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# Merton Council

## Standards and General Purposes Committee Agenda

### Membership

#### Councillors:

Peter McCabe (Chair)  
Adam Bush (Vice-Chair)  
Ben Butler  
John Dehaney  
Dickie Wilkinson  
David Williams MBE JP  
Hina Bokhari  
Mary Curtin  
Andrew Howard  
Brenda Fraser  
Nick Draper  
Martin Whelton

#### Independent Persons

Katy Willison  
Clive Douglas

#### Substitute Members:

Omar Bush  
Nick McLean  
Jenifer Gould  
Edward Foley  
Caroline Cooper-Marbiah  
Edith Macauley MBE

**Date: Thursday 10 March 2022**

**Time: 7.15 pm**

#### Venue:

This is a public meeting and attendance by the public is encouraged and welcomed. For more information about the agenda please contact or telephone [020 8545 3616](tel:02085453616).

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

# Standards and General Purposes Committee Agenda

## 10 March 2022

1	Apologies for Absence	
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14	Temporary and Contract Staff update	185 - 222

**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. For further advice please speak with the Managing Director, South London Legal Partnership.

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# Agenda Item 3

## STANDARDS AND GENERAL PURPOSES COMMITTEE

4 NOVEMBER 2021

(7.15 pm - 8.35 pm)

- PRESENT** Councillors Councillor Peter McCabe (in the Chair), Councillor Adam Bush, Councillor Ben Butler, Councillor John Dehaney, Councillor Dickie Wilkinson, Councillor Andrew Howard, Councillor Brenda Fraser, Councillor Nick Draper, Councillor Martin Whelton and Councillor Joan Henry
- ALSO PRESENT** Caroline Holland (Director of Corporate Services), Amy Dumitrescu (Democracy Services Manager), Roger Kershaw (Assistant Director of Resources), Andrew Robertson, Louise Round (Managing Director, South London Legal Partnership and Monitoring Officer), Richard Seedhouse (Democratic Services Officer), Elizabeth Jackson (External Audit)
- ATTENDING REMOTELY** Clive Douglas (Independent Person), Katy Willison (Independent Person), (Nemashe Sivayogan (Treasury and Pensions Manager), Margaret Culleton (Head of Audit)

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

Apologies were received from Councillors Bokhari and Williams. Councillors Gould and McLean attended as substitutes

Subsequently to the agenda being published, Councillor Henry was appointed as a member of the committee replacing Councillor Curtin.

### 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 21 September 2021 were agreed as a correct record

### 4 UPDATED AUDIT RESULTS REPORT (Agenda Item 4)

The External Auditor reported that the Pensions Fund audit report was complete and ready for signing. However, the updated report on the Council's Financial Statements is not final, work is ongoing. The deadline of 30 September 2021 had not been met. It was noted that only 9% of local government audits had been signed off. There were 2 key issues that had led to the deadline not being met; black box gap in new isa540, (work is now complete and no issues for Council). The Property Plant and Equipment valuation has work ongoing; when it was received in October, it

highlighted a number of queries, variances and assumptions in which EY and the Council have differing opinions. In order to reach an agreement between the council and EY valuers, additional samples were considered. These further samples brought up a further issue, and work continues to be in progress. The External Auditor is unable to issue an audit opinion as the ongoing work is likely to lead to a material difference in financial statements that will need corrected before the audit opinion can be issued.

EY have raised an internal control recommendation to ensure council tax and NDR debtors are fully reconciled to the general ledger, noting that they had grown from the previous year and will need to be fully reconciled for next year.

In response to Member questions, the External Auditor apologised for not meeting the 30 September deadline and explained the timings of the receipt of the reports and the additional information required and flagged up as a result to the additional work had meant that work is ongoing.

Although EY started working on the reports in July, the EYRE report should have come back in August to allow a month, but it hadn't been received, the Auditor also advised that, the firm is understaffed and this had caused delays. EY were looking to change processes and formats to standardise across councils.

There was a change in 2017/18 in how schools assets are classified, the council values the land at a lower band than EY. In previous years, it hasn't been an issue because it was a low risk consideration. EY and the council have interpreted the RICS guidance slightly differently, if council valuers won't change their approach, then it is likely to require a modification by EY as it is likely to become a material difference.

The Assistant Director for Resources confirmed that the council is now trying to positively engage and valuations teams, looking at requirements coming through from EYRE and looking at a revision once the difference and the size of the gap were understood. A lot of effort goes into evaluation of assets to ensure an accurate figure in our accounts but doesn't necessarily impact council decisions.

The Director for Corporate Services confirmed that the problems highlighted had lead to restating three years' worth of accounts, work which had commenced but also impacts on the work that had already started on valuations for this financial year. If officers were able to have the accounts signed off before Christmas, with a meeting of the Committee not due until March, the committee could delegate authority to sign off the accounts to officers or could call a special meeting or sub-committee meeting to address that.

The External Auditor confirmed that the additional work required would mean an additional charge to the council. This would have to be discussed and agreed with Finance officers before bringing to the committee

The External Auditor advised that while everyone who is working on valuations is RICS qualified, there is room for difference in opinion and in these cases the work is in making sure these differences are within an acceptable level of variance.

The Director of Corporate Services expressed their disappointment that the deadline had not been met and outlined the work the Council had done to try and resolve the issues that had been raised.

At the request of the Committee, the External Auditor committed to seeking to create a protocol outlined expected standards agreed by both parties to prevent future issues.

## RESOLVED

1. That the Committee received a verbal update from EY on the current position relating to the audit for year ended 31st March 2021.
2. That the Committee noted EY's updated Audit Results Report (Appendix 2) for the Pension Fund accounts under the International Standard on Auditing (ISA) 260.
3. That the Committee noted EY's updated Audit Results Report (Appendix 1) for the Statement of Accounts under the ISA 260.
4. That the Chair was authorised to sign the Letters of Representation (Appendices 1 and 2) for the Statement of Accounts and Pension Fund Accounts

And

5. That the Standards and General Purposes Committee delegated authority to the Director of Corporate Services to sign off the final accounts once completed, subject to the Committee receiving a copy for inspection prior to signing.

## 5 INTERNAL AUDIT PROGRESS REPORT 2021/22 (Agenda Item 5)

The Head of Internal Audit reported that progress was continuing with the audits, with 20 reviews completed. The report provided an update on the progress of priority 1 actions. At the time of writing 7 audit actions remained outstanding prior to this year's audits on Building Control, No Recourse to Public Funds and PCI Compliance. It was noted that some teams had asked for extensions on the implementation date, in particular on building control due to staff shortages, the others are expected to be signed off shortly. There are 6 priority 1 actions still outstanding, due at the end of October and December.

The reports gave an update on the fraud partnership work. Housing waiting list data needs cleansing, there are some cases that should have come off.

In response to member questions the Head of Internal Audit confirmed staffing changes in planning had delayed some audit actions and that work was ongoing on publishing charging regulation data by 31 December. The Head of Internal Audit

would be able to report back to the committee about implementation of Building Control audit actions at the next meeting.

The Head of Internal Audit agreed to meet with the Assistant Director for of Sustainable Communities to ensure the work outstanding for development control was being given appropriate priority.

RESOLVED

That the Committee considered and commented on progress of the Internal Audit Plan 2021/22

## 6 REVIEW OF ARRANGEMENTS FOR IN-PERSON COUNCIL AND COMMITTEE MEETINGS (Agenda Item 6)

The Monitoring Officer reminded the committee that when it agreed the current arrangements, the committee had committed to review them after 6 months. The recommendation within the report was to retain the current measures for a further six months with an amendment to the standing orders to agree that remote attendance arrangements apply to full council meetings;

In response to member questions, the Monitoring Officer confirmed that members must be at a meeting physically to vote under the current legislation.

RESOLVED

1. That Committee discussed and reviewed the current arrangements for in-person Council and Committee meetings
2. That the Committee recommended to Full Council the retention of the current measures for a further period of 6 months and to amend the additional standing orders in accordance with appendix A

## 7 REVIEW OF POLLING PLACES (Agenda Item 7)

The Head of Democracy and Electoral Services presented a report on a review of ward arrangements. A change of ward boundaries had required a change of polling districts and polling places, with the proposed changes due to take effect for the Council elections in May 2022 and these would be in use for local and national elections. It was noted that the report had been amended subsequently to publication to show the decision had been delegated to this committee and was not required to be forwarded to Full Council for approval as originally stated

The Head of Democracy and Electoral Services gave an overview of the key points; noting the changes aimed to minimise disruption/confusion for electors and included proposing 5 new polling stations. Out of 86 polling districts there were only 16 which would change polling station locations. Alternative venues to schools that may close for polling had been sought with 7 currently used for polling of which 3 close for polling.



In response to questions the Head of Democracy and Electoral Services advised that, the report outlined why some schools would still be used – it was noted that it is difficult to find an alternative venue which is suitable, available and large enough to be used as a polling station. Currently, these venues needed to be designated as the polling place, however it may be that alternative options could be considered subsequently.

Head of Democracy and Electoral Services confirmed that for Stanford school, the polling station is in fact in a separate facility and has been for a number of years.

#### RESOLVED

That the Committee agreed the designation of polling districts and polling places set out in Acting Returning Officers Submission.

#### 8 APPOINTMENT OF INDEPENDENT PERSON (Agenda Item 8)

The Monitoring Officer confirmed that Clive Douglas was content to serve for another 3 years.

#### RESOLVED

1. That Committee recommended to Council to appoint Clive Douglas for a further three year period as an Independent Person for the purposes of Chapter 7 of the Localism Act. The Independent Person be invited to attend meetings of the Standards and General Purposes Committee in that capacity.
2. That the appointment was made for a period of three years from 8 February 2022.

#### 9 LOCAL GOVERNMENT ACT 1972, SECTION 85 (1): APPROVAL OF ABSENCE (Agenda Item 9)

The Monitoring Officer introduced the report, noting that Councillor Skeete may not be able to attend any meetings in person between the date of the meeting and May 2022.

In response to member questions the Chair explained that it is a rare occurrence, this is an exemption and the committee agreed to send their best wishes to be sent to Councillor Skeete.

#### RESOLVED

That, in the event that Councillor Marsie Skeete is unable to attend a meeting of the authority before 4 May 2022, approval was given to that absence on the grounds of her of ill-health.

## 10 ANNUAL GIFTS AND HOSPITALITY REPORT (Agenda Item 10)

The Monitoring Officer presented the report to inform the committee of registered gifts and hospitality received and to highlight that there was no need for individual members to register particular items offered to all councillors including pantomime tickets. It was noted that if councillors don't accept these, they would not be expected to register that they had been offered and declined. It was also noted that the report should also have referred to the fact that the previous chief executive was given Wimbledon tennis tickets last year.

### RESOLVED

1. That the Committee noted the report;
2. That members were reminded of their responsibility to complete declarations of gifts and hospitality including reasons for acceptance;
3. The Committee agreed that there was no requirement for members to register the annual offer of tickets for the pantomime at Wimbledon Theatre (although they should continue to register the acceptance of such an offer) or where they were afforded an opportunity to participate in a ballot for paid for tickets for the Wimbledon Tennis Championships;
4. Managers were to remind staff about their responsibilities under the Employee's Code of Conduct to complete declarations, including reasons for acceptance

## 11 COMPLAINTS AGAINST MEMBERS (Agenda Item 11)

The Monitoring Officer confirmed that no complaints had been referred for investigation since the previous meeting

## 12 WORK PROGRAMME (Agenda Item 12)

RESOLVED that the Work Programme was noted and agreed.

## 13 PROGRESS REPORT ON RISK MANAGEMENT (Agenda Item 13)

The Director of Corporate Services informed the committee that when the report came back to committee at a later date there would be some adjustments. Seven risks were scored as red, with Brexit risks now largely moved into normal registers. In response to member questions, the Director informed the committee that the register is reviewed at least on a quarterly basis, the Director chairs the Corporate Risk Management Board on which the Head of Internal Audit sits along with the main insurance lead informing categorisations. There is also a quarterly report back to CMT, and Zurich (Insurance Provider) gives training.

### RESOLVED

1. That the Committee reviewed the adequacy of the risk management framework and the associated control environment
  2. That the Committee considered the Key Strategic Risks and Issues faced by the council, and determined that these were being actively managed
  3. That the Committee considered the Covid Risks and Issues faced by the council, and determined that these are being actively managed
- 14 EXCLUSION OF PUBLIC (Agenda Item 14)

The Committee did not refer to the information contained within the restricted appendix and therefore the meeting remained in public session.

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# London Borough of Merton Audit Results Report

Year ended 31 March 2021

1 February 2022

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

Building a better  
working world

Agenda Item 4



Private and Confidential

1 February 2022

London Borough of Merton  
Standards and General Purposes Committee  
Civic Centre  
Morden  
SM4 5DX

Dear Committee Members  
2021 Updated Audit Results Report

We are pleased to attach our final audit results report, summarising the status of our audit of the London Borough of Merton (the Authority). We presented the report to the Standards and General Purposes Committee on 25 September and an update on the 4 November 2021.

The audit is designed to express an opinion on the 2021 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Authority's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements.

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

We welcomed the opportunity to discuss the contents of this report with you at the Standards and General Purposes Committee meeting.

Further updates to this report subsequent to the meeting on 4 November have been highlighted in red.

Yours faithfully

*E. Jackson.*

Elizabeth Jackson, Associate Partner  
For and on behalf of Ernst & Young LLP  
Encl

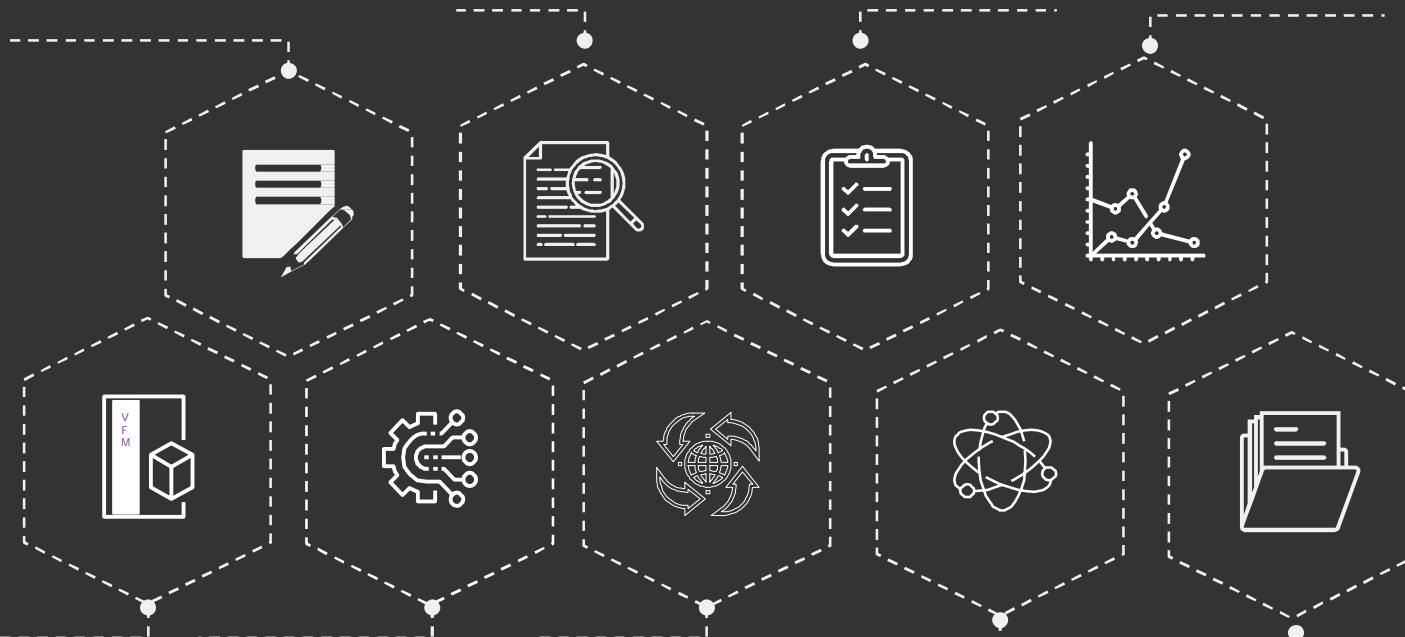
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08 Independence

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The 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 and further guidance (updated April 2018)” issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Standards and General Purposes Committee and management of the London Borough of Merton in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Standards and General Purposes Committee, and management of the London Borough of Merton those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Standards and General Purposes Committee and management of the London Borough of Merton for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

# Executive Summary



# Executive Summary

## Scope update

In our audit planning report presented to the Standards and General Purposes Committee meeting on 11 March 2021, 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 updates:

### Changes in materiality

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment

Materiality	Group (£m)		Authority (£m)	
	Outline Audit Plan	Final	Outline Audit Plan	Final
Planning Materiality	£9.8m	£10.0m	£9.6m	£9.9m
Performance Materiality	£7.3m	£7.5m	£7.2m	£7.4m
Audit Differences	£0.5m	£0.5m	£0.5m	£0.5m

### Changes to audit risks and areas of focus

Description	Detail of changes to our scope
In our outline audit plan we identified the implementation of Adelente as a significant risk to our audit of the financial statements.	<p>The Adelente system is a cash receipts only system which went live at the Authority on 29 March 2021. The total value of transactions in the financial year were below our performance materiality and we could agree the cash receipts recorded by the Authority back to third party bank confirmations and our review of bank reconciliations.</p> <p>Given the nature, timing and value of transactions processed through the system in 2020/21 we no longer consider the implementation of Adelente as a significant risk to our audit of the financial statements.</p>
<p>The Authority has a material Private Finance Initiative (PFI) arrangement in relation to schools.</p> <p>In our outline audit plan we highlighted the PFI as an area of higher inherent risk.</p>	<p>A detailed review of the PFI arrangements was undertaken by our internal expert in 2016-17 and followed-up in 2017-18, 2018-19 and 2019-20.</p> <p>Our review of the PFI model highlighted that there had been no changes to either the inputs or the model in 2020/21 and as such we reclassified this as a lower risk estimate.</p> <p>Our work on PFI confirmed that:</p> <ul style="list-style-type: none"> <li>• Outputs from the models were correctly reflected by the relevant accounting entries and disclosures in the financial statements.</li> <li>• PFI assets were correctly accounted for and disclosed.</li> </ul>



# Executive Summary

## Scope update

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

Information Produced by the Entity (IPE):

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Fund's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agreed IPE to scanned documents or other system screenshots.

