact officer: Paul Evans, Monitoring Officer, [paul.evans@merton.gov.uk](mailto:paul.evans@merton.gov.uk)

#### **Recommendations:**

- 
1. That the Committee notes the recommendations of the Committee on Standards in Public Life
  2. That the Committee agree the best practice actions described in paragraph 3.
- 

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

- 1.1. This report outlines the key recommendations to Government and ‘best practice’ recommendations to local authorities from the Committee on Standards in Public Life report on Local Government Ethical Standards, published on 30<sup>th</sup> January 2019.
- 1.2. The Report suggests changes to the current Standards framework contained in the Localism Act 2011, which Councils have to comply with. Some of the recommendations in the Report would need legislative changes.

## **2 DETAILS**

- 2.1. The Committee on Standards in Public Life is an advisory non-departmental public body sponsored by the Cabinet Office. The Chair, Lord Evans of Weardale, and members are appointed by the Prime Minister. The Committee was established in 1994 and is responsible for promoting the seven principles of public life (“the Nolan Principles”). Its Terms of Reference have evolved since its formation. The Committee is committed to ensuring high standards of conduct in local government in order to protect the integrity of decision-making, maintain public confidence and safeguard local democracy.
- 2.2. The Report is the 20<sup>th</sup> to be published by the Committee since its formation and its primary focus was to review the effectiveness of the current arrangements for standards in local government, particularly in light of the changes made by the Localism Act 2011. The Terms of Reference for this review were:
  - a. Examine the structures, processes and practices in local government in England for:-
    - i. Maintaining codes of conduct for councillors
    - ii. Investigating alleged breaches fairly and with due process
    - iii. Enforcing codes and imposing sanctions for misconduct



- iv. Declaring interests and managing conflicts of interest
  - v. Whistleblowing
- b. Assess whether the existing structures, processes and practices are conducive to high standards of conduct in local government;
  - c. Make any recommendations for how they can be improved; and
  - d. Note any evidence of intimidation of councillors and make recommendations for any measures that could be put in place to prevent and address such intimidation
- 2.3 Overall the CSPL found that the majority of Councillors maintain high standards of conduct. They found evidence of misconduct by some Councillors and the majority of these cases related to bullying or harassment or other disruptive behaviour. Although the report identifies some issues with current rules around declaring interests, gifts and hospitality, and the increased complexity of local government decision-making, there are no calls for a return to a centralised ethical framework.

The report makes 26 separate recommendations, mainly to Government but some to the Local Government Association, local authorities, parish councils and political parties/groups. A number of the report's recommendations would require changes to primary and secondary legislation. Of particular significance are the recommendations for:

- a new model code of conduct ( Recommendation 1);
- the proposed repeal of Section 31 of the Localism Act ( pecuniary interests) (Recommendation 7);
- Local authorities to have power to appoint a standards committee with voting independent members (Recommendation 12);
- the power for Councils to suspend councillors, without allowances, for up to six months ( Recommendation 16); and
- the proposed abolition of the criminal offences in the Localism Act 2011 relating to Disclosable Pecuniary Interests ( Recommendation 18).

- 2.4 The full list of recommendations are attached at **Appendix 1**

The full report is available here:

<https://www.gov.uk/government/publications/local-government-ethicalstandards-report>

### **3 BEST PRACTICE RECOMMENDATIONS**

- 3.1 The report also makes 15 best practice recommendations which are set out below with an assessment of Merton Council's current practice against these. It

is considered that Merton's approach to ethical standards is largely compliant with these recommendations, although further minor amendments are recommended to be fully compliant with all 15 best practice recommendations.

Recommendation	Compliant	Work to be undertaken to be fully compliant
<p>1. Local authorities should include prohibitions on bullying and harassment in codes of conduct. These should include a definition of bullying and harassment, supplemented with a list of examples of the sort of behaviour covered by such a definition.</p>		<p>Merton's code of conduct incorporates a Member officer protocol which refers to bullying and harassment but does not specifically provide examples</p> <p><b>ACTION</b> – develop a definition of bullying and harassment for incorporation in the code of conduct <b>appendix 2</b></p>
<p>2. Councils should include provisions in their code of conduct requiring councillors to comply with any formal standards investigation, and prohibiting trivial or malicious allegations by councillors.</p>		<p><b>ACTION</b> - Update current code of conduct to include provisions</p>
<p>3. Principal authorities should review their code of conduct each year and regularly seek, where possible, the views of the public, community organisations and neighbouring authorities.</p>		<p><b>ACTION</b> - the code of conduct is brought to committee on an annual basis and consider consultation with the public on this.</p>
<p>4. An authority's code should be readily accessible to both councillors and the public, in a prominent position on a council's website and available in council premises.</p>	<p>✓</p>	<p>The code of conduct forms part of the Council's constitution and there is a designated page on the website informing residents how to complain about a councillor.</p>