Changes to reporting timescales

As a result of Covid-19, new regulations, the Accounts and Audit (Amendment) Regulations 2021 No 263, have been published and came into force on 31 March 2021. This announced a change to publication date for final, approved financial statements from 31 July to 30 September 2021 for all relevant authorities.

## Status of the audit

As at **1 February 2022** our audit work in respect of the Authority's opinion remains in progress. The following items relating to the completion of our audit procedures were outstanding at the date of this report:

- Final review of key working papers, including the Prior Year Adjustment consultation
- Update of our subsequent events procedures to the date of our opinion
- Final check of the updated financial statements and narrative report after completion of all outstanding procedures
- Receipt of a signed letter of management representation
- Whole of Government Accounts: We have yet to receive the NAO instructions on this for 2020/21.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Narrative Report and Accounts which could influence our final audit opinion, a current draft of which is included in Section 03.



# Executive Summary

## Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Authority a commentary against specified reporting criteria (see below) on the arrangements the Authority has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability  
How the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance  
How the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:  
How the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

## Status of the audit – Value for Money

Page 15  
In the audit planning report presented to the Standards and General Purposes Committee in March 2021, we reported that we were yet to complete our value for money (VFM) risk assessment. We subsequently completed our planning risk assessment and did not identify any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code.

We have revisited our assessment on completion of the audit of the financial statements and remain satisfied that we have not identified a risk of significant weakness. As a result, we have completed our planned VFM procedures. We plan to issue the VFM commentary as part of issuing the Auditor's Annual Report. There are no issues arising that impact on the auditor opinion report.



# Executive Summary

## Audit differences

### Adjusted differences

*Our audit of the Council's accounts has resulted in management making significant adjustments to the accounts.*

*Significant changes have been made to the carrying value of property, plant and equipment in the financial statements in the current and comparative years as a result of our work. These changes arise from judgemental differences between the Council's Valuer and EY Real Estate (EYRE) on land valued at Depreciated Replacement Cost (DRC). At the end of 2020/21, the total net book value of PPE increased by approximately £54.9 million as a result of the adjustments made.*

*The Authority has made all the above significant adjustments in the revised accounts. We include specific details in Section 2 in our response to areas of audit focus and Section 4 audit differences. A small number of other non material amendments were made to disclosures appearing in the financial statements as a result of our work.*

### Unadjusted differences

*Our audit has identified **two unadjusted differences** which we are required to report.*

#### Capital Grants (S106 grants)

*We tested a sample of S106 agreements and with reference to Section 2.3 of the Code and determined which grants contained a condition and should be treated as a capital grant receipt in advance and those which contained restrictions and should be transferred to the capital grants unapplied reserve. Our testing highlighted a number of agreements that had been accounted for as a Capital grant receipts in advance where there were no conditions present and as such should be transferred to the capital grants unapplied reserve. The authority has made an adjustment of £1.8m as a result of the factual misstatement. Additionally there is an unadjusted extrapolated difference of £3.9m.*

#### Property, plant & equipment (PPE)

*Our testing of property plant and equipment identified a number of judgmental differences between the Council's valuer and EYRE, our internal specialist. When reviewing assets valued at DRC we noted that the Council applied a total useful life (TEL) of one hundred years when calculating obsolescence of the asset, whereas our internal specialist considered forty to sixty years to be more appropriate. When this was extrapolated across the relevant population this resulted in an immaterial £1.5m judgmental understatement of PPE.*

*Our testing also highlighted differences in the assumed rental income for a number of properties valued at existing use value. When the differences in rent were applied to the population this resulted in a judgmental understatement of the PPE balance of £1.7m.*

*The total £3.2m extrapolated understatement of PPE in relation to the two judgmental differences identified above is immaterial to the financial statements and therefore does not impact on the audit report.*

# Executive Summary

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020/21 WGA Data Collection Tool (DCT) and update the guidance that is available for preparers. Therefore the 2020/21 WGA component data will not be available for auditors to review until after that. Group Audit Instructions and the timetable for 2020/21 will necessarily follow any changes HMT make to the DCT and process.

We have no other matters to report.

## Areas of audit focus

In our audit planning report we identified a number of key areas of focus for our audit of the financial report of London Borough of Merton. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Fraud Risk	Findings & Conclusions
Misstatements due to fraud or error	<p>Our planned work in this area is complete.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override; instances of inappropriate judgements being applied; or any other transactions during our audit which appear unusual or outside the Authority's normal course of business.</p>
Inappropriate capitalisation of revenue expenditure	<p>Our sample testing of additions to Property Plant and Equipment and REFCUS:</p> <ul style="list-style-type: none"> <li>• Found costs had been correctly classified as capital and included at the correct value.</li> <li>• Did not identify any revenue items that were incorrectly classified as capital.</li> </ul> <p>Our review of judgements taken by management found them to be reasonable.</p>
Significant Risk	Findings & Conclusions
Valuation of Land and Buildings	<p><i>A number of adjustments have been made to the financial statements as a result of our work in this area. Further details are set out in Section 02 of this report.</i></p>

# Executive Summary

## Areas of audit focus (continued)

Area of audit focus / Inherent risk	Findings & Conclusions
Going Concern	<p>Management produced a going concern assessment. This was supported by cash flow forecasts through to March 2023. We reviewed the cashflow for reasonableness and the assumptions that underpinned them. We also reviewed and further challenged the going concern disclosure made by the Authority, checking for consistency with our knowledge of the Authority and the accounts.</p> <p>We are satisfied that it is an adequate reflection of management's assessment that it remains appropriate to prepare the financial statements on a going concern basis.</p>
National Non-Domestic Rates (NNDR) Appeals Provision	<p>Our work in this area is complete.</p> <p>The Authority has reviewed the figures provided by Analyse Local and made a local adjustment to reduce the value of the threats list by £5.8m, representing 50% of that suggested by Analyse Local.</p> <p>To evidence the reason for the reduction in provision the Authority has reviewed the top 25 properties by rateable value and identified that 50% of those threats would be unsuccessful. We have substantiated these explanations and as there is coverage across a number of property subclasses can take comfort that this is representative of the remaining population and conclude the local adjustment is reasonable.</p>
Accounting for Covid-19 related government grants	<p>Based on our work we are satisfied that the accounting treatment adopted for Covid-19 related government grants accorded with the Authority's assessment of whether it was acting as agent or principal, the underlying conditions of the grant and whether those conditions had been met.</p> <p>Our testing highlighted adjustments of £2.7m where the Authority had accounted for Covid-19 grants acting as agent but were in fact acting as principal.</p>
Pension Liability and Asset Valuation	<p>Our work in this area is complete. There were two low value adjustments to the valuation of fund liabilities on Merton Pension Fund due to a late adjustment to the valuation of level 3 investments. As these netted off no adjustment was required to the Authority's financial statements.</p>

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## Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

We identified two control deficiencies *that we wish to draw to your attention in relation to the council tax and NNDR debtors reconciliation to the general ledger and the valuation of property, plant and equipment. More details can be found in section 7 of this report.*

## Independence

Please refer to Section 08 for our update on Independence.



## 02 Areas of Audit Focus



# Areas of Audit Focus

## Fraud risks

Misstatements due to fraud or error

### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 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.

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

We:

- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Gained an understanding of the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.

We also performed mandatory procedures which we are required to undertake regardless of specifically identified fraud risks. We:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Assessed accounting estimates for evidence of management bias, including estimates with a higher level of inherent risk relating to the revaluation of PPE, IP & surplus assets and pension liability and asset valuation.
- Evaluated the business rationale for significant unusual transactions.

We utilised our data analytics capabilities to assist with our work.

Having re-evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We continued to conclude that only those procedures included under 'Inappropriate capitalisation of revenue expenditure' were required.

### What are our findings & conclusions?

Our testing in this area is complete.

Based on our work completed to date we have not identified any:

- material weaknesses in controls or evidence of material management override;
- instances of inappropriate judgements being applied; or
- any other transactions during our audit which appear unusual or outside the normal course of business.





## Fraud risks (continued)

Inappropriate capitalisation of revenue expenditure

### What is the risk and potential impact on the financial statements?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We assessed that the risk of misreporting revenue outturn in the financial statements was most likely to be achieved through:

- Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger.
- Expenditure being classified as revenue expenditure financed as capital under statute (REFCUS) when it is inappropriate to do so.
- Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year.

If this were to happen it would have the impact of understating revenue expenditure and overstating PPE additions and/or REFCUS in the financial statements.

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

We:

- Tested additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.
- Considered the need to test REFCUS to ensure that it is appropriate for the revenue expenditure incurred to be financed from ring fenced capital resources. However, we note that expenditure capitalised as REFCUS was well below our performance materiality level so there was no requirement to undertake any detailed testing.
- Sought to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

In testing the capitalised expenditure we focused on the following judgements:

- We sought to gain assurance the capitalised spend clearly enhanced or extended the useful life of assets rather than simply repairing or maintaining the assets on which it was incurred.
- We sought to gain comfort that any development or other related costs that were capitalised were reasonable to capitalise i.e. the costs incurred were directly attributable to bringing the asset into operational use.

We sought to utilise our data analytics capabilities to assist with our work, including journal entry testing.



### Fraud risks (continued)

#### What are our findings & conclusions?

Our sample testing of additions to PPE:

- Found costs had been correctly classified as capital and included at the correct value.
- Did not identify any revenue items that were incorrectly classified as capital.

Our review of judgements taken by management found that:

- Where relevant the capitalised spend clearly enhanced or extended the useful life of assets rather than simply repairing or maintaining the assets on which it was incurred.

- Other capitalised costs were directly attributable to bringing assets into operational use.

Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure to capital codes.



## Significant risk

### Valuation of Land and Buildings

#### What is the risk and potential impact on the financial statements?

The fair value of land and buildings represents a significant balance in the Authority's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. In the last two years the Authority has made improvements in its arrangements for supporting the production of materially accurate and complete valuations of its other land and buildings.

However, as one of the largest accounting estimates on the balance sheet and one dependent on a high degree of subjectivity we have continued to associate a significant risk to the valuation of land & buildings in the 2020/21 audit.

If land and buildings are incorrectly valued this could have the impact of understating or overstating the carrying value of assets and income and expenditure by a material amount.

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

We:

- Considered the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample tested key asset information used by the valuer in performing its valuation (e.g. floor plans to support valuations based on price per square metre) and challenged the key assumptions used by the valuer.
- Tested accounting entries have been correctly processed in the financial statements.
- Ensured that appropriate disclosure had been made in the accounts concerning the possibility of 'material uncertainty'.
- Commissioned EY Real Estates (EYRE), our internal specialists on asset valuations, to consider the valuation approach in more detail for a sample of assets.

Sampling focussed on:

- Assets more susceptible to the market volatility brought about by C-19. We consider this relates to assets carried at either fair value or EUV
- Asset categories where errors were noted in the prior year.
- Other significant classes of assets, for example schools, where we have no prior year knowledge of the approach of the new external valuer and there had been significant changes in the carrying value of assets from the prior year.
- Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements



## Areas of Audit Focus

### Significant risk

#### What are our findings & conclusions?

Significant changes have been made to the carrying value of property, plant and equipment in the financial statements in the current and comparative years as a result of our work. We commissioned EY Real Estates (EYRE), our internal specialists on asset valuations, to consider the valuation approach in more detail for a sample of assets. This work highlighted two significant issues with regards to the valuation of other land and buildings, specifically those valued at Depreciated Replacement Cost (DRC), which had a material impact on the carrying value disclosed within the financial statements:

- The use of amenity land value for undeveloped land in non-school assets – The Authority applied a headline developed land valuation exclusively to the developed footprint on which the asset resides, it then applied a much lower amenity land value to the remainder of the site, including access and car parks. RICS guidance states that amenity land values should only be applied to playing fields in schools. Access, car parks and other associated land should be classified as developed land which attracts a higher value per acre. As amenity land has a much lower value than developed land value these non-school assets were largely undervalued; and
- The blanket use of discounted residential land rates to non residential assets valued at DRC - We also identified that the Authority applied a discounted residential rate (“school land predominantly in a residential area”) value per acre to all non residential assets within the same geographical area within the borough. Under RICS guidance the Authority are required to consider each asset individually to determine the correct valuation basis, which could be a blended rate across locality types, to enable this the Authority should commission the District Valuer to also provide a town centre/commercial land value for each of the geographical areas within the borough.

In determining the adjustments required to the financial statements as a result of the identified errors we asked the Authority to consider the requirements of IAS 8 and the CIPFA Code of Practice on Local Authority Accounting (the Code) as to whether prior period adjustments were required to be made in respect of the error identified. The adjustments required are caused by errors in the valuation approach which have resulted in material errors in the carrying value of PPE and other associated entries in the financial statements and therefore meet the criteria for prior year adjustments set out in IAS 8 which is adopted by the Code. The errors in the Authority's valuation approach leading to the misstatements existed prior to the start of the comparative year disclosed in the accounts. The Authority has determined, and we agree, that it needs to restate and disclose corrected opening balances at the start of the comparative year i.e. prepare a 'third balance sheet' showing the restated financial position of the Authority as at 1/4/2018.

The correction of the two errors detailed above resulted in an increase to the carrying value of property, plant and equipment as follows:

- At the end of 2018/19 the total net book value of PPE increased by approximately £47.5million;
- At the end of 2019/20 the total net book value of PPE increased by a further £2.2million; and
- At the end of 2020/21 the total net book value of PPE increased by a further £5.2million.

The above adjustments impact the balance sheet valuation of land and buildings with the opposite entry being largely the revaluation reserve (part of unusable reserves).



## Areas of Audit Focus

### Significant risk

#### What are our findings & conclusions?

*Our testing also identified a number of judgmental differences between the Council's valuer and EY Real Estate (EYRE), our internal specialist, which have not be adjusted for in the financial statements.*

*When reviewing assets valued at Depreciated Replacement cost (DRC) we noted that the Council applied a total useful life (TEL) of one hundred years when calculating obsolescence of the asset, whereas our internal specialist considered forty to sixty years to be more appropriate. When this was extrapolated across the relevant population this resulted in an immaterial £1.5m judgmental understatement of PPE.*

*Our testing also highlighted differences in the assumed rental income for a number of properties valued at existing use value. When the differences in rent were applied to the population this resulted in a judgmental understatement of the PPE balance of £1.7m.*

*The total £3.2m extrapolated understatement of PPE in relation to the two judgmental differences identified above is immaterial to the financial statements and therefore do not impact on the audit report.*

*Considering our findings above we have made a control recommendation within section 7 of this report.*



# Areas of Audit Focus

## Area of audit focus

### Going Concern (Inherent Risk)

#### What is the risk?

There is a presumption that the Authority will continue as a going concern for the foreseeable future. However, the Authority is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 there was a need for the Authority to ensure its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.

The Authority was also required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.

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

We:

- Challenged management's identification of events or conditions impacting going concern.
- Tested management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- Reviewed the Authority's cashflow forecast covering the foreseeable future to ensure that it has sufficient liquidity to continue to operate as a going concern, including an assessment of any underlying need to borrow.
- Undertook a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, in drawing our conclusions on going concern.
- Challenged the disclosure made in the accounts in respect of going concern and any material uncertainties.

#### What are our findings & conclusions?

Management produced a going concern assessment. This was supported by cash flow forecasts through to March 2023. We reviewed the cashflow for reasonableness and the assumptions that underpinned them.

We also reviewed and further challenged the going concern disclosure made by the Authority, checking for consistency with our knowledge of the Authority and the accounts.

We are satisfied that it is an adequate reflection of management's assessment that it remains appropriate to prepare the financial statements on a going concern basis.



# Areas of Audit Focus

## Area of audit focus

National Non-Domestic Rates (NNDR)  
Appeals Provision  
(Inherent risk)

### What is the risk?

Statistics compiled by the Ministry for Housing, Communities and Local Government, reveal that authorities are forecasting net additions to appeal provisions totalling £927m this financial year, and £1.2bn next year.

The reason behind the forecast increase is that, due to the impact of Covid-19, businesses are likely to seek reductions based on a decrease in rental prices on which rateable values are based.

In light of this we consider there to be a higher inherent risk of misstatement of the Authority's NNDR appeals provision.

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

We considered the Authority's estimation of the NNDR appeals provision by

- Reviewing the assumptions made by the Authority's NNDR appeals provision specialist Analyse Local; and
- Assessed the reasonableness of any local adjustments made by the Authority on the NNDR appeals provision

### What are our findings & conclusions?

Our planned work in this area is complete.

The collection fund contains a provision of £16.4m for the estimated cost of appeals against NNDR charges which may be settled in future years. The provision consists of £5.9m of threats, £6.6m of challenges from the 2017 appeals list and £3.9m from the 2010 appeals list, The Authority's share of this provision is £4.9m (30%).

We have assessed managements expert and reviewed the inputs they have used in formulating the provision and have no issues to report.

Further to this the Authority has reviewed the figures provided by Analyse Local and made a local adjustment to reduce the value of the threats list by £5.8m, representing 50% of that suggested by Analyse Local.

We challenged management as to the basis of this reduction and to evidence the reason for the reduction in provision the Authority has reviewed the top 25 properties by rateable value and identified that 50% of those threats would be unsuccessful. We have substantiated these explanations and as there is coverage across a number of property subclasses can take comfort that this is representative of the remaining population and therefore the reduction in provision is reasonable.



# Areas of Audit Focus

## Area of audit focus

Accounting for Covid-19 related government grants (Inherent risk)

### What is the risk?

The Authority has received a significant level of government funding in relation to Covid-19.

Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Authority will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.

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

We considered the Authority's judgement on material grants received in relation to whether it is acting as:

- Agent, where it has determined that it is acting as an intermediary; or
- Principal, where the Authority has determined that it is acting on its own behalf.

We sought to determine whether conditions were attached to the grant funding received and whether those conditions were met or not.

Considering the outcome of the above we considered the appropriateness of the accounting treatment for the grants, in particular whether the grants were correctly classified, and whether associated disclosure were also accurate.

### What are our findings & conclusions?

Based on our work we are satisfied that the accounting treatment adopted for Covid-19 related government grants accorded with the Authority's assessment of whether it was acting as agent or principal, the underlying conditions of the grant and whether those conditions had been met.

Our testing highlighted adjustments of £2.7m where the Authority had accounted for Covid-19 grants acting as agent but were in fact acting as principal. Following our identification of errors in the classification of the grants as agent/principal, the Authority undertook a detailed review of all Covid-19 grants to confirm whether the judgements made when preparing the accounts were accurate. We carried out additional testing of the Authority's work and this gave us the assurance that the total adjustment was reasonable.





# Areas of Audit Focus

## Area of audit focus

Pension Liability and Asset Valuation  
(Inherent risk)

### What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Authority.

The Authority's pension liability is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2021 this totalled £340m in the draft financial statements.

The information disclosed is based on the IAS 19 report issued to the Authority by its actuary.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

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

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- Liaised with the auditors of Merton Pension Fund, to obtain assurances over the information supplied to the actuary in relation to London Borough of Merton.
- Assess the work of the pension fund actuary (Barnett Waddingham) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Review and test the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

We also considered outturn information available at the time we undertook our work after production of the Authority's draft financial statements, for example the year-end actual valuation of pension fund assets. We used this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments were required.

### What are our findings & conclusions?

Our planned work in this area is now complete.

We previously reported that an issue had arisen across all local government audits that needed to be resolved prior to us being able to fully conclude our work. This was in relation to the impact of the revised auditing standard on accounting estimates. We planned to take an audit approach to this estimate based on procedures to evaluate management's process. The revised standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, were able to access the detailed models of the actuaries in order to evidence these requirements. We therefore modified our planned approach and undertook alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance. The results of this exercise showed the actuarial estimate to be reasonable.

There were two low value adjustments to the valuation of fund liabilities on Merton Pension Fund due to a late adjustment to the valuation of level 3 investments. As these netted off no adjustment was required to the Authority's financial statements.



# 03 Audit Report



# Audit Report

## Draft audit report

### DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON

#### Our opinion on the financial statements

##### Opinion

We have audited the financial statements of the London Borough of Merton for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement and the related notes 1 to 43,
- Collection Fund and the related notes 1 to 6

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 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of the London Borough of Merton and Group as at 31 March 2021 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

##### 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 authority and group 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

In auditing the financial statements, we have concluded that the Director of Corporate Services use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern until March 2023.

Our responsibilities and the responsibilities of the Director of Corporate Services with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.



# Audit Report

## Draft audit report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON

### Our opinion on the financial statements

#### Other information

The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon. The Director of Corporate Services is responsible for the other information contained within the Statement of Accounts 2020/21.

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.

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 course of 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 themselves. 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:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- 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;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects



# Audit Report

## Draft audit report

### DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON

#### Our opinion on the financial statements

##### Responsibility of the Director of Corporate Services

As explained more fully in the Statement of the Director of Corporate Services' Responsibilities set out on page 188, the Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the 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 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the Director of Corporate Services is responsible for assessing the Authority'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 Authority either intends to cease operations, or have no realistic alternative but to do so. The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant are:

- Local Government Act 1972,
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992,
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
- The Local Government Finance Act 2012,
- The Local Audit and Accountability Act 2014, and
- The Accounts and Audit Regulations 2015.



# Audit Report

## Draft audit report

### DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON

#### Our opinion on the financial statements

In addition, the Authority has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

We understood how the London Borough of Merton is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the head of internal audit and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Authority's committee minutes. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations.

Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified the inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

- To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Authority's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

- To address our fraud risk of management override of controls, we tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; assessed accounting estimates for evidence of management bias; and evaluated the business rationale for significant unusual transactions.

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



# Audit Report

## Draft audit report

### DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON

#### Our opinion on the financial statements

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General (C&AG) in April 2021, as to whether the London Borough of Merton had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the London Borough of Merton put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the London Borough of Merton had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our work on value for money arrangements.

Use of our report

This report is made solely to the members of London Borough of Merton, 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 Authority and the Authority'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

*Significant changes have been made to the carrying value of property, plant and equipment in the financial statements in the current and comparative years as a result of two issues identified as a result of our testing:*

- The use of amenity land value for undeveloped land in non-school asset – The Authority applied a headline developed land valuation exclusively to the developed footprint on which the asset resides, it then applied a much lower amenity land value to the remainder of the site, including access and car parks. RICS guidance states that amenity land values should only be applied to playing fields in schools. Access, car parks and other associated land should be classified as developed land which attracts a higher value per acre. As amenity land has a much lower value than developed land value these non-school assets were largely undervalued; and*
- The blanket use of discounted residential land rates to non residential assets valued at DRC - We also identified that the Authority applied a discounted residential rate (“school land predominantly in a residential area”) value per acre to all non residential assets within the same geographical area within the borough. Under RICS guidance the Authority are required to consider each asset individually to determine the correct valuation basis, which could be a blended rate across locality types, to enable this the Authority should commission the District Valuer to also provide a town centre/commercial land value for each of the geographical areas within the borough.*

*In determining the adjustments required to the financial statements as a result of the identified errors we asked the Authority to consider the requirements of IAS 8 and the CIPFA Code of Practice on Local Authority Accounting (the Code) as to whether prior period adjustments were required to be made in respect of the error identified. The adjustments required are caused by errors in the valuation approach which have resulted in material errors in the carrying value of PPE and other associated entries in the financial statements and therefore meet the criteria for prior year adjustments set out in IAS 8 which is adopted by the Code. The errors in the Authority's valuation approach leading to the misstatements existed prior to the start of the comparative year disclosed in the accounts. The Authority has determined, and we agree, that it needs to restate and disclose corrected opening balances at the start of the comparative year i.e. prepare a ‘third balance sheet’ showing the restated financial position of the Authority as at 1/4/2018.*

*The following corrections have been made to the Authority's financial statements:*

- At the end of 2018/19 the total net book value of PPE increased by approximately £47.5million;*
- At the end of 2019/20 the total net book value of PPE increased by a further £2.2million; and*
- At the end of 2020/21 the total net book value of PPE increased by a further £5.2million.*

*A small number of other non material amendments were made to disclosures appearing in the financial statements as a result of our work.*



# Audit Differences

## Summary of unadjusted differences

Our audit testing identified two unadjusted differences which are explained below.

### Capital Grants (S106 grants)

The CIPFA Code and accompanying guidance notes specify the treatment of Capital grants, specifically in relation to S106 contributions. Section 2.3 of the code on Government and Non-Government Grants and the associated guidance notes state that each agreement should be reviewed individually to determine the appropriate accounting treatment. The same section further states that the grant or contribution should be recognised immediately if there are no conditions outstanding and gives further guidance to describe the difference between a restriction and a condition.

We tested a sample of S106 agreements and with reference to the guidance detailed above determined which grants contained a condition and should be treated as a capital grant receipt in advance and those which contained restrictions and should be transferred to the capital grants unapplied reserve. Our testing highlighted a number of agreements that had been accounted for as a Capital grant receipts in advance where there were no conditions present and as such should be transferred to the capital grants unapplied reserve. The authority has made an adjustment of £1.8m as a result of the factual misstatement. We undertook additional sample testing to determine the maximum potential difference in the 2020/21 accounts. This testing determined that there is an unadjusted extrapolated difference of £3.9m.

### Property, plant & equipment (PPE)

*Our testing of property plant and equipment identified a number of judgmental differences between the Council's valuer and EY Real Estate (EYRE), our internal specialist. When reviewing assets valued at Depreciated Replacement cost (DRC) we noted that the Council applied an obsolescence factor of one hundred years, our internal specialist considered an obsolescence factor of forty to sixty years to be more appropriate. When this was extrapolated across the relevant population this resulted in an immaterial £1.5m judgmental understatement of PPE*

*Our testing also highlighted differences in the assumed rental yield for a number of properties valued at existing use value. When the differences in rent were applied to the population this resulted in a judgmental understatement of the PPE balance of £1.7m.*

*The total £3.2m extrapolated understatement of PPE in relation to the two judgmental differences identified above is immaterial to the financial statements.*

We will seek management representation for these unadjusted differences. The unadjusted differences are immaterial and therefore do not impact on the audit report.



05

## Value for Money



# Value for money

## The Authority's responsibilities for value for money (VFM)

The Authority is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Authority is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Authority tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the Cipfa code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

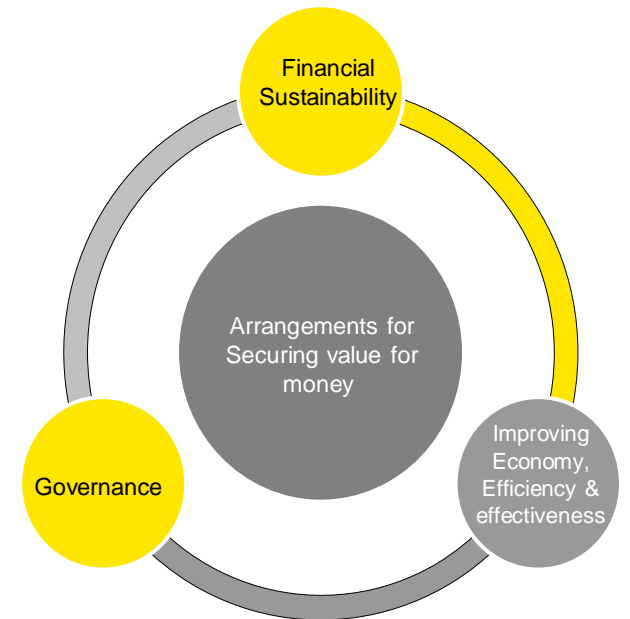
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## Risk assessment

In the outline Audit Planning Report presented to the Standards and General Purposes Committee in March 2021, we reported that we were yet to complete our value for money (VFM) risk assessment. We subsequently completed our planning risk assessment and did not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code.

We have revisited our assessment on completion of the audit of the financial statements and remain satisfied that we have not identified a risk of significant weakness. As a result, we have completed our planned VFM procedures.

We plan to issue the VFM commentary as part of issuing the Auditor's Annual Report. There are no issues arising that impact on our audit opinion.





## 06 Other reporting issues

## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements. We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements. We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no matters to report as a result of this work.

We have no other matters to report.

### Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the NAO.

We have not yet been able to perform the procedures required by the NAO on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020/21 WGA Data Collection Tool (DCT) and update the guidance that is available for preparers. Based on the last available update the DCT and guidance is expected to be available in December 2021.

Therefore the 2020/21 WGA component data will not be available for auditors to review until after that. Group Audit Instructions and the timetable for 2020/21 will necessarily follow any changes HMT make to the DCT and process.

### 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 have no matters to report.

# 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 the Authority'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;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

We have nothing to report.



07

# Assessment of Control Environment



# Assessment of Control Environment

## Assessment of Control Environment

It is the responsibility of the Council 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 Council 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 and we considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely.

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, but wish to draw the following issue to your attention.

### Council Tax and NNDR Debtors

When undertaking the testing of council tax and NNDR Debtors we identified unreconciled differences between the Civica system and the general ledger. Whilst the balances were not material, council tax £0.9m and NNDR £1.4m, these differences have increased in 2020/21 and we would expect a full reconciliation to be undertaken routinely throughout the year.

#### Recommendation

The Authority should investigate the underlying reason and fully reconcile the debtor differences between Civica and the general ledger.

### Property plant & equipment (PPE)

*As reported in section 2 of this report our audit testing highlighted a number of issues with the valuation of property, plant and equipment included within the financial statements. Our work highlighted material differences in the valuation of developed land values and the incorrect application of amenity land values to property assets valued at depreciated replacement cost. This resulted in the Council having to restate prior year balances and increased the value of PPE at 31 March 2021 by £54.9m from that included within the draft financial statements. There were a number of other observations resulting in immaterial judgmental differences in relation to the calculated market rents for assets valued at depreciated replacement cost and using the incorrect obsolescence factor on assets valued at existing use value.*

#### Recommendation

*The Authority should review the findings from the current year audit and apply them to future years valuations. We would also encourage additional engagement with their specialists, the District Valuer, regarding the assumptions they have used when revaluing assets at depreciated replacement cost. This is in addition to the procedures they already engage with them on for assets valued at fair value and existing use value.*



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# 8 Independence

## Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Authority and its members and senior management and its affiliates, including all services provided by us and our network to the Authority, its members 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 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

The table below sets out a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Page 47	Final proposed fee 2020/21	Planned fee 2020/21	Final Fee 2019/20
	£	£	£
Scale Fee – Code work	£110,493	£110,493	£110,493
Planned 2019/20 recurrent fee variation reflecting the underlying level of additional risk at the Authority yet to be agreed by the Authority or PSAA (See Note 1)	£102,541	£102,541	£102,541
Revised Proposed Scale Fee	£213,034	£213,034	£213,034
Risk based fee variations (see Note 2)	TBC	TBC	£36,300
Code of Audit Practice 2020 and updated auditing and accounting standards 2020/21 (see note 3)	£14,400	-	-
<b>Total Fees</b>	<b>TBC</b>	<b>TBC</b>	<b>£249,334</b>

Note 1 - In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we undertook additional work at a fee of £102,541 to deliver the audit in 2019/20 which reoccurred in 2020/21 and we expect to reoccur in subsequent years. This additional fee has not been agreed with the Authority and is yet to be approved by PSAA.