<p>5. Local authorities should update their gifts and hospitality register at least once per quarter, and publish it in an accessible format, such as CSV</p>	<p>✓</p>	<p>Functionality on the Council's website allows members to register gifts and hospitality at any point. This can be viewed on the Council website. The Committee recently reminded all Councillors of their duty to register any gifts and hospitality received.</p>
<p>6. Councils should publish a clear and straightforward public interest test against which allegations are filtered</p>	<p>✓</p>	<p>The standards regime complaints procedure is on the Council's website and includes the criteria for investigation which covers what would be included in a "public interest test".</p>
<p>7. Local authorities should have access to at least two Independent Persons.</p>	<p>✓</p>	<p>The Council has appointed two Independent Persons.</p>
<p>8. An Independent Person should be consulted as to whether to undertake a formal investigation on an allegation, and should be given the option to review and comment on allegations which the responsible officer is minded to dismiss as being without merit, vexatious, or trivial.</p>	<p>✓</p>	<p>This is already part of the standards regime complaints process. The Independent person is consulted as part of an initial assessment of every code of conduct complaint submitted to the Council.</p>
<p>9. Where a local authority makes a decision on an allegation of misconduct following a formal investigation, a decision notice should be published as soon as possible on its website, including a brief statement of facts, the</p>	<p>✓</p>	<p>The current standards regime complaints process provides for decision notices to be reported to committee and published following a formal investigation.</p>

provisions of the code engaged by the allegations, the view of the Independent Person, the reasoning of the decision-maker, and any sanction applied.		
10. A local authority should have straightforward and accessible guidance on its website on how to make a complaint under the code of conduct. the process for handling complaints, and estimated timescales for investigations and outcomes.	✓	An accessible complaint form is available from the Council website which has a link to Part 4 of the Council Constitution and the Code of Conduct. Guidance on the procedure used is published on the Council's website including timescales.
11. Formal standards complaints about the conduct of a parish councillor towards a clerk should be made by the chair or by the parish council as a whole, rather than the clerk in all but exceptional circumstances.		Not Applicable
12. Monitoring Officers' roles should include providing advice, support and management of investigations and adjudications on alleged breaches to parish councils within the remit of the principal authority. They should be provide with adequate training, corporate support and resources to undertake this work.		Not Applicable
13. A local authority should have procedures in place to address any conflicts when undertaking a standards	✓	The Monitoring Officer may appoint an appropriate investigations officer

investigation. Possible steps should include asking the Monitoring Officer from a different authority to undertake the investigation.		from a different authority where a conflict exists.
14. Councils should report on separate bodies they have set up or which they own as part of their annual governance statement, and give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan principle of openness, and publish their board agendas and minutes and annual reports in an accessible place.		The Council accounts and annual governance statement identify external bodies and relationship with the Council.  ACTION – review publication of board agendas and minutes requirement to comply with the Nolan principles.
15. Senior officers should meet regularly with political group leaders or group whips to discuss standards issues.	✓	The Monitoring Officer has regular meetings with political group leaders.

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

4.1. To be determined at Committee.

#### **5 TIMETABLE**

5.1 Report to be brought to the next Committee meeting on 5 September 2019, to agree a recommendation to Council.

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

6.1. None specific to this report

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

7.1. The Review by the Committee on Standards in public life suggests changes to the current Standards framework contained in the Localism Act 2011. There are no specific legal implications from the report at this stage.

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

8.1. The report seeks to ensure that the Council maintains high standards of service. There are no equality issues arising from this report.

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

9.1. None specific to this report

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

10.1. None specific to this report

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

- Appendix 1 – List of Recommendations
- Appendix 2

**12 BACKGROUND PAPERS**

None

## **APPENDIX 1**

### **List of recommendations**

- 1 The Local Government Association should create an updated model code of conduct, in consultation with representative bodies of councillors and officers of all tiers of local government. - Local Government Association
  
- 2 The government should ensure that candidates standing for or accepting public offices are not required publicly to disclose their home address. The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 should be amended to clarify that a councillor does not need to register their home address on an authority's register of interests.- Government
  
- 3 Councillors should be presumed to be acting in an official capacity in their public conduct, including statements on publicly-accessible social media. Section 27(2) of the Localism Act 2011 should be amended to permit local authorities to presume so when deciding upon code of conduct breaches. - Government
  
- 4 Section 27(2) of the Localism Act 2011 should be amended to state that a local authority's code of conduct applies to a member when they claim to act, or give the impression they are acting, in their capacity as a member or as a representative of the local authority. – Government
  
- 5 The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 should be amended to include: unpaid directorships; trusteeships; management roles in a charity or a body of a public nature; and membership of any organisations that seek to influence opinion or public policy. - Government
  
- 6 Local authorities should be required to establish a register of gifts and hospitality, with councillors required to record any gifts and hospitality received over a value of £50, or totalling £100 over a year from a single source. This requirement should be included in an updated model code of conduct. - Government
  
- 7 Section 31 of the Localism Act 2011 should be repealed, and replaced with a requirement that councils include in their code of conduct that a councillor must not participate in a discussion or vote in a matter to be considered at a meeting if they have any interest, whether registered or not, "if a member of the public, with knowledge of the relevant facts, would reasonably regard the interest as so

significant that it is likely to prejudice your consideration or decision-making in relation to that matter". – Government

- 8 The Localism Act 2011 should be amended to require that Independent Persons are appointed for a fixed term of two years, renewable once. - Government
- 9 The Local Government Transparency Code should be updated to provide that the view of the Independent Person in relation to a decision on which they are consulted should be formally recorded in any decision notice or minutes. - Government
- 10 A local authority should only be able to suspend a councillor where the authority's Independent Person agrees both with the finding of a breach and that suspending the councillor would be a proportionate sanction. - Government
- 11 Local authorities should provide legal indemnity to Independent Persons if their views or advice are disclosed. The government should require this through secondary legislation if needed. - Government / all local authorities
- 12 Local authorities should be given the discretionary power to establish a decision-making standards committee with voting independent members and voting members from dependent parishes, to decide on allegations and impose sanctions. - Government
- 13 Councillors should be given the right to appeal to the Local Government Ombudsman if their local authority imposes a period of suspension for breaching the code of conduct. - Government
- 14 The Local Government Ombudsman should be given the power to investigate and decide upon an allegation of a code of conduct breach by a councillor, and the appropriate sanction, on appeal by a councillor who has had a suspension imposed. The Ombudsman's decision should be binding on the local authority. - Government
- 15 The Local Government Transparency Code should be updated to require councils to publish annually: the number of code of conduct complaints they receive; what the complaints broadly relate to (e.g. bullying; conflict of interest); the outcome of those complaints, including if they are rejected as trivial or vexatious; and any sanctions applied. - Government



- 16 Local authorities should be given the power to suspend councillors, without allowances, for up to six months. - Government
- 17 The government should clarify if councils may lawfully bar councillors from council premises or withdraw facilities as sanctions. These powers should be put beyond doubt in legislation if necessary. - Government
- 18 The criminal offences in the Localism Act 2011 relating to Disclosable Pecuniary Interests should be abolished. - Government
- 19 Parish council clerks should hold an appropriate qualification, such as those provided by the Society of Local Council Clerks. - Parish councils
- 20 Section 27(3) of the Localism Act 2011 should be amended to state that parish councils must adopt the code of conduct of their principal authority, with the necessary amendments, or the new model code. - Government
- 21 Section 28(11) of the Localism Act 2011 should be amended to state that any sanction imposed on a parish councillor following the finding of a breach is to be determined by the relevant principal authority. - Government
- 22 The Local Authorities (Standing Orders) (England) (Amendment) Regulations 2015 should be amended to provide that disciplinary protections for statutory officers extend to all disciplinary action, not just dismissal. - Government
- 23 The Local Government Transparency Code should be updated to provide that local authorities must ensure that their whistleblowing policy specifies a named contact for the external auditor alongside their contact details, which should be available on the authority's website. - Government
- 24 Councillors should be listed as 'prescribed persons' for the purposes of the Public Interest Disclosure Act 1998. - Government
- 25 Councillors should be required to attend formal induction training by their political groups. National parties should add such a requirement to their model group rules. - Political groups National political parties

- 26 Local Government Association corporate peer reviews should also include consideration of a local authority's processes for maintaining ethical standards. -  
Local Government Association Appendix 2

## **APPENDIX 2**

1. Do not bully or harass any person.

Bullying is inappropriate and unwelcome behaviour which is offensive and intimidating, and which makes an individual or group feel undermined, humiliated or insulted. It is the impact of any behaviour rather than the intent which is the key. The examples in the following list are, by no means, exhaustive:

- Unwelcome physical, verbal or non-verbal conduct;
- Intimidatory behaviour including verbal abuse or the making of threats;
- Making someone's working life difficult;
- Disparaging, ridiculing or mocking comments and remarks;
- Physical violence; and
- Deliberately excluding an individual from conversations, work or social activities, in which they have a right or legitimate expectation to participate.

Harassment can occur through verbal or written comments (including ones made online). The following list provides some examples but it is, by no means, exhaustive:

- Unwelcome physical contact such as touching or invading 'personal space';
- Inappropriate remarks or questioning such as comments about someone's appearance, lewd comments, and offensive jokes (such as ones of a racial, sexual or sectarian nature);
- Intrusive questioning, including the persistent discussion of a person's Sexual practices, misogynistic behaviour, sexual orientation or religious beliefs (either directly or with others); and

- Sending unwelcome emails, messages or notes; circulating or displaying explicit or inappropriate images.