Note 2 - The 2019/20 risk based fees have been agreed with the Director of Corporate Services but are yet to be fully approved by PSAA. We are yet to fully quantify 2020/21 risk based fee variations and agree them with the Authority. We will provide an update in due course. *This will include the extensive valuation work by EYRE and consultation for the prior period adjustment.*

Note 3 - The impact on audit fees of the new requirements in the Code of Audit Practice 2020 and new or updated auditing and accounting standards for 2020/21 audits as set out in the Additional information for 2020/21 audit fees issued by PSAA in August 2021. This paper sets out agreed fee ranges for the new requirements. For London Borough of Merton we determined this to be £10,000 for VFM and £4,400 in relation to the new estimates standard ISA540. This does not cover the additional work in relation to additional pensions assurance which was identified in September 2021.

## Other communications

### EY Transparency Report 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

[EY UK Transparency Report 2020 | EY UK](#)



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Appendices

## Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

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

**P**resentation 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





**S**here were no significant changes to our audit approach apart from the additional work we were required to undertake to address the requirements of the new auditing standard on accounting estimates. This primary impacted out audit procedures on:

- The revaluation of land and buildings classified as Property, Plant and Equipment (PPE), Investment Property (IP) and Surplus Assets.
- Pension liability and asset valuation.





## Appendix B

# Required communications with the Standards and General Purposes Committee

There are certain communications that we must provide to the those charged with governance of UK entities. 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.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Planning and audit approach	<p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.</p>	Outline Audit Plan, March 2021 meeting of the Standards and General Purposes Committee
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>	Audit Results Report, September 2021 meeting of the Standards and General Purposes Committee (updated November 2021)

# Appendix B

		 Our Reporting to you
Required communications	 What is reported?	  When and where
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 entity</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 entity, 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 Standards and General Purposes Committee responsibility.</li> </ul>	Audit Results Report, September 2021 meeting of the Standards and General Purposes Committee (updated November 2021)
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit Results Report, September 2021 meeting of the Standards and General Purposes Committee (updated November 2021)
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>Outline Audit Plan, March 2021 meeting of the Standards and General Purposes Committee</p> <p>Audit Results Report, September 2021 meeting of the Standards and General Purposes Committee (updated November 2021)</p>



# Appendix B

		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 related to going concern</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The appropriateness of related disclosures in the financial statements</li> </ul>	Audit Results Report, September 2021 meeting of the Standards and General Purposes Committee (updated November 2021)
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</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>	Audit Results Report, September 2021 meeting of the Standards and General Purposes Committee (updated November 2021)
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>	Audit Results Report, September 2021 meeting of the Standards and General Purposes Committee (updated November 2021)
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>	Audit Results Report, September 2021 meeting of the Standards and General Purposes Committee (updated November 2021)
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>	Audit Results Report, September 2021 meeting of the Standards and General Purposes Committee (updated November 2021)

# Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
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>	Audit Results Report, September 2021 meeting of the Standards and General Purposes Committee (updated November 2021)
Group Audits	<ul style="list-style-type: none"> <li>An overview of the type of work to be performed on the financial information of the components</li> <li>An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.</li> </ul>	<p>Outline Audit Plan, March 2021 meeting of the Standards and General Purposes Committee</p> <p>Audit Results Report, September 2021 meeting of the Standards and General Purposes Committee (updated November 2021)</p>
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>	Audit Results Report, September 2021 meeting of the Standards and General Purposes Committee (updated November 2021)
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>	Audit Results Report, September 2021 meeting of the Standards and General Purposes Committee (updated November 2021)
Auditors report	<ul style="list-style-type: none"> <li>Key audit matters that we will include in our auditor's report</li> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report, September 2021 meeting of the Standards and General Purposes Committee (updated November 2021)

# Management representation letter

## Management Rep Letter

Ernst & Young LLP  
400 Capability Green  
Luton  
LU1 3LU  
United Kingdom

This letter of representations is provided in connection with your audit of the financial statements of the London Borough of Merton (“the Group and Authority) for the year ended 31 March 2021. 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 consolidated and Authority financial statements give a true and fair view of the Group and Authority financial position of London Borough of Merton as of 31 March 2021 and of its income and expenditure and its cash flows for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, 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 2020/21.
2. We acknowledge, as members of management of the Group and Authority, 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, financial performance (or results of operations) and cash flows of the Group and Authority in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Group and Authority, we believe that the Group and Authority have 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 2020/21 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and Authority financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because

# Management representation letter

## Management Rep Letter

- a. We consider the extrapolated difference on the treatment of S106 grants to be immaterial to the reader of the financial statements as this represents a balance sheet classification difference only.
  - b. **We consider the judgmental difference on the valuation of property, plant and equipment to be immaterial to the reader of the financial statements as this represents a balance sheet classification difference only.**
6. We confirm the Group and Authority does not have securities (debt or equity) listed on a recognized exchange.

### B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Group and Authority'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 consolidated and Authority financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Authority (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
  - involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Authority'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 Group or Authority's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- 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; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Group, and Authority committees, including the Standards and general Purposes Committee held through the year to the most recent meeting on 21 September 2021.

# Management representation letter

## Management Rep Letter

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Authority'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 year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

6. We have disclosed to you, and the Group and Authority has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and Authority financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From the date of our last management representation letter dated 5 November 2020 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

### 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 consolidated and Authority financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed all guarantees that we have given to third parties.

### E. Going Concern

1. Note 42 to the financial statements discloses all the matters of which we are aware that are relevant to the Group and Authority's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

### F. Subsequent Events

1. Other than described in Note 42 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the financial statements or notes thereto.

### G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon.
2. We confirm that the content contained within the other information is consistent with the financial statements.

# Management representation letter

## Management Rep Letter

### H. Estimates

#### a. Valuation of Property, Plant and Equipment

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of assets and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and Authority financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

2. We confirm that the significant judgments made in making the valuation of assets have taken into account all relevant information and the effects of the COVID-19 pandemic on asset valuations of which we are aware.

3. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuations.

4. We confirm that the disclosures made in the consolidated and Authority financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic on the valuations, are complete and are reasonable in the context of the applicable financial reporting framework.

5. We confirm that appropriate specialized skills or expertise has been applied in making the valuations.

6. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and Authority financial statements.

### b. Retirement benefits

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

### c. National non-domestic rates appeals provision

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21

2. We confirm that the disclosures made in the consolidated and Authority financial statements with respect to the accounting estimate are complete, including the effects of the COVID-19 pandemic and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

3. We confirm that no adjustments are required to the accounting estimate and disclosures in the consolidated and Authority financial statements due to subsequent events, including due to the COVID-19 pandemic.

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ED None

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# Merton Pension Fund Final Audit results report

Year ended 31 March 2021

25 October 2021

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Private and Confidential

25 October 2021

London Borough of Merton  
Standards and General Purposes Committee  
Civic Centre  
Morden  
SM4 5DX

Dear Committee Members  
2021 Final Audit Results Report

We are pleased to attach our updated audit results report for the forthcoming meeting of the Standards and General Purposes Committee. This report summarises our audit conclusion in relation to the audit of Merton Pension Fund for 2020/21.

Subject to concluding the outstanding matters listed in our report, we anticipate issuing an unqualified audit opinion on the financial statements in the form at Section 3 of this report.

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 would like to thank your staff for their help during the engagement given the additional pressures they have faced responding to the pandemic and working remotely.

We welcome the opportunity to discuss the contents of this report with you at the Committee meeting on 4 November 2021.

Yours faithfully

*E. Jackson.*

Elizabeth Jackson  
Associate Partner  
For and on behalf of Ernst & Young LLP  
Encl

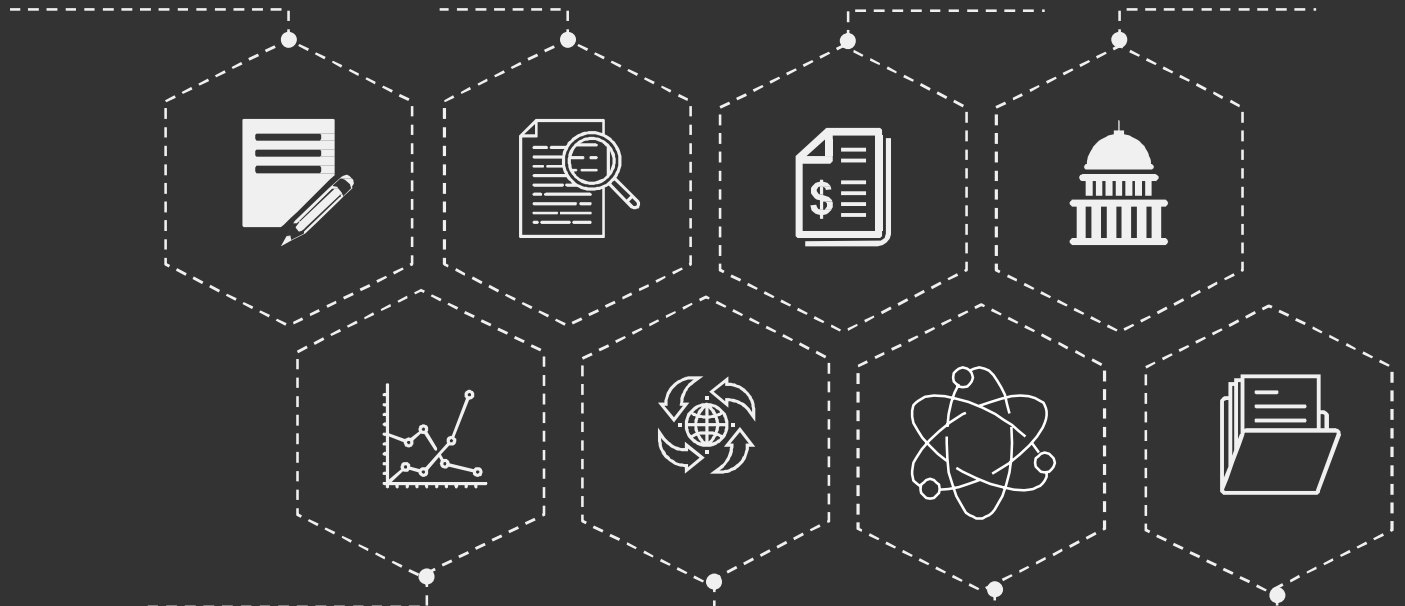
# Contents

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The 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 and further guidance (updated April 2018)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Standards and General Purposes Committee and management of the London Borough of Merton Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Standards and General Purposes Committee, and management of the London Borough of Merton Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Standards and General Purposes Committee and management of the London Borough of Merton Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

# Executive Summary

# Executive Summary

## Scope update

In our audit planning report tabled at the 11 March 2021 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 updates:

### Auditing accounting estimates

A revised auditing standard has been issued in respect of the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we may see the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area. The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required. In addition to the valuation of level 3 investments, which we have treated as areas of audit focus in our approach, we also consider IAS 26 disclosures as a higher inherent risk estimate. We do not consider this to be an area of audit focus as entries in the Fund's financial statements are disclosure only and have no impact on the Fund's primary statements of account.

### Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2021 No. 263, have been published and came into force on 31 March 2021. This announced a change to publication date for final, audited accounts from 31 July to 30 September 2021 for all relevant authorities.

Changes in materiality - We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment.

	Planning materiality	Performance materiality	Audit differences
	Our planning materiality represents 1% of the prior year's net assets, consistent year on year.	Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year.	We will report all uncorrected misstatements relating to the primary statements (net asset statement and fund account) greater than 5% of planning materiality.
Planned	£6.9m	£5.2m	£0.345m
Final	£9.0m	£6.8m	£0.450m



# Executive Summary

## Scope update (continued)

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but resulted in the following impact on our audit strategy were as follows:

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Fund's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

## Status of the audit

Our audit work in respect of the Fund opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

- Agreement of all final amendments to the financial statements and annual report
- Update of our subsequent events procedures to the date of our opinion
- Receipt of a signed letter of management representation

Subject to the satisfactory completion of these procedures and receipt of authorised financial statements we are proposing an unqualified opinion - see Section 3

## Audit differences

At the date of this report there are no unadjusted audit differences. The Fund has agreed to adjust for a small number of differences arising from our audit, largely relating to updated valuation of investment assets. We include further details in Section 4.

# Executive Summary

## Areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the Authority's financial statements. We summarise below our latest findings.

Significant risk	Findings & conclusions
Misstatement due to Fraud or Error - Posting of investment journals	We have completed our testing and found no indications of management override of controls.
Other area of audit focus	Findings & conclusions
Going concern	<p>We have completed our work, including review of the disclosure and challenge and testing of management's assessment and supporting cash flow forecast.</p> <p>We are satisfied that it is an adequate reflection of management's assessment that it remains appropriate to prepare the financial statements on a going concern basis.</p>
Valuation of private debt and infrastructure investments	<p>We undertook additional procedures, as described more fully in Section 2 of this report, to gain material assurance over the year-end valuation of the Fund's private debt and infrastructure investments which are disclosed as level 3 in the fair value hierarchy and therefore inherently more difficult to value.</p> <p>There was a late adjustment to the valuations of Level 3 investment assets resulting in a £1.4m understatement of the fund. Management have subsequently amended this.</p>

This report sets out our latest observations and conclusions on the above matters, and any others identified, in the "Areas of Audit Focus" 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; and
- You agree with the resolution of the issues; and 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 your attention.



# Executive Summary

## 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 2020 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

Misstatements due to fraud or error

### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 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 have considered where this risk manifests and we consider this to be in the manipulation of Investment income and valuation of assets (see slide 11).

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### What did we do?

To address this risk we confirm that we have performed the following procedures:

- We inquired of management about risks of fraud and the controls put in place to address those risks;
- We obtained an understanding the oversight given by those charged with governance of management's processes over fraud;
- We considered the effectiveness of management's controls designed to address the risk of fraud;
- We performed mandatory procedures regardless of specifically identified fraud risks, including:
  - testing of journal entries and other adjustments in the preparation of the financial statements;
  - reviewing accounting estimates for evidence of management bias; and
  - evaluating the business rationale for significant unusual transactions.
- We utilised our data analytics capabilities to assist with our work, including journal entry testing; and
- We assessed journal entries for evidence of management bias and evaluate 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 Fund's normal course of business.



# 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.

### What judgements are we focused on?

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.

### What did we do?

- 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.

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# Areas of Audit Focus

## Area of audit focus

Valuation of private debt and infrastructure investments

### What is the risk?

We consider the valuation of Level 3 investments to be of a higher degree of inherent risk due to the unobservable inputs making up the valuations. This involves a high degree of estimation from the fund manager as audited accounts supporting the valuation are only produced up to Quarter 3 of the financial year.

### What judgements are we focused?

The Fund's private debt and infrastructure investments are categorised as being at level 3 in the fair value hierarchy. This is due to the uncertainty associated with the valuation of such investments and the absence of a liquid market, meaning that the valuations are not based on observable inputs. As a result of this we undertook additional procedures to gain assurance over the carrying value of these investments disclosed in the financial statements. We set our detailed audit approach and findings on the following page.

### What are our conclusions?

We have noted that management made a late adjustment to the financial statements to increase the value of Level 3 investments by £1.4m.

This was to ensure the financial statements agreed to updated information received from Private market investments.

No other issues noted.



## Areas of Audit Focus

### Area of audit focus



#### Valuation of level 3 investments - further details on procedures/work performed

We:

- Triangulated the valuation reports from the fund managers and custodians to the entries in the financial statements.
- Obtained audited financial statements supporting the investments, controls assurance reports and bridging letters for the controls reports to year end.
- Considered the work performed by the fund managers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Challenged the key assumptions used by the fund managers in valuations and considered further whether specialist support is needed to support our work in this area. We concluded no such further support was necessary.
- Tested accounting entries had been correctly processed in the financial statements.