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## Standards and General Purposes Committee Forward work plan 2019-2020

### September

- Internal Audit progress report on Annual Audit Plan
- Update on RIPA authorisations (March and September)
- Report published by the Committee on Standards in Public Life on Local Government Ethical Standards (Follow up)
- Complaints against Members
- Temporary and Contract Staff update
- Work programme

### November

- External Audit Annual Letter
- Internal Audit progress report on annual audit plan
- Annual Gifts and Hospitality report (members)
- Annual Gifts and Hospitality report (officers)
- Annual Complaints report
- Risk management
- Review of polling places
- Complaints against Members
- Temporary and Contract Staff update
- Work programme

### March 2020

- External Audit Certification of Claims report
- External Audit progress report
- External Audit Plans for Council and Pension Fund accounts
- Internal Audit Plan
- Internal Audit progress report
- Update on RIPA authorisations (March and September)
- Complaints against Members
- Temporary and Contract Staff update
- Work programme

**Add as required:**

- Polling Places
- Constitutional amendments
- Review of members' interests
- Independent / co-opted members
- Reports on dispensations issued by Monitoring Officer
- Report on payment exceeding £1000 as a result of maladministration as directed by the LGO.

## **Committee: Standards and General Purposes Committee**

**Date: 25 July 2019**

**Subject: Report on the use of temporary workers and consultants**

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Lead officer: Kim Brown, HR Lead

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

Contact officer: Kim Brown, HR Lead, 0208 545 3152

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### **Recommendations:**

- A. To note progress made to monitor and control the use of temporary workers and consultants
- 

## **1. Purpose of report and executive summary**

- 1.1. The Committee has received regular progress reports in relation to the number of interim appointments in the council and the mechanisms in place to monitor the use of such workers.

## **2. Details**

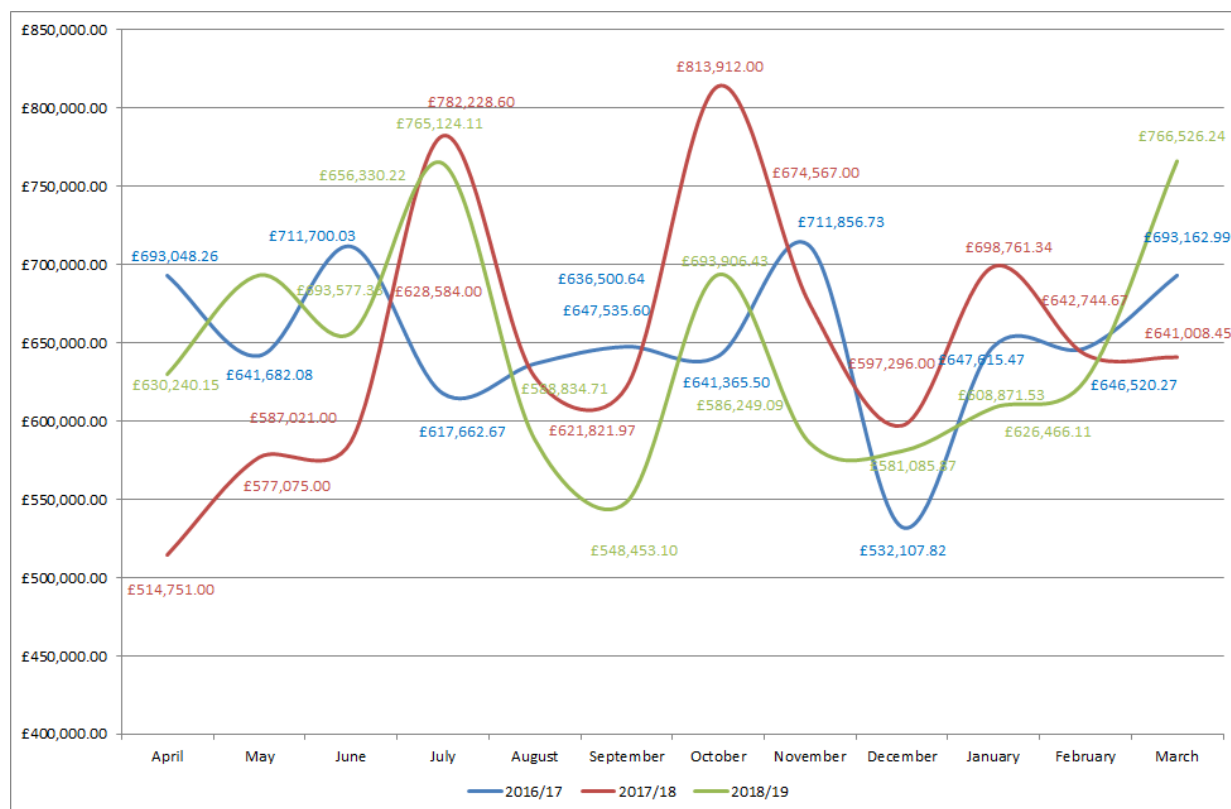
- 2.1 The central monitoring database consists of all types of interim/temporary placement (over £30 pounds per hour).
- 2.2 The database is updated on a monthly basis and double-checked with departmental management teams (DMTs) for accuracy, with quarterly reports as at the end of June, September, December and March being reported to this committee.
- 2.3 As at the end of March 2019, the Council employed 139 interim/temporary workers at £30 per hour (or more) compared to 124 in March 18, which is an increase of 17 workers. Appendix 1 refers to the detail and composition of the interim workforce. Where possible, corporate contracts are used as they provide better value for the Council.
- 2.4 The committee on 30<sup>th</sup> July 2018 requested additional information for interims/temporary worker placements (as defined in para 2.1):
- the costs and numbers over a three year period



- the number of temporary workers who have converted to permanent roles with the Council also known as 'temp to perm'.
- 2.5 The engaging of most interim workers is via Comensura or the LGRP, which is a London wide contract for interim appointments. Even within the aforesaid existing contracts the Council has sought to get the best 'price' and in doing so have attracted high quality interims at 10% of the mark-up price. There have been instances due to market supply issues, although very few, when the Council has not used either of these contracts and has had to go 'off contract'. There are robust processes in place to manage this process, which requires a business case and financial checks to ensure there is a budget to pay for the assignment, as well as sign off by the Director of Corporate Services.
- 2.6 The Council is currently exploring a framework agreement with a designated supplier for the provision of Professional services for project related work. Each project will be evaluated on an individual basis to determine its needs, establish key milestones and deliverables upon which payments will be made on successfully meeting these targets. Adopting this approach to managing projects would generate greater Value for Money and deliver on project objectives. It is recognised that this is a skill set that we do not have sufficient resources of in the organisation because of the technical skills required.
- 2.7 The previously reported situation continues with by far the largest group of temporary workers being "on contract" agency and temporary staff appointed through the Council's corporate contract with Comensura for the supply of agency staff. Whilst there is an increase in the costs of interims via Comensura this represents a reduction in appointments, which are off contract or through LGRP. Interims are engaged with the involvement and oversight of the HR function by way of a database that supplies monthly spend and usage reports to Council managers, DMTs and the Corporate Management Team.
- 2.8 The Council has different delivery models to ensure services are able to realise efficiencies, become more resilient and effective by sharing services with other London Boroughs. In October 2016, the Legal shared services expanded to include Wandsworth and a year later Regulatory Services followed. As a result of the expansions a number of interims with pay rates over £30 per an hour transferred to Merton – the costs of these appointments are shared across the service and rechargeable to partner boroughs.
- 2.9 The Council introduced a temp to perm procedure to reduce the reliance on agency workers and allowed conversions from agency to permanent staff when certain conditions were met. Sixty (60) agency workers have transferred to permanent employment from September 2017 to 31<sup>st</sup> March 2019 of this number, three (3) alone in the quarter from January 19 to March 19, with more in the pipeline for 2019/20. Temp to perm conversion rates will continued to be reported to this Committee on a quarterly basis.

- 2.10 Within the services career pathways are being developed through the creation of apprenticeships schemes (where standards are available) and ensuring that that the apprenticeship levy is used to meet the development element.
- 2.11 The total spend for interim and temporary workers from 2016 to date are listed below: interims via Comensura Graph 1 and Table 1, LGRP and off contract Graph 2 and Table 2