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Audited financial statements supporting valuations were only available to 31 December 2020. We evaluated those financial statements to gain assurance that:

- The audit report was not qualified or otherwise modified.
- The audit report did not contain material uncertainties in respect of going concern and that there were no other matters emphasised that would impact valuation.
- The audit report was issued by a reputable auditor.

We also evaluated controls assurance reports to gain assurance they were not qualified and there were no specific control failures that could impact the valuation of investments.

To gain assurance over the valuation of level 3 investments at the Net Asset Statement date of 31 March 2021, we:

- Agreed the net asset value of private debt and infrastructure investments to underpinning audited financial statements as at 31 December. We then adjusted the 31 December 2020 valuation for known calls and puts in the final quarter of the year assuming they occurred at the start of the quarter.
- Used available quarter 3 to 4 indices relevant to the type of investment to create a high/low range of movements for quarter 4 and applied that to the valuation derived for each investment. We confirmed that the range established was not greater than our performance materiality.
- We compared the valuation in the financial statements to the range established to gain assurance investments values in the financial statements were not materially outside the expected range.



## Areas of Audit Focus

### Area of audit focus

#### Going concern

#### What is the risk?

There is a presumption that the Fund will continue as a going concern for the foreseeable future. However, the Fund is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 there is a need for the Fund to ensure its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.

The Fund is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.

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

We:

- Challenged management's identification of events or conditions impacting going concern.
- Tested management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- Reviewed the Fund's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern.
- Undertook a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.
- Challenged the disclosure made in the accounts in respect of going concern and any material uncertainties.

#### What are our conclusions?

We are satisfied with management's assessment that it is appropriate for the financial statements to be prepared on a going concern basis which is reasonable and supported by evidence, including a cashflow forecast, for the foreseeable future.

We are also satisfied that the disclosure in the financial statements meets the requirements of the revised auditing standard.



# 03 Audit Report



# Audit Report

## DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON

### Our opinion on the financial statements

#### Opinion

We have audited the pension fund financial statements for the year ended 31 March 2021 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 2020/21.

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 2021 and the amount and disposition of the fund's assets and liabilities as at 31 March 2021, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

#### 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

In auditing the financial statements, we have concluded that the Director of Corporate Services' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Corporate Services with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

#### Other information

- The other information comprises the information included in the London Borough of Merton Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon. The Director of Corporate Services is responsible for the other information contained within the Statement of Accounts 2020/21.
- 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.





# Audit Report

## DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON

### Our opinion on 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 course of 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 themselves. 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

### Responsibility of the Director of Corporate Services

As explained more fully in the Statement of the Director of Corporate Services Responsibilities set out on page 188, 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 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.



# Audit Report

## DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON

### Our opinion on the financial statements

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant are the Local Government Pension Scheme Regulations 2013 (as amended), and The Public Service Pensions Act 2013.

We understood how the London Borough of Merton Pension Fund is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, internal audit and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of minutes, review of policies and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and opportunities for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures we identified the manipulation of investment income and valuation to be our fraud risk.

To address our fraud risk we tested the consistency of the investment asset valuation from the independent sources of the custodian and the fund managers to the financial statements. We also undertook a review of reconciliations to the fund manager and custodian reports and assessed journal entries for evidence of management bias and evaluated for business rationale using specific criteria we considered to be relevant to the risk. We evaluated significant transactions and estimates for evidence of management bias.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business.

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.



# Audit Report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON

## Our opinion on the financial statements

### Use of our report

This report is made solely to the members of the London Borough of Merton, 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 Authority and the Authority'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 and uncorrected differences

There were no audit differences greater than £6.8m which have been corrected by management or other specific misstatements identified during the course of our audit which we wish to draw to your attention.

Two lower value audit differences above relating to amendments to valuation of investment assets, and a number of disclosure amendments were made as a result of our work.

There were no uncorrected audit differences.



## 05 Other reporting issues

## Other reporting issues

---

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the London Borough of Merton Pension Fund Annual report and the audited Financial Statements 2020/21 included within the London Borough of Merton Financial Statements 2020/21.

We are satisfied that the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of the London Borough of Merton for the year ended 31 March 2021.

Our work in this area is ongoing.

### 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 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 have had no reason to exercise these duties.

### 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 the Fund's financial reporting process. We have no matters to report.



06

# Assessment of Control Environment





# Assessment of Control Environment

## Financial controls

It is the responsibility of the 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 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 internal control.



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07

# Independence

## Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Fund, and its members and senior management and its affiliates, including all services provided by us and our network to the Fund, its members 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 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

The table below sets out a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

	Planned fee 20/21	Final Fee 2019/20
	£	£
Scale Fee - Code work (1)	16,170	16,170
Significant risk relating to US currency hedge	-	2,250
Going concern and PBSE assessments and disclosures including EY consultations (2)	2,000 - 6,000	5,500
IAS 19 work on the 2019 triennial valuation of the Fund (3)	5,500	9,000
Total	TBC	32,920

All fees exclude VAT

1. We remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to do to meet regulatory requirements. In our view the scale fee for the Merton PF audit should be increased by £28,290.
2. The 2019/20 additional fees have been agreed with management but are subject to PSAA approval.
3. IAS19 work is to provide assurance to the auditor of the LB Merton. These additional fees are not subject to approval from PSAA and for 2019/20 (where there was additional work on the triennial data) we have agreed fees with management.

## Other communications

### EY Transparency Report 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

[EY UK Transparency Report 2020 | EY UK](#)



# 08 Appendices

## Audit approach update

We summarise below our approach to the audit of the net asset statement and any changes to this approach from the prior year audit.




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

**P**resentation 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

There were no significant changes to our audit approach, but we did undertake more granular procedures to gain assurance over the valuation of both level 3 investments and the IAS 26 disclosure of the actuarial present value of promised retirement benefits disclosed as a note to the accounts.

## Summary of communications

Date 	Nature 	Summary 
March 2021	Meeting	Agreement of the significant risks, planned scope, timing of the audit and indicative audit plan with the Director of Corporate Services.
September 2021	Meeting	Discussion regarding the key findings from our audit of the financial statements and agreement of the audit results report with the Assistant Director of Resources.
Throughout the year	Meetings, calls and emails.	The Associate Partner and Senior Manager has been in regular contact with the Director of Corporate Services and the in respect of the Fund's risks, accounts closedown and the audit approach.
Throughout the year	Meetings, calls and emails.	<p>The Associate Partner has met the Director of Corporate Services on an ad hoc basis throughout the year to discuss key audit findings and reporting up to the date of issue of this report.</p> <p>Additionally two meetings were held to facilitate the handover of the engagement to the new Associate Partner and Senior Manager.</p>
All Standards and General Purposes Committee meetings held in the year	Committee attendance	<p>The Associate Partner and/or Senior Manager have attended those meetings of the Standards and General Purposes Committee held throughout the financial year and to the date of issue of this report.</p> <p>Specific reports issued and communications with the Committee are detailed in Appendix C.</p>




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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.

## Appendix C

# 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.	Audit Plan – dated February 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan – dated February 2021
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>	Audit Results Report – dated September 2021






# 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>	No conditions or events were identified, either individually or together to raise any doubt about Merton Pension Fund’s ability to continue for the 12 months from the date of our 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>	Audit Results Report – September 2021
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the Standards and General Purposes Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial</li> </ul>	Audit Results Report – September 2021 and up to date of our report.
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Standards and General Purposes 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 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 Standards and General Purposes Committee responsibility.</li> </ul>	Audit Results Report – September 2021





# 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 Fund’s related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Pension Fund</li> </ul>	Audit Results Report – September 2021
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 2019:</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>	Audit Plan – dated February 2021 and Audit Results Report – September 2021

# Appendix C

Required communications	 What is reported?	  When and where
	<ul style="list-style-type: none"> <li>• Details of any inconsistencies between the Ethical Standard and the Fund's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>• Details of any contingent fee arrangements for non-audit services</li> <li>• Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>• The audit committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	
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
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>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
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>	Audit Results Report - September 2021

# Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
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>	Audit Results Report – September 2021
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>	Audit Results Report – September 2021
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>	Audit Results Report – September 2021
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>	Audit Plan – dated February 2021 and Audit Results Report – September 2021

# Draft management representation letter

## Management Rep Letter

This letter of representations is provided in connection with your audit of the financial statements of the London Borough of Merton Pension Fund (“the Fund”) for the year ended 31 March 2021. 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 2020 to 31 March 2021 and of the amount and disposition of the Fund’s assets and liabilities as at 31 March 2021, 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 2020/21.

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 2020/21.
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 2020/21, and are free of material misstatements, including omissions. We have approved the financial statements.

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 2020/21 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

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.

# Draft management representation letter

## Management Rep Letter

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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 all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.

4. We have made available to you all minutes of the meetings of members of the management of the Fund and committees of members of the management of the Fund held throughout 2020/21 to the most recent meeting.

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 the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

6. We confirm the completeness of information provided regarding annuities held in the name of the members of the management of the Fund.

7. 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.

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

9. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

# Draft management representation letter

## Management Rep Letter

10. From the date of our last management representation letter at 5 November 2020 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

### 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 related 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. Going Concern

1. Note 2.1 to the financial statements discloses all the matters of which we are aware that are relevant to the Company's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

### F. Subsequent Events

1. Other than described in Note 6 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

### G. 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 2020-21.
2. We confirm that the content contained within the other information is consistent with the financial statements.

### H. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

### I. Derivative Financial Instruments

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto.
2. 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.

# Draft management representation letter

## Management Rep Letter

J. 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.

K. Actuarial valuation

1. The latest report of the actuary Barnett Waddingham as at 31 March 2019 and dated 27 March 2020 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.

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value the fund and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

M. Valuation of Fair Value Hierarchy Level 3 Investment Assets Estimate

1. We confirm that the significant judgments made in making the fair value hierarchy level 3 investment asset valuation estimate have taken into account all relevant information and the effects of the COVID-19 pandemic on the valuation of fair value hierarchy level 3 investment assets of which we are aware.

2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the fair value hierarchy level 3 investment asset valuation estimate.

3. We confirm that the significant assumptions used in making the fair value hierarchy level 3 investment asset estimate appropriately reflect our intent and ability to carry out the valuation on behalf of the entity.

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic on the valuation of fair value hierarchy level 3 investment assets, are complete and are reasonable in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

5. We confirm that appropriate specialised skills or expertise has been applied in making the valuation of fair value hierarchy level 3 investment asset estimate.

6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

N. Estimation of IAS26 present value of promised retirement benefits

1. We confirm that the significant judgments made in making the IAS26 estimate have taken into account all relevant information and the effects of the COVID-19 pandemic on the present value of promised retirement benefits of which we are aware.

2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the IAS26 estimate.

3. We confirm that the significant assumptions used in making the IAS 26 estimate appropriately reflect our intent and ability to carry out the valuation on behalf of the entity.

\_\_\_\_\_  
Caroline Holland, Director of Corporate Services

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



About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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# London Borough of Merton

## Outline Audit Plan

Year ended 31 March 2022

24 February 2022



24 February 2022



Private and Confidential  
London Borough of Merton  
Standards and General Purposes Committee  
Civic Centre  
Morden  
SM4 5DX

Dear Committee Members  
Outline Audit Plan

We are pleased to attach our Outline Audit Plan. Its purpose is to provide the Standards and General Purposes Committee with an overview of our plans and fee for the 2021/22 audit before detailed work has commenced.

This report summarises our initial assessment of the key issues which drive the development of an effective audit for the London Borough of Merton. Due to the late completion of our 2020/21 audit, we have not yet completed our detailed planning procedures. We will provide a more detailed and comprehensive audit plan for the Committee at the next meeting, or circulate the plan separately if Members prefer. This report sets out the areas which we consider will be a focus for our 2021/22 plan.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

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

Yours faithfully

*E. Jackson.*

Elizabeth Jackson, Associate Partner  
For and on behalf of Ernst & Young LLP  
Encl

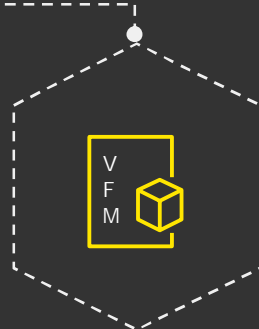
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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities 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 and further guidance (updated April 2018)” issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Standards and General Purposes Committee and management of the London Borough of Merton in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Standards and General Purposes Committee, and management of the London Borough of Merton those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than to the Standards and General Purposes Committee, and management of the London Borough of Merton for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



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01 2021/22 Audit



### Wider public sector audit context

Recognising the increasing pressure on all auditors in the current climate the Department for Levelling Up, Housing and Communities (DLHUC) and CIPFA/LASAAC have both published papers relating to audit firms and timely completion of audits.

The DLHUC paper published in December 2021 sets out a range of measures agreed with key partners to support the timely completion of local government audits and the ongoing stability of the local audit market. It makes the following commitments:

1. FRC to publish updated Key Audit Partner (KAP) guidance by spring 2022, including new routes for an experienced Registered Individual to become a KAP;
2. Work with CIPFA to further develop the proposal for a new local audit training diploma in local government financial reporting and management aimed at different levels of auditor, and a new technical advisory service that could provide support to firms, and in particular new entrants;
3. DLHUC to provide further funding of £45 million over the course of next Spending Review period to support local bodies with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendations and increased auditing requirements;
4. CIPFA to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, consider making the guidance, committees and the independent member statutory;
5. DLHUC to provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs;
6. NAO rolling over of amendments to 20/21 AGN 03 and 07 to allow for altering the timing of elements on the VfM arrangements work and enable more focus on fully delivering opinions on the financial statements;
7. CIPFA/LASAAC is undertaking a project to improve the presentation of local authority accounts to inform the development of the 2022/23 Accounting Code and comply with IFRS and statutory accounting principles HMT to undertake thematic review of financial reporting valuations for non-investment properties to inform development of the Accounting Code from 2022/23 onwards;
8. The government has asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for 2021/22;
9. Delaying implementation of standardised statements and associated audit requirements;
10. PSAA to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24;
11. Extending the deadline for publishing audited local authority accounts to 30 November 2022 for 2021/22 accounts, then 30 September for 6 years, beginning with the 2022/23 accounts;
12. NAO to prepare for a re-laying of the Code of Audit Practice 2020 in parliament, so that it will apply for the whole of the next appointing period; and
13. Developing an industry-led workforce strategy, working with the system leader and audit firms, to consider the future pipeline of local audits, and associated questions related to training and qualifications.

## 2021/22 financial statements audit

### Planning for 2021/22

We have met the Director of Corporate Services, the Assistant Director of Resources and members of the finance team regularly through December 2021 and January 2022 to discuss the conclusion of our 2020/21 audit.

We have commenced our initial planning work for the 2021/22 audit and have met with the Chief Executive, the Director of Corporate Services and Assistant Director of Resources. We have arranged regular liaison meetings throughout the year to inform our continuous audit planning and have held an initial planning meeting with officers to discuss key points from the prior year, incorporating the learning from the 2020/21 audit.

For 2021/22, the timetable as published in the draft Accounts and Audit (Amendment) regulations 2021 extends the publication date for audited local authority accounts from 31 July to 30 November 2022.

Due to the ongoing impact of later deadlines and completion of audits from 2020/21, we have yet to start our planning for the 2021/22 audit. We set out in this report our initial considerations of the risks for the audit – these are broadly similar to those identified in 2020/21. We will update these risks as our planning progresses and take into account the risks suggested by the NAO in the Auditor Guidance Note 06 – Local Government Audit Planning, which has not yet been released for 2021/22.

## 2021/22 financial statements audit

The CIPFA/LASAAC paper explores proposals for change to the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022/23 code that might serve to improve current issues around timeliness of the publication of audited financial statements. Two key proposals of this report include:

1. To allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation; and
2. To defer the implementation of IFRS 16 Leases (standard) for a further year and not make the planned changes to the 2022/23 code to implement that standard.

This paper is currently undergoing consultation.



## Materiality

### Our application of materiality

When establishing our overall audit strategy, we determine the magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole.

Gross expenditure on the provision of services

£557m

We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority.

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Planning materiality

£10.0m

Planning materiality is the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. For planning purposes, planning materiality for 2021/22 has been set at £10.0 million, which represents 1.8% of the prior years gross expenditure on provision of services plus the forecast GRE of CHAS 2013 Limited. The use of 1.8% of gross revenue expenditure in line with the prior year.