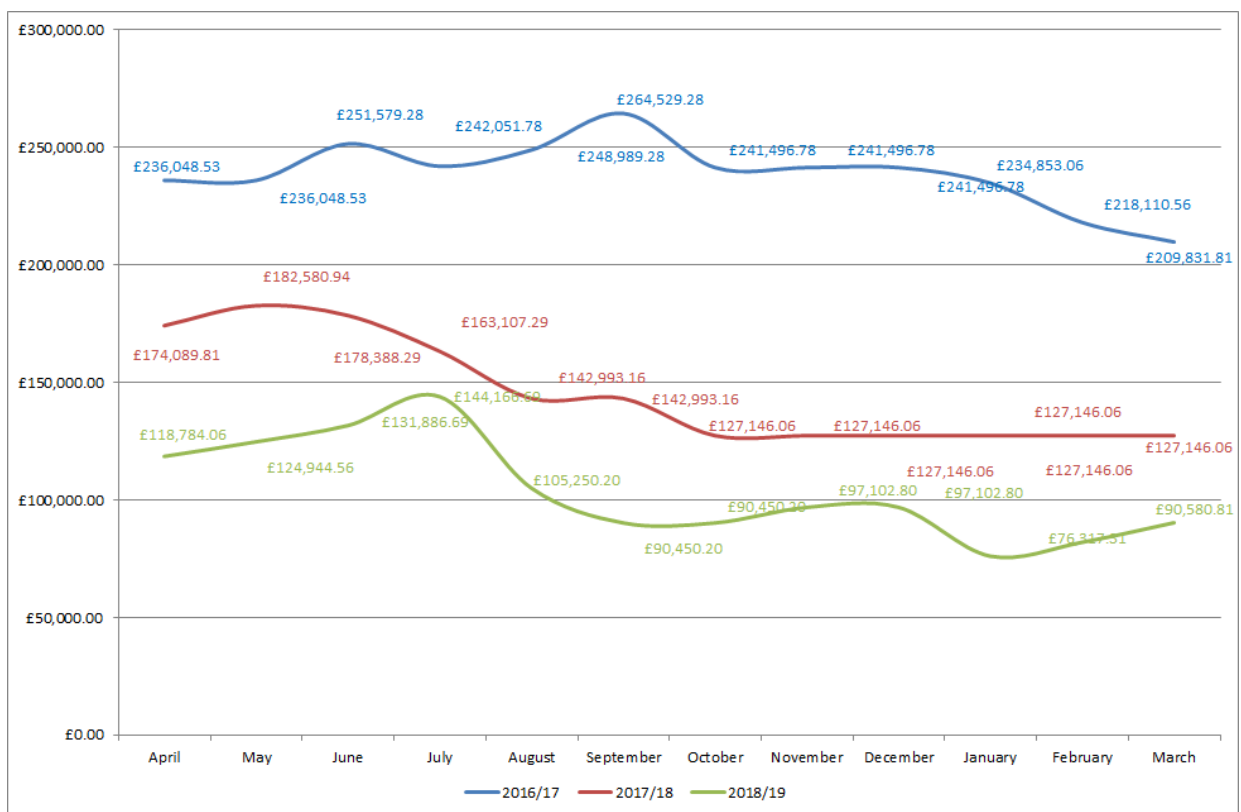
**Graph 1 – List totals for 16/17, 17/18, 18/19 and year to date for interim and temporary workers – Comensura**



**Table 1 - List totals for 16/17, 17/18, 18/19 and year to date for Interim and temporary workers – Comensura**

	2016/17	2017/18	2018/19
April	£693,048.26	£514,751.00	£630,240.15
May	£641,682.08	£577,075.00	£693,577.33
June	£711,700.03	£587,021.00	£656,330.22
July	£617,662.67	£782,228.60	£765,124.11
August	£636,500.64	£628,584.00	£588,834.71
September	£647,535.60	£621,821.97	£548,453.10
October	£641,365.50	£813,912.00	£693,906.43
November	£711,856.73	£674,567.00	£586,249.09
December	£532,107.82	£597,296.00	£581,085.87
January	£647,615.47	£698,761.34	£608,871.53
February	£646,520.27	£642,744.67	£626,466.11
March	£693,162.99	£641,008.45	£766,526.24

**Graph 2 - Total of LGRP and Off Contract assignments over £30 for each financial year**

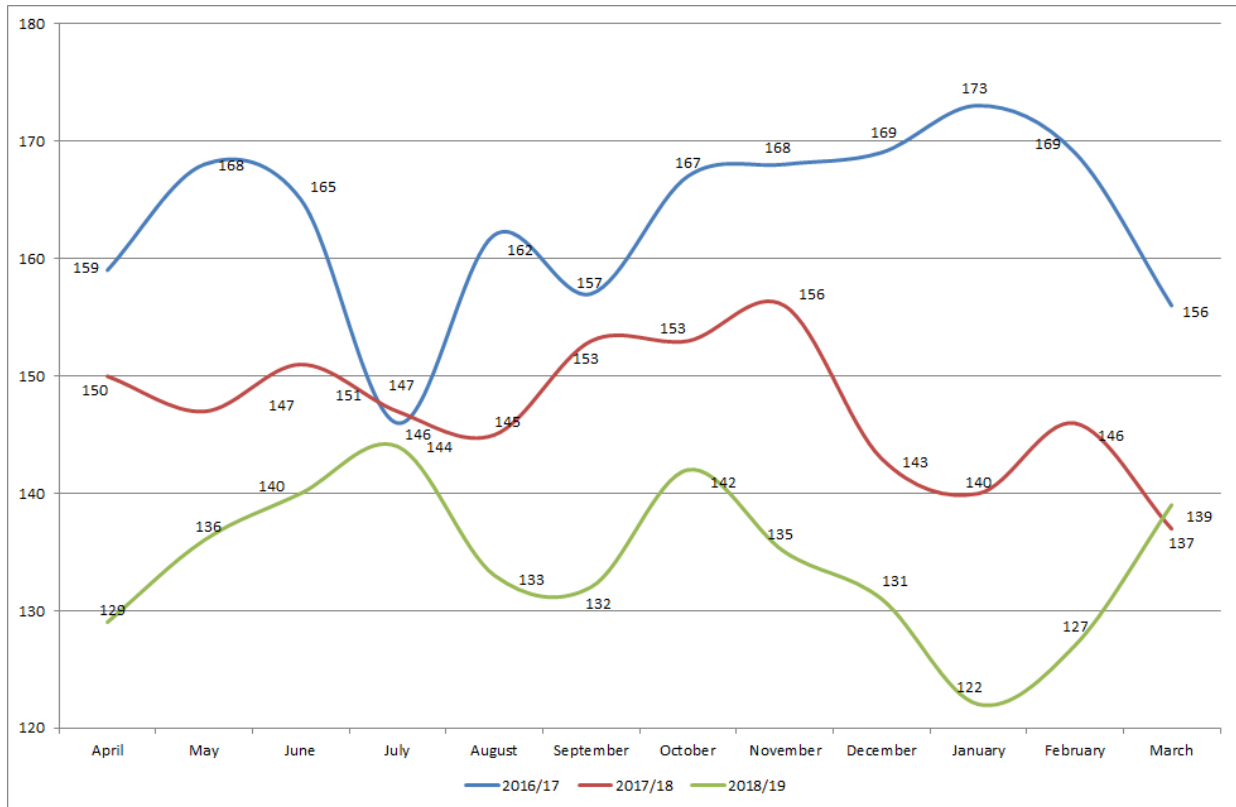


**Table 2 - Total of LGRP and Off Contract assignments over £30 for each financial year**

2016/17				2017/18			
	LGRP	Off Contract	Total		LGRP	Off Contract	Total
Apr-16	£60,027.88	£176,020.66	£236,048.53	Apr-17	£60,869.63	£113,220.19	£174,089.81
May-16	£60,027.88	£176,020.66	£236,048.53	May-17	£80,368.26	£102,212.69	£182,580.94
Jun-16	£82,551.63	£169,027.66	£251,579.28	Jun-17	£83,205.60	£95,182.69	£178,388.29
Jul-16	£82,551.63	£159,500.16	£242,051.78	Jul-17	£67,924.60	£95,182.69	£163,107.29
Aug-16	£93,559.13	£155,430.16	£248,989.28	Aug-17	£58,170.48	£84,822.69	£142,993.16
Sep-16	£81,349.13	£183,180.16	£264,529.28	Sep-17	£58,170.48	£84,822.69	£142,993.16
Oct-16	£70,526.63	£170,970.16	£241,496.78	Oct-17	£42,323.38	£84,822.69	£127,146.06
Nov-16	£70,526.63	£170,970.16	£241,496.78	Nov-17	£42,323.38	£84,822.69	£127,146.06
Dec-16	£70,526.63	£170,970.16	£241,496.78	Dec-17	£42,323.38	£84,822.69	£127,146.06
Jan-17	£70,526.63	£164,326.44	£234,853.06	Jan-18	£42,323.38	£84,822.69	£127,146.06
Feb-17	£70,526.63	£147,583.94	£218,110.56	Feb-18	£42,323.38	£84,822.69	£127,146.06
Mar-17	£70,526.63	£139,305.19	£209,831.81	Mar-18	£42,323.38	£84,822.69	£127,146.06
2018/19							
	LGRP	Off Contract	Total				
Apr-18	£33,961.38	£84,822.69	£118,784.06				
May-18	£49,371.88	£75,572.69	£124,944.56				
Jun-18	£56,314.00	£75,572.69	£131,886.69				
Jul-18	£72,594.00	£75,572.69	£144,166.69				
Aug-18	£71,950.20	£33,300.00	£105,250.20				
Sep-18	£71,950.20	£18,500.00	£90,450.20				
Oct-18	£71,950.20	£18,500.00	£90,450.20				
Nov-18	£78,602.80	£18,500.00	£97,102.80				
Dec-18	£78,602.80	£18,500.00	£97,102.80				
Jan-19	£67,067.31	£9,250.00	£76,317.31				
Feb-19	£73,005.81	£9,250.00	£82,255.81				
Mar-19	£81,330.81	£9,250.00	£90,580.81				

2.12 From January 19 to March 19 we have increased the number of staff paid £30 per hour and above (Graph 3 / Table 3) by 15, and for the first time we have also increased year on year by 2 workers from March 18 to March 19. Overall, during the quarter we have had 11 leavers and 26 new starters, and these new starters fall under the following categories; 10 workers engaged for project work, 8 engaged to cover permanent positions, and the other 8 are engaged for short term assignments, sickness cover and secondment cover.

**Graph 3 - Total no. of interim workers over £30 in each financial year**



**Table 3 - Total no. of interim workers over £30 in each financial year**



Information is provided monthly to DMT on the usage, costs, hourly rates and length of engagement of agency workers so that management action can be taken in any case where the use of an agency worker can no longer be justified.