Planning materiality for the Authority has been set at £9.9 million.

Performance materiality

£7.5m

Performance materiality is the amount we use to determine the extent of our audit procedures. We have set performance materiality at £7.5 million for the group financial statements which represents 75% of planning materiality and is in line with the prior year.

Performance materiality for the Authority is £7.4 million.

Audit differences

£0.5m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) greater than £0.5 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Standards and General Purposes Committee.

These figures will be updated upon receipt of the draft 2021/22 financial statements.

# Overview of 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Standards and General Purposes Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk / Significant risk	No change in risk or focus	<p>Under ISA 240, there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>We have identified the accounting for Covid-19 related grant income as a specific area where revenue may be inappropriately recognised.</p>
Misstatements due to fraud or error	Fraud risk / Significant risk	No change in risk or focus	<p>As identified in ISA 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 would otherwise appear to be operating effectively.</p> <p>In addition to our overall response, we consider where these risks may manifest themselves and identify separate fraud risks as necessary below.</p>
Inappropriate capitalisation of revenue expenditure	Fraud risk / Significant risk	No change in risk or focus	<p>As noted above, under ISA 240, management is in a unique position to perpetrate fraud through the override of controls. We have identified the inappropriate capitalisation of revenue expenditure on property, plant and equipment as an area of risk.</p>

# Overview of 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Standards and General Purposes Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

## Audit risks and areas of focus

Risk / area of focus	Risk Identified	Change from PY	Details
Valuation of Land and Buildings – PPE valued under Depreciated Replacement Cost (DRC) and Existing Use Value (EUV)/Fair Value (FV)	Significant risk	No change in risk or focus	<p>The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Authority's accounts and is subject to valuation changes, impairment reviews and depreciation charges.</p> <p>The valuation of these assets is reliant upon expert valuations based on information provided by the Authority. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Errors within the judgements, assumptions or information provided to the valuer can have a material impact on the financial statements.</p> <p>As a result of our work last year we identified a number of errors which resulted in material amendments to the valuation of property, plant and equipment within the financial statements of the Authority. As such, the valuation of land and buildings remains a significant audit risk.</p> <p>The recognition of this risk is subject to the current CIPFA/LASAAC proposals currently under consultation (see page 5).</p>
National Non-Domestic Rates (NNDR) Appeals Provision	Inherent risk	No change in risk or focus	<p>Statistics compiled by the Ministry for Housing, Communities and Local Government, reveal that councils are forecasting net additions to appeal in the coming years. The reason behind the forecast increase is that, due to the impact of Covid-19, businesses are likely to seek reductions based on a decrease in rental prices on which rateable values are based.</p> <p>In light of this we consider there to be a higher inherent risk of misstatement of the Authority's NNDR appeals provision.</p>

# Overview of 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Standards and General Purposes Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Pension Liability Valuation	Inherent risk	No change in risk or focus	<p>The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>
Going Concern	Inherent risk	No change in risk or focus	<p>There is a presumption that the Authority will continue as a going concern for the foreseeable future. However, the Authority is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 during 2021/22 there is a need for the Authority to ensure it's going concern assessment, including its cashflow forecast, is robust and appropriately comprehensive.</p> <p>The Authority is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.</p>



## 02 Value for Money



# Value for money

## Authority responsibilities for value for money

The Authority is required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

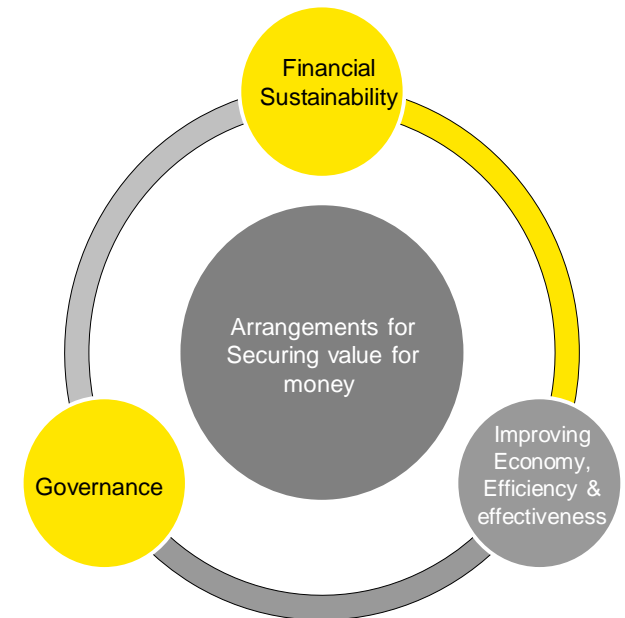
As part of the material published with its financial statements, the Authority is required to bring together commentary on its governance framework and how this has operated during the period in an annual governance statement. In preparing its annual governance statement, the Authority tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

## Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Authority and provide commentary against specified reporting criteria (see below) on the arrangements the Authority has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability  
How the Authority plans and manages its resources to ensure they can continue to deliver its services;
- Governance  
How the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness  
How the Authority uses information about its costs and performance to improve the way it manages and delivers its services.





# Value for money risks

## Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Authority's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes, where the NAO required auditors, as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Authority's arrangements, we are required to consider:

- The Annual Governance Statement
- Evidence that the Authority's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates (such as Ofsted and CQC) and other bodies; and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Authority to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Authority's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Authority;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Authority's reported performance;
- Whether the issue has been identified by the Authority's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Authority has had to respond to the issue.

## Value for money risks

### Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Standards and General Purposes Committee.

### Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources we are required to refer to this by exception in the audit report on the financial statements.

We are also required to include the commentary on arrangements in our Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Authority's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Where we have sufficient evidence to determine that there is a significant weakness on VFM related arrangements we are able to report that weakness, and an associated recommendation for improvement, at that time and not wait until we issue our Audit Results Report on the audit of the statement of accounts.

### Status of our 2021/22 VFM planning

We have yet to commence our detailed VFM planning.

However, one area of focus will be on the arrangements that the Authority has in place in relation to financial sustainability in light of the impact Covid-19 continues to have on the Authority's finances. At the 7 February 2022 Cabinet meeting, the Financial Report 2021/22 for the period to 9 December 2021 highlighted that for the 2021/22 revenue budget, the Authority was forecasting a net adverse variance at year-end of £7.3 million. The report highlighted that in common with other London Boroughs, the Authority's services remain under pressure due to the need to support businesses and residents, and there has been a major reduction in the Authority's income which is expected to continue. In addition, the report highlights the continued significant pressures on the Dedicated Schools Grant (DSG) which ended the 2020/21 year with a cumulative deficit of £24.9 million and is now forecast to increase in 2021/22 to an estimated £37.8 million.

We also consider the impact on the specified reporting criteria of the findings from the work of external inspectorates. We are aware that OFSTED are currently carrying out an inspection and we will consider their findings when concluding if the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

We will update the Committee on the outcome of our VFM planning and our planned response to any identified risks of significant weaknesses in arrangements.





# 03

## Fees



# Fees

## Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The table sets out our expected fees for 2020/21 and 2021/22. However, these figures could change, and need to be agreed with officers and the PSAA. Any further additional fees (over and above VFM and ISA540) for 2020/21 will be communicated to the Director of Resources following the completion of the audit.

	Planned fee 2021/22	Proposed fee 2020/21	Final proposed fee 2019/20
	£	£	£
Scale Fee - Code work	£110,493	£110,493	£110,493
Planned 2019/20 recurrent fee variation reflecting the underlying level of additional risk at the Authority yet to be agreed by the Authority or PSAA (See Note 1)	£102,541	£102,541	£102,541
Revised Proposed Scale Fee	£213,034	£213,034	£213,034
Risk based fee variations (see Note 2)	TBC	TBC	£36,300
Code of Audit Practice 2020 and updated auditing and accounting standards 2020/21 (see note 3)	-	£14,400	-
<b>Total Fees</b>	<b>TBC</b>	<b>TBC</b>	<b>£249,334</b>

*All fees exclude VAT*

Note 1 - In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we undertook additional work at a fee of £102,541 to deliver the audit in 2019/20 which reoccurred in 2020/21 and we expect to reoccur in subsequent years. This additional fee has not been agreed with the Authority and is yet to be approved by PSAA.

Note 2 - The 2019/20 risk based fees have been agreed with the Director of Corporate Services but are yet to be fully approved by PSAA. We are yet to fully quantify 2020/21 risk based fee variations and agree them with the Authority. These variations will include the extensive valuation work by EYRE and consultation for the prior period adjustment. We will provide an update in due course.

Note 3 - The impact on audit fees of the new requirements in the Code of Audit Practice 2020 and new or updated auditing and accounting standards for 2020/21 audits as set out in the Additional information for 2020/21 audit fees issued by PSAA in August 2021. This paper sets out agreed fee ranges for the new requirements. For London Borough of Merton we determined this to be £10,000 for VFM and £4,400 in relation to the new estimates standard ISA540. This does not cover the additional work in relation to additional pensions assurance which was identified in September 2021. We will discuss the additional fee with officers as part of preparing the 2020/21 Auditor's Annual Report.



# Merton Pension Fund

## Outline Audit Plan

Year ended 31 March 2022

24 February 2022



24 February 2022



Private and Confidential  
Merton Pension Fund  
Standards and General Purposes Committee  
Civic Centre  
Morden  
SM4 5DX

Dear Committee Members  
Outline Audit Plan

We are pleased to attach our Outline Audit Plan for Merton Pension Fund. Its purpose is to provide the Standards and General Purposes Committee with an overview of our plans and fee for the 2021/22 audit before detailed work commences.

This report summarises our initial assessment of the key issues which drive the development of an effective audit for Merton pension Fund. Due to the late completion of our 2020/21 audit, we have not yet completed our detailed planning procedures. We will provide a more detailed and comprehensive audit plan for the Committee at the next meeting, or circulate the plan separately if Members prefer. This report sets out the areas which we consider will be a focus for our 2021/22 plan.

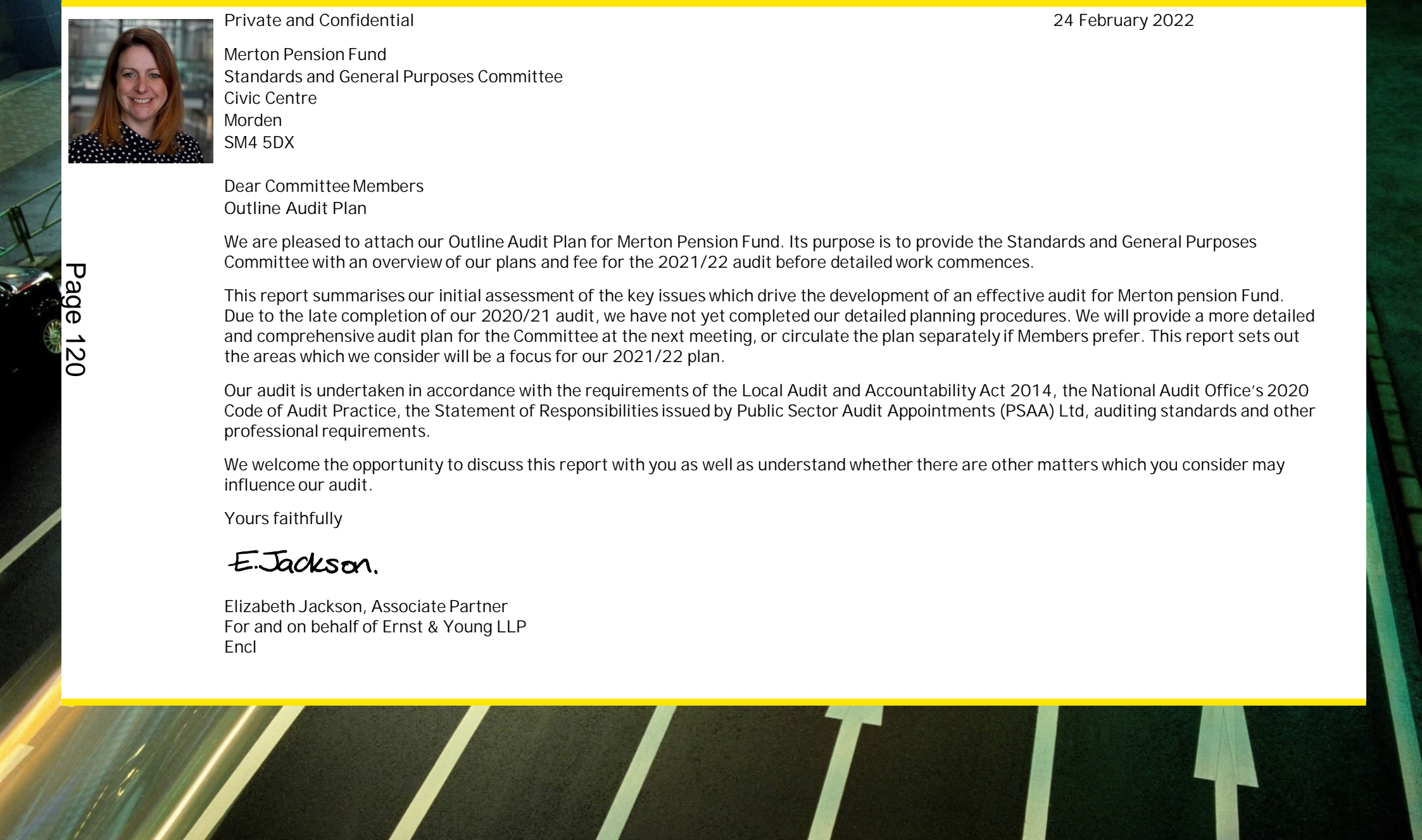
Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

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

Yours faithfully

*E. Jackson.*

Elizabeth Jackson, Associate Partner  
For and on behalf of Ernst & Young LLP  
Encl



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## 01 2021/22 Audit



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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The 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 and further guidance (updated April 2018)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Standards and General Purposes Committee and management of Merton Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Standards and General Purposes Committee, and management of Merton Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than to the Standards and General Purposes Committee, and management of the Merton Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



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01 2021/22 Audit



### Wider public sector audit context

Recognising the increasing pressure on all auditors in the current climate the Department for Levelling Up, Housing and Communities (DLHUC) and CIPFA/LASAAC have both published papers relating to audit firms and timely completion of audits.

The DLHUC paper published in December 2021 sets out a range of measures agreed with key partners to support the timely completion of local government audits and the ongoing stability of the local audit market. It makes the following commitments:

1. FRC to publish updated Key Audit Partner (KAP) guidance by spring 2022, including new routes for an experienced Registered Individual to become a KAP;
2. Work with CIPFA to further develop the proposal for a new local audit training diploma in local government financial reporting and management aimed at different levels of auditor, and a new technical advisory service that could provide support to firms, and in particular new entrants;
3. DLHUC to provide further funding of £45 million over the course of next Spending Review period to support local bodies with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendations and increased auditing requirements;
4. CIPFA to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, consider making the guidance, committees and the independent member statutory;
5. DLHUC to provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs;
6. NAO rolling over of amendments to 20/21 AGN 03 and 07 to allow for altering the timing of elements on the VfM arrangements work and enable more focus on fully delivering opinions on the financial statements;
7. CIPFA/LASAAC is undertaking a project to improve the presentation of local authority accounts to inform the development of the 2022/23 Accounting Code and comply with IFRS and statutory accounting principles HMT to undertake thematic review of financial reporting valuations for non-investment properties to inform development of the Accounting Code from 2022/23 onwards;
8. The government has asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for 2021/22;
9. Delaying implementation of standardised statements and associated audit requirements;
10. PSAA to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24;
11. Extending the deadline for publishing audited local authority accounts to 30 November 2022 for 2021/22 accounts, then 30 September for 6 years, beginning with the 2022/23 accounts;
12. NAO to prepare for a re-laying of the Code of Audit Practice 2020 in parliament, so that it will apply for the whole of the next appointing period; and
13. Developing an industry-led workforce strategy, working with the system leader and audit firms, to consider the future pipeline of local audits, and associated questions related to training and qualifications.

## 2021/22 financial statements audit

### Planning for 2021/22

We have met the Director of Corporate Services, the Assistant Director of Resources and members of the finance team regularly through December 2021 and January 2022 to discuss the conclusion of our 2020/21 audit.

We have commenced our initial planning work for the 2021/22 audit and have met with the Chief Executive, the Director of Corporate Services and Assistant Director of Resources. We have arranged regular liaison meetings throughout the year to inform our continuous audit planning and have held an initial kick off meeting with officers to discuss key points from the prior year, incorporating the learning from the 2020/21 audit.