HR has worked closely with the social care management team to review and update the retention packages to ensure that we are able to recruit the right talent but also being able to retain them to provide continuity of service to some of our most vulnerable clients. Our retention measures have been submitted for benchmarking against other London boroughs.

We expect the reduction in the use of interim and temporary workers to continue

### **Community and Housing**

C&H currently have 6 agency workers via Comensura, which have been here over 24 months and 1 Consultant over 24 months.

Within Community and Housing, use of agency staff is predominantly within adult social care and in specialist, hard to recruit to posts. Targeted recruitment is in progress and this is outlined in detail in the appendix. A principal social worker post is now in post. Her role will focus on recruiting new staff, retention and developing new opportunities for career development

We have reviewed and amended payments for Approved Mental Health Social Workers (AMHPS) to bring it into line with south west London. This is a particularly hard to recruit to statutory function. The aim is to increase the number of permanent AMPHS and reduce the use of agency staff. We are also reviewing access to AMHP training for existing staff.

Social Work posts are difficult to recruit too across London and nationally. The Department of Health & Social Care and Skills for Care have launched a national recruitment campaign for roles across social care. (<http://www.everydayisdifferent.com/home>)

### **Corporate Services**

CS currently have 7 agency workers via Comensura, which have been here over 24 months.

Of the 7 agency workers, 6 are lawyers in the Shared Legal Service (SLLP) paid for by the five participatory boroughs; mainly in the property and procurement team where we compete with the private sector. We have an ongoing recruitment campaign but still have limited success in attracting permanent staff. We are looking at further temp to perm within SLLP and there is one in the pipeline. For the final agency worker, they left the organisation on April 2019.

There has been a short term increase in support via the LBRP to assist with the closing process as mentioned in previous Final Accounts update reports and with our Draft Accounts completed, permanent solutions are now being explored. There are five agency workers linked to projects and therefore no permanent roles exist.

## **Environment and Regeneration**

E&R currently have 10 agency workers via Comensura, which have been here over 24 months and 1 Consultant over 24 months.

Usage is relatively low in E&R and reducing. A number of workers are covering positions, which are subject to a service review in particular the Regulatory Service Partnership where a new management structure came into effect on 1<sup>st</sup> November 2018. This has temporarily increased the number of agency staff whilst the consultation and reorganisation was concluded. Further work will be undertaken to review the non-management staff over the coming months and this again may temporarily increase agency staff use

Others are providing specialist skills or are covering [often short term] externally funded roles including capital schemes. There are a number of professional areas where there is an extremely competitive market in which all London boroughs are struggling to recruit and retain permanent staff. This includes Traffic engineers, Planning officers and Building control surveyors where the emergence of a strong interim market as well as private sector competition [in building control particularly] has changed employment patterns and our ability to recruit and retain staff.

E&R DMT reviews this matter on a regular basis in order to manage risk including the financial impact.

- 2.14 There has been a reduction in the use of off contract appointments due to monitoring and the introduction of IR35 tax legislation in April 2017. IR35 is tax legislation designed to combat tax avoidance by workers supplying their services to clients via an intermediary, such as a limited company, but who would be an employee if the intermediary was not used.
- 2.15 The purpose of IR35 is to prevent contractors, consultants and freelancers from trading via their own limited company in order to pay less tax and national insurance contributions (NIC) than if they were employed directly by their end client or agency. This has only been rolled out to the Public sector; the rollout to the Private sector has been delayed.
- 2.16 HR monitors suppliers and contractors to ensure they are IR35 compliant.

## **3 Timetable**



- 3.1 Regular monthly reports of all interim/temporary placements are sent to departments and suitable “challenge” meetings are held with DMTs on a monthly basis. Agency spend and number of agency staff forming part of the workforce are reported to CMT on a monthly basis as part of the HR Metrics.
- 3.2 Quarterly updates will be provided to this committee. September information (Quarter 2) will be reported to 8<sup>th</sup> November meeting.

#### **4 Financial, resource and property implications**

- 4.1 The aim is to challenge hiring managers’ interim/temporary placements and reduce overall costs associated with interim workers where possible, noting that in many cases the Council has to cover statutory functions.

#### **5 Legal and statutory implications**

- 5.1 There are no specific legal implications arising from the report

#### **6 Human rights, equalities and community cohesion implications**

- 6.1 The amendments that have been made to the Council’s HR policies and processes will improve confidence in the Council’s HR recruitment procedure and the maintenance of the interim position database to provide the means to ensure compliance with Members’ requirements.

#### **7 Crime and Disorder implications**

- 7.1 None

#### **8 Risk management and health and safety implications**

- 8.1 These are detailed in the Ernst and Young report of 12 March 2014 and subsequent reports.

#### **9 Appendices – the following documents are to be published with this report and form part of the report**

- 9.1 None

#### **10 Background papers**

- 10.1 None