For 2021/22, the timetable as published in the draft Accounts and Audit (Amendment) regulations 2021 extends the publication date for audited local authority accounts from 31 July to 30 November 2022.

Due to the ongoing impact of later deadlines and completion of audits from 2020/21, we have yet to start our planning for the 2021/22 audit. We set out in this report our initial considerations of the risks for the audit – these are broadly similar to those identified in 2020/21. We will update these risks as our planning progresses and take into account the risks suggested by the NAO in the Auditor Guidance Note 06 – Local Government Audit Planning, which has not yet been released for 2021/22.

## 2021/22 financial statements audit

The CIPFA/LASAAC paper explores proposals for change to the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022/23 code that might serve to improve current issues around timeliness of the publication of audited financial statements. Two key proposals of this report include:

1. To allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation; and
2. To defer the implementation of IFRS 16 Leases (standard) for a further year and not make the planned changes to the 2022/23 code to implement that standard.

This paper is currently undergoing consultation.

Neither of these proposed changes directly impact on the Pension Fund financial statements but are key considerations for the Authority's financial statements.



## Materiality

### Our application of materiality

When establishing our overall audit strategy, we determine the magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole.

Net Assets  
£900.3m

We consider net assets to be one of the principal considerations for stakeholders in assessing the financial performance of the Fund.

Planning  
materiality  
£9.0m

For planning purposes, planning materiality for 2021/22 has been set at £9.0 million, which represents 1.0% of the prior year net assets of the pension fund.

Performance  
materiality  
£6.8m

Performance materiality is the amount we use to determine the extent of our audit procedures. We have set performance materiality at £6.8 million which represents 75% of planning materiality and is in line with the prior year.

Audit  
differences  
£0.45m

We will report to you all uncorrected misstatements relating to the fund account and net asset statement that are greater than £0.45 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Standards and General Purposes Committee.

These figures will be updated upon receipt of the draft 2021/22 financial statements.

### Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements.

Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements. Materiality determines the locations at which we conduct audit procedures to support the opinion given on the financial statements; and the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality.

At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

# Overview of 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Standards and General Purposes Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatement due to Fraud or Error - Posting of investment journals	Fraud risk / Significant risk	No change in risk or focus	<p>As identified in ISA (UK) 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.</p> <p>There is a specific risk that, due to fraud or error, investment journals posted into the general ledger are incorrect, which could result in a misstatement of year-end investment value and/or investment income.</p>
Going concern disclosure	Inherent risk	No change in risk or focus	<p>The financial landscape for the Fund's admitted and scheduled bodies remains challenging and as a result, the Fund will need to undertake a going concern assessment covering a period up to 12 months from the expected date of final authorisation.</p> <p>It will also need to make an appropriate disclosure in the financial statements. In addition, the revised auditing standard on going concern requires additional challenge from auditors on the assertions being made by management.</p>
Valuation of private debt and infrastructure investments	Inherent risk	No change in risk or focus	<p>The Fund holds a material value of private debt and infrastructure investments which are not publicly quoted, categorised as level 3 in the fair value hierarchy and inherently harder to value.</p> <p>Valuation of these assets may also be made more difficult because of the ongoing impact on markets of Covid-19. We will keep the need to consider this as an area of audit focus under ongoing review.</p>



# 02

## Fees





# Fees

## Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The table sets out our expected fees for 2020/21 and 2021/22. However, these figures could change, and need to be agreed with officers and the PSAA.

	Planned fee 2021/22	Planned fee 2020/21	Final Fee 2019/20
	£	£	£
Scale Fee - Code work (1)	16,170	16,170	16,170
Planned recurrent fee variation reflecting the underlying level of additional risk at the Authority yet to be agreed by the Authority or PSAA (See Note 1)	28,290	28,290	9,900
Ongoing concern and PBSE assessments and disclosures including EY consultations (2)	TBC	2,000 - 6,000	2,900
IAS 19 work on the 2019 triennial valuation of the Fund (3)	-	-	9,000
<b>Total</b>	<b>TBC</b>	<b>TBC</b>	<b>37,970</b>

*All fees exclude VAT*

1. We remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to do to meet regulatory requirements. In our view the scale fee for the Merton PF audit should be increased by £28,290. For 2019/20 PSAA determined additional fees of £9,900 in relation to this.
2. The 2019/20 additional fees have been agreed with management and approved by PSAA.
3. IAS19 work is to provide assurance to the auditor of the LB Merton. These additional fees are not subject to approval from PSAA and for 2019/20 (where there was additional work on the triennial data) we have agreed fees with management.

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

**Date: 10 March 2022**

Wards:All

### **Subject: Internal Audit Plan, Strategy and Charter 2022/23**

Lead officer: Caroline Holland, Director of Corporate Services

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

Forward Plan reference number: N/A

Contact officer: Margaret Culleton, Head of Internal Audit

Email: [margaret.culleton@merton.gov.uk](mailto:margaret.culleton@merton.gov.uk)

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#### **Recommendation:**

**That members review and comment upon the 2022/23 Draft Internal Audit Plan, Strategy and Charter.**

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

- 1.1. The Draft Internal Audit Plan, Strategy and Charter 2022/23 are included in Appendix 1.

#### **2 DETAILS**

- 2.1. A risk-based audit plan has been set based on the approach set out in the audit strategy. In preparing the plan, the Head of Audit has taken account of the adequacy and outcomes of the organisation's risk management, performance management and other assurance processes.
- 2.2 The Head of Audit provides copies of the draft plan to department directors and attends the departmental management teams where they may request audits to be added to provide assurance on their areas of risk. Comments are also obtained from their heads of services, key managers, and departmental finance advisors.
- 2.3 The 2022/23 Audit Plan detailed in Appendix 1 may be subject to review during the year, due to changes in risk and priorities of the Council.

#### Information Technology audits

- 2.4 Where IT audits are of a specialist nature, they require the detailed technical knowledge and expertise of a skilled IT practitioner the framework contract with Mazars is used. An IT Needs Assessment was undertaken by Mazars in 2020/21 and audits identified for the 2021/22 and 2022/23 audit

plans.

### **3 ALTERNATIVE OPTIONS**

3.1. None for the purpose of this report.

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

4.1. The draft Audit Plan has been sent to all Chief Officers who have consulted with their management teams. The Head of Audit attends Departmental Management teams to discuss the audit coverage.

### **5 TIMETABLE**

5.1. The Internal Audit Plan will be the basis of Internal Audit's programme of work throughout the 2022/23 financial year. The timing of individual audits is considered in consultation with the Departments where possible.

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

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

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

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

a) Section 151 of the **Local Government Act 1972** requires each Local Authority to *make arrangements for the proper administration of their financial affairs and to ensure that one of their officers is made responsible for the administration of those affairs.*

**b) The Accounts and Audit Regulations 2015**

3 (a) A relevant authority must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; (b) ensures that the financial and operational management of the authority is effective; and (c) includes effective arrangements for the management of risk.

5 (1) A relevant authority must undertake 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.

7.2. The Director of Corporate Services is the designated officer responsible for ensuring compliance with these pieces of legislation. The purpose of the Internal Audit Plan, Strategy and Charter is to:

a) Provide Elected Members with an assurance as to the adequacy of the Authority's financial systems and system of internal audit.

- b) Provide Chief Officers with assurance that the financial dealings within their departments meet the standard required.

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

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

## **9 CRIME AND DISORDER IMPLICATIONS**

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

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

- 10.1. The Audit Plan has a risk assessment formula built into the processing. This takes such aspects as expenditure, income, and previous audit findings into account and calculates the priority and the frequency of the audit.
- 10.2. In addition to the audit risk assessment formula the Corporate Risk Register is consulted during the production of the Draft Plan.

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

Appendix 1 - Merton's Draft Internal Audit Plan, Strategy and Charter 2022/23

## **12 BACKGROUND PAPERS**

- 12.1. Papers held within the Internal Audit Service.

# **INTERNAL AUDIT PLAN, STRATEGY AND CHARTER 2022/23**





## **Introduction**

This document sets out the Council's Internal Audit Plan, Strategy and Charter for the year 2022/23.

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

- Ensure effective audit coverage and a mechanism to provide independent and objective overall assurance to Members, the Director of Corporate Services and the Corporate Management Team (CMT).
- Optimise the use of audit resources available, given that they are limited.
- Add value and support senior management in providing effective control and identifying opportunities for improving value for money.
- Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations 2015.

## **Internal Audit's Role in the Risk, Internal Control and Assurance Framework**

The Accounts and Audit Regulation 2015 requires an annual review of the effectiveness of the system of internal control to be reported to the Standards and General Purposes committee for consideration. The system of internal control is broader than just the work of the internal audit section and includes the framework of assurance covering how the risks to the authority are identified with effectively managed controls. Assurances are provided by a range of internal and external providers. The Head of Internal Audit will assess whether the overall framework of assurances is adequately designed and effectively operated through a plan of internal audit work.

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

The standards for 'proper practice' in relation to internal audit are laid down in the Public Sector Internal Audit Standards. We continually ensure compliance with these professional standards these are reflected in our Charter attached.

An overall assurance on the adequacy of internal controls within the Council is provided in the Annual Report and the Annual Governance Statement.

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

Ledger and debtors/creditors systems.

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

- Full Assurance
- Substantial Assurance
- Limited Assurance
- No assurance

In addition, each recommendation is given a priority 1 (high), 2 (medium) or 3 (low). All recommendations are followed up by Internal Audit to ensure that they have been implemented.

### **Anti-Fraud and Corruption**

The Internal Audit service will review areas of high fraud risk to recommend improvements in controls.

#### Related Documents

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

- Anti-Fraud and Corruption Strategy
- Anti-Money Laundering Policy
- Whistleblowing policy

### **Internal Audit's Role Providing Advice**

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

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

We provide advice, support, and training to schools. We provide a newsletter to schools and share best practice.

### **Protocol for Audit Reviews**

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

Draft internal audit reports will be issued for discussion with the appropriate levels of

management which are normally set out in the terms of reference.

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

### **Implementation of Agreed Audit Recommendations**

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

### **Developing the Annual Audit Plan 2022/23**

A key focus of the Audit Plan for 2022/23 is to provide assurance on the core processes. In setting the plan, discussions take place with a range of officers including Directors and Assistant Directors, to identify key risk areas, as well as reviewing the Council's risk registers and using professional knowledge of changes or potential areas of risk.

Further significant changes in processes and policies are likely during the coming year due to legislative changes. Internal audit will continue to support this work and provide advice on the governance, risk management and control implications of the changes as well as undertaking audit reviews.

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

### **Lines of Defence**

There are three lines of defence in place on controls in the Council.

- 1st line of defence is the day-to-day operational controls.
- 2<sup>nd</sup> line of defence is functions (such as finance, HR and Procurement).
- 3<sup>rd</sup> third line of defence is independent inspection such as Internal Audit or other assurance providers.

Internal Audit audits will look to ensure that managers in the 1<sup>st</sup> and 2<sup>nd</sup> line defence have sound controls and monitoring in place and that their management function is properly discharged. Given the limitations on internal audit resources there is an increasing need for more reliance to be placed by the Council's 2<sup>nd</sup> line of defence and audit will increasingly need to provide assurance on the effectiveness of those functions especially as budget constraints impact on these areas.

## **Annual Audit Plan 2022/23**

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

Contingency has been provided for unplanned reactive work. This will be used to respond to emerging issues, risks and to have the capacity to respond to requests from senior managers. Timing of the audit review will be agreed with management during the planning process. There is however flexibility to respond for example to pressures on services audited and audit resource availability.

In addition to the Standards and General Purposes Committee receiving regular progress reports against the plan. The Head of Internal Audit will also attend Management Team meetings as required, to discuss audit coverage and outcomes.

# Internal Audit Plan 2022/23

## Corporate Services

### Key Financial systems

Shared Payroll Audit	Key Financial system review.
General Ledger	Key Financial system review.
NNDR	Key Financial system review.
Pensions	Key Financial system review (Joint review with Richmond, Wandsworth, Camden and Waltham Forest).

### IT Audits

IT Governance Policy and Strategy	To review the IT governance arrangements in place to identify, develop, implement, and manage the Information Communication and Technology (ICT) related policies, procedures, and strategy.
Core Infrastructure/IT Skills Gap	To review the Council's core IT infrastructure and application environment; consider the life cycle of hardware and software, replacement/procurement processes and suitability of the solution.
IT Asset Management	To review the Council's arrangements for managing its IT assets, covering software and hardware.

### HR

Review of Agency and Interim staff	To review the Council's arrangements for employing interims and agency staff.
Recruitment	To review the new recruitment system and processes including validation checks.
Staff Inductions	To review the staff induction training (moved online) and compare to best practice.
Essential Car Allowance	Review of the procedures in place for car allowances and the on-going review of these allowances.
Appointment of Casual Staff	Review of the arrangement in place for appointment and on-going review of casual staff

**Other reviews**

Debt Management	To review the Council's arrangements for managing debts including the use of enforcement action.
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**Annual Accounts/Grants**

Mayor's Account	Annual review and sign off.
Merton and Sutton Joint Cemetery Accounts	Annual review and sign off.
Supporting Families Grant	To review a sample of submissions on a quarterly basis to ensure that those claims are clearly supported by evidence.

**Continuous audits**

Duplicate Payment Testing	Quarterly testing on data.
Procurement card Testing	Quarterly testing on data.

**Governance reviews**

Information Governance	To review the arrangements in place in the Council and compliance with Data Protection Act.
Annual Governance	Advice and guidance on corporate governance issues including attendance at risk management group and preparing the Annual Governance Statement.
Management and Monitoring of Council's Contribution to Climate Change Agenda	The Council declared a climate and ecological emergency in July 2019. We will examine how the Council is preparing, monitoring and reporting its climate change and net zero carbon commitments.
Member's Code of Conduct	Review of members arrangements for declaring conflicts of interest and gifts and hospitality.

**Community and Housing**

Direct Payments	Review of the procedures and monitoring arrangements for direct payments.
Financial Assessments	Review of the arrangements in place for carrying out financial assessment and regular review.
Block and Approved Providers Contracts	Review of the arrangement in place for awarding, monitoring and approved providers
Deferred Payments	Review of the Council's arrangements for deferred payments.
Court of Protection and Appointee	To review the management and oversight of court of protection and appointee clients.

### **Children, Schools and Families**

Leaving Care Team	Review of financial processes and procedures in relation to support payments, payments on placements, accommodation and other costs.
SEN transport	Review of the arrangement in place for SEN transport to ensure review and oversight.
Section 17 payments	Review of financial arrangements for section 17 payments.
Children to Adults - Learning Disability	Joint review with Adult services, to review the process for clients moving from Children's services to adults.
Schools Probity Audits	The school visits will cover areas of Leadership and Governance; Budget Management; Procurement; Income and Expenditure controls; Payroll and Personnel; Asset Management; and other key areas of schools' business.

### **Environment and Regeneration**

Regulatory service review (Enforcement)	Enforcement (Highways Act, Litter and Street Trading Offences) joint review - Richmond, Wandsworth and Merton.
Air Quality Grants	Review of the arrangements in place for this grant, including the contract for inspectors providing services across London.
Licensing fees and Charges	Review of procedures in place for setting and collection of fees and charges.
Arboricultural Contract	Review of monitoring arrangements in place for this contract.
Planning Enforcement	Review of the arrangements in place for planning enforcement.
Watersports Centre	Review of financial arrangements in place for the centre.

Management of Council buildings	Review of compliance with statutory requirements for water and safety checks on Council owned buildings.
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## **Support**

Consultancy and Advice	Audit has an important role to play in advising management on an ad-hoc basis on a range of issues affecting services. This provision is used to offer advice and assistance throughout the year.
Committee and Member Support	Providing support including advice and reporting to Committee
Follow Up Audits	Follow up of audit actions carried out to ensure implementation of recommendations.
Fraud Management and Reactive work	Allocation of time for managing the fraud partnership. Updating Whistleblowing policy and referring cases.



## **Charter and Strategy 2022-23**

**This Charter and Strategy sets out the purpose, authority, and responsibility of the Council’s Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards. It also sets out how the South West London Audit Partnership (SWLAP) will be developed and delivered in accordance with these standards.**

**The Charter and Strategy will be reviewed annually and presented to the Audit Governance and Standards Committee<sup>1</sup> for approval.**

### **PURPOSE**

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

In a local authority, internal audit provides independent and objective assurance to the organisation, its members, the senior management board (Directors’ Board in Wandsworth and Richmond’s Shared Staffing Arrangement (SSA), Strategic Leadership Team at Kingston, Corporate Management Teams at Merton and Sutton), and in particular the Directors of Finance to help them discharge their responsibilities under s151 of the Local Government Act 1972, relating to the proper administration of the Council’s financial affairs. For Achieving for Children (AfC), internal audit provides assurance to its Strategic Leadership Team and Audit and Risk Committee.

In addition, the Accounts and Audit Regulations 2015, Regulation 6 (1), requires that:

*“A relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector Internal audit standards and guidance”.* Internal Audit proper practices are defined

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<sup>1</sup> References to ‘Audit Committee’ throughout the Charter and Strategy document includes Standards & General Purposes Committee at LB Merton, the Audit, Governance and Standards Committee at RB Kingston, Audit & Governance Committee at LB Sutton and Audit Committees at LB Richmond and AfC,.

as compliance with the Public Sector Internal Audit Standards and the CIPFA application note.

Within an organisation, there are 3 lines of defence in place to effect controls. The first line of defence is the day to day operational controls, the second is the management controls (budget & performance monitoring, trend analysis) and the third is independent inspection, both internal & external.

Internal audit forms part of the third line of defence and provides assurance on the effectiveness of governance arrangements, risk management and internal controls, and this includes an assessment of the effectiveness of the first two lines of defence. Internal audit can place reliance on assurances provided by third parties, although depending on the source, this may require some independent validation.

## **MISSION**

The Mission of the SWLAP is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight across the 5 Borough partnership.

## **AUTHORITY AND ACCESS TO RECORDS**

In carrying out their duties and responsibilities, Internal Audit shall be entitled to have full and unrestricted access to all of the Council's activities, records, assets, cash, stores, property, personnel and information (both manual or computerised) which they consider to be necessary to properly fulfil its function. Internal audit may enter Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Council staff are expected to provide every possible assistance to facilitate the progress of audits.

Access rights also apply to other third parties / organisations as permitted through contract and partnering arrangements.

Internal audit has the authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

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

All records, documentation and information accessed in the course of undertaking internal audit activities shall be used solely for that purpose. All internal audit staff are responsible and accountable for maintaining the confidentiality of the information they receive in the course of their work. Any information shared will be shared in accordance with the Shared Service Data Sharing Protocol.

## **RESPONSIBILITY**

The Head of Internal Audit <sup>2</sup>is required to provide the Council, via the S151 officer and the Audit Committee, with an annual opinion on the adequacy and effectiveness of the internal control system for the whole Council. To achieve this, the internal audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves processes and helps protect public resources
- To provide assurance that the Council's operations are being conducted in accordance with legislation, and relevant external and internal regulations, policies and procedures
- To provide assurance that significant risks to the Council's objectives are being managed
- To support management through the provision of advice and guidance on the overall control environment, and where new systems and / or procedures are implemented
- To provide independent assurance over the corporate governance arrangements in place across the Council
- To promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud. The corporate fraud function will be undertaken by the South West London Fraud Partnership (SWLFP) but will be overseen by the Head of Internal Audit (see Counter Fraud below)
- To undertake investigations where there is suspected fraud, bribery and corruption. This function will be undertaken by the SWLFP but will be overseen by the Head of Internal Audit.

These audit responsibilities are exercised with the aim of assisting the Council to deliver services in the most efficient and effective manner possible.

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

Where appropriate, internal audit will undertake audit or consulting work for the benefit of the Council and / or organisations that are wholly owned by the Council (such as Achieving for Children). Where services are provided to bodies separate from the Council, this will be subject to approval by the Shared Service Board and will be provided under the terms of a Service Level Agreement (SLA).

Internal audit may also provide assurance to the Council on third party operations where this is provided for as part of the agreement or contract.

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<sup>2</sup> In respect to any references to the Head of Internal Audit within the Charter and Strategy document, the statutory Head of Internal Audit roles across the 5 Boroughs and AfC will be delivered by the Assistant Director of Resources (Financial Services) Head, Deputy Head and Audit Manager of the SWLAP.

In some instances, internal audit may rely on assurances provided by other providers of assurance but this will be dependent on the level of associated risk and some degree of independent verification may be required.

## **Counter Fraud**

Internal Audit's planned work includes evaluating controls for their effectiveness in preventing or detecting fraud. Managing the risk of fraud is the responsibility of management however Internal Audit will consider the risks and exposures which may allow fraud or corruption to occur.

Fraud work is undertaken by the South West London Fraud Partnership which is a five Borough Shared Service led by the SSA. This service is overseen by the Shared Service Board which includes the Directors of Finance from each of the partners or their delegated representatives. Work will be undertaken in accordance with an agreed Fraud Plan which includes a mix of proactive and reactive fraud work in the following main areas:

- Housing tenancy
- Internal fraud
- Procurement
- Business Rates
- Council Tax Reduction
- Blue Badge
- Social Care
- Schools

## **Proactive Team**

The proactive Team (providing a service to the SSA, Merton and Kingston) works collaboratively with the SWLAP and SWLFP, providing an additional resource to supplement the work already undertaken by these two teams. The team was set up with the objectives of identifying:

- 1) Non-compliance with procedure
- 2) Errors including duplicate, incorrect or overpayments
- 3) Fraud
- 4) Cashable savings through the identification of 1-3 above.

## **REPORTING**

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

- The Audit Charter will be agreed with the senior management team (Directors Board at the SSA, Corporate Management Teams at Sutton and Merton, and Strategic Leadership Team at Kingston)
- The annual audit plan will be compiled by the Head of Internal Audit following discussions with senior managers at their Directorate Management Team (DMT) meetings and sign off by the senior management team (Directors Board at the SSA, Corporate Management Teams at Sutton and Merton, and Strategic

Leadership Team at Kingston and AfC). It will then be considered by the Shared Service Board who will agree the number of audit days to be commissioned each year, and the resource required to deliver this. This will then be reported to the Audit Committee for approval

- The internal audit budget is agreed each year by the Shared Service Board.
- Performance against the annual internal audit plan, together with any significant risk exposures and control issues arising, will be reported to the Shared Service Board on a quarterly basis. Progress reports will be made to Directorate Management Teams on a quarterly basis and to Audit Committee at least twice a year
- Changes to the plan during the year will be reported to the Shared Service Board quarterly and where significant, to Audit Committee
- Any significant consultancy activity not already included in the risk-based plan and which might affect the level of assurance work undertaken will be reported to the Audit Committee
- The annual opinion report will be presented to Audit Committee annually
- Any instances of non-conformance with the Public Sector Internal Audit Standards will be reported to the Shared Service Board and Audit Committee and will be included in the Head of Internal Audit's annual report. Any significant failings will be included in the Annual Governance Statement
- Any external review of the internal audit function will be agreed by, and reported to the Shared Service Board and the Audit Committee

## **INDEPENDENCE**

The Heads of Internal Audit have full and unrestricted access to the following (where relevant):

- The Director of Finance/Resources/Corporate Services/Corporate and Commercial (S151 officer)
- Chief Executive
- Chair of the Audit Committee
- The Council's Monitoring Officer
- The Council's General Counsel (RBK)
- All members of the senior management team (Directors Board at the SSA, Corporate Management teams at Sutton and Merton, and Strategic Leadership Team at Kingston and AfC)

The Head of the SWLAP performs the statutory role of Head of Internal Audit for LB Richmond and RB of Kingston and is line managed by the Assistant Director of Resources (Financial Services) (SSA), who is responsible for carrying out the Head of the SWLAP's annual appraisal. The Director of Corporate and Commercial and / or the Assistant Director Governance and Law, Kingston; Strategic Director of Resources (Sutton) and Managing Director - Legal Services (Merton), can participate in this appraisal review. The standards require that the Chief Executive, SSA, reviews, provides feedback and signs off this appraisal, also that the Chair of the Audit Committee must give feedback.

The Deputy Head of the SWLAP performs the statutory role of Head of Internal Audit for LB Merton and LB Sutton and is line managed by the Head of the SWLAP who is responsible for carrying out the annual appraisal. The Strategic Director of Resources

(Sutton), Director of Corporate Services (Merton), Managing Director- Legal Services (Merton) and the Chairs of the Audit and Governance Committees (Sutton) and Standards and General Purposes Committee (Merton) can participate in this appraisal review.

The Assistant Director of Resources (Financial Services) performs the statutory Head of Internal Audit role for the LB of Wandsworth and is line managed by the Director of Resources who will undertake the annual appraisal and this will be signed off by the SSA's Chief Executive.

The Audit Manager who performs the statutory Head of Internal Audit role for AfC is line managed by the Head of the SWLAP who undertakes their annual appraisal and the Chief Operating and Finance Officer for AfC can participate in this appraisal review.

All staff (including agency and contract staff) in the Internal Audit Partnership are required to make annual declarations of any potential conflicts of interest and adhere to confidentiality requirements. As far as resources permit, auditor rotation will be implemented to ensure auditors' objectivity is not impaired.

Internal audit must ensure that it is not involved in the design, installation and operation of controls in a manner which could compromise its independence and objectivity. Internal Audit will however offer advice on the design of new internal controls in accordance with best practice. Where Internal Audit do provide consultancy services, any audit staff involved in this consulting activity will not be involved in the audit of that area for at least 12 months.

Internal Audit must remain independent of the activities that it audits to enable auditors to make impartial and effective professional judgements and recommendations. Within the SSA, the service does have operational responsibilities for Health & Safety, Procurement and Pensions (these functions are overseen by the Assistant Director of Resources (Financial Services) in his role of Statutory Head of IA for Wandsworth) and for Risk Management and Insurance. Risk Management work is also undertaken across a number of the other partners. Since these roles may involve establishing and maintaining the control environment, these functions will be audited independently by Mazars or other such appropriately qualified persons. Internal auditors have no other operational responsibilities towards the systems and functions audited.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Head of Internal Audit has the freedom to report without fear or favour to all officers and Members, and particularly to those charged with governance.

Accountability for the response to the advice and recommendations of Internal Audit lies with management. Managers must either accept and implement the advice and recommendations, or formally reject them accepting responsibility and accountability for doing so.

## **EXTERNAL AUDITORS**

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

## **DUE PROFESSIONAL CARE**

The internal audit function will adhere to / comply with the following:

- Institute of Internal Auditors International Code of Ethics
- Seven Principles of Public Life (Nolan Principles)
- UK Public Sector Internal Audit Standards
- All Council policies and procedures
- All legislation

All audit work is subject to in-house quality control procedures whereby each audit review is subject to senior peer review. The audit service will be subject to an annual self-assessment to assess its compliance with the UK Public Sector Internal Audit Standards and an external review and assessment at least once every 5 years by a suitably qualified, independent assessor. An external review was last completed in 2018.

The Head of Internal Audit is required to hold a relevant professional qualification (CCAB or CMIIA) and be suitably experienced. All staff are required to maintain a programme of Continuous Professional development (CPD) to ensure auditors maintain and enhance their knowledge, skills and audit competencies.

## **INTERNAL AUDIT STRATEGY**

### **Internal Audit Objectives**

Internal Audit will provide independent and objective assurance to the organisation, its Members, senior management and in particular to the Directors of Finance/Resources/Corporate Services to support them in discharging their responsibilities under of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

It is the Council's intention to provide a best practice, cost efficient internal audit service through the SWLAP which adds value to the partner organisations it serves.

### **Internal Audit Remit**

The internal audit service is an assurance function that primarily provides an independent and objective opinion on the degree to which the internal control environment supports and promotes the achievement of the Council's objectives. The work undertaken by Internal Audit is a key part of the Council's Annual Governance Statement (AGS) process and the annual audit opinion forms part of the AGS.

Under the direction of a suitably qualified and experienced Head of Internal Audit, Internal Audit will:

- Provide management and Members with an independent, objective assurance and consulting activity designed to add value and improve the Council's operations,
- Assist the Audit Committees to reinforce the importance of effective corporate governance and ensure internal control improvements are delivered
- Drive organisational change to improve processes and service performance
- Work with other internal stakeholders and customers to review and recommend improvements to internal control and governance arrangements in accordance with regulatory and statutory requirements

- Work closely with other assurance providers to share information and provide a value for money assurance service and
- Participate in local and national bodies and working groups to influence agendas and developments within the profession

Internal Audit will ensure that it is not involved in the design, installation and operation of controls so as to compromise its independence and objectivity. Internal Audit will however offer advice on the design of new internal controls in accordance with best practice. This type of work is key for our service in ensuring that it works closely with the partner organisations to provide proactive advice and guidance. The ability to bring in knowledge and experience from our other partners is an important way for the service to add value.

### **Service delivery**

The Internal Audit service will be delivered by the South West London Audit Partnership (SWLAP) which is the 5-borough shared internal audit service hosted by the SSA providing internal audit services to LB Wandsworth, LB Richmond, RB Kingston, LB Merton and LB Sutton. This relationship is governed in law through a formal Collaboration Agreement. The arrangement also includes the provision of Internal Audit to Achieving for Children (AfC), the community interest company created by LB Richmond and RB Kingston to provide their children's services.

The SWLAP is an in-house team with contract auditors or agency staff used as required to supplement the in-house skills and experience. The SWLAP are part of the Croydon Framework contract with Mazars allowing the service to buy in additional audit resource and expertise. Resources can also be sourced through the Cross Council Assurance Service (CCAS) framework.

One of the key objectives of the shared service is the provision of an efficient and cost-effective service to its partners. This is achieved through the review and standardisation of audit methodology which takes on board best practice, ensuring staff are properly trained and developed, developing and delivering shared audits across more than one partner and reviewing and restructuring the service where needed to drive cost savings. Key objectives and performance targets are included within the annual Service Plan.

Quarterly performance reports to the Shared Service Board provides updates on any staffing changes, issues such as sickness absence levels and whether there is any surplus or shortfall in resources (significant issues will be reported to the Audit Committee at LB Wandsworth, Audit and Risk Committee at AfC, Audit and Governance Committee at LB Sutton, Audit, Standards and Statutory Accounts Committee at LB Richmond, Standards and General Purposes Committee at LB Merton and Audit, Governance and Standards Committee at RB Kingston).

The statutory Head of Internal Audit roles across the 5 Borough's will be undertaken by the Assistant Director of Resources (Financial Services), Head, Deputy Head and Audit Manager of the SWLAP. Unless amended and agreed by the Shared Service Board, the Head of the SWLAP is the statutory Head of Internal Audit for LB Richmond and RB Kingston. The Deputy Head of the SWLAP is the statutory Head of Internal Audit for LB Merton and LB Sutton. The Assistant Director of Resources (Financial Services) will take the lead as the statutory Head of Internal Audit for LB Wandsworth



and the Audit Manager for the SWLAP will fulfill this role for AfC. All of these officers will support each other in the delivery of these roles.

The Corporate Fraud service will be delivered by the South West London Fraud Partnership, led by the SSA. This is a shared service which is overseen by the Shared Service Board.

The Proactive Team, servicing Kingston, Merton, Richmond and Wandsworth, is overseen by the Head of the SWLAP and has been set up to deliver a two-year pilot programme.

### **Key Performance Targets**

Key Performance Targets are established and monitored on a quarterly basis by the Shared Service Board. A Service Plan and Risk Register have also been established and are reported to and monitored by the Shared Service Board.

Bi-monthly reports on corporate fraud work undertaken by the SWLFP will be provided to the Head of Internal Audit and 6 monthly reports made to Audit Committee (Standards and General Purposes committee).

### **Audit Planning**

The Heads of Audit have responsibility for preparing a balanced internal audit plan, ensuring audit maintains its independence, ensuring independence and sufficient coverage to support the annual opinion.

Each year, an audit plan will be discussed and agreed by the respective Directors, Senior Leadership Teams and Audit Committees which will be based on the following:

- Issues identified in the Annual Governance Statement and Action Plan
- Discussions with the Council's Departmental Management teams (DMT)
- Discussions with Council's Corporate Management teams (CMT) if required
- Discussions with the Shared Service Board
- Review of Corporate and Service Risk Registers/ Risk Returns
- Outputs from other assurance providers
- Outputs from previous audit or fraud assignments
- Requirements as agreed with External Audit

The Head of Internal Audit will ensure attendance at all DMT meetings as part of the annual planning process to ensure that management views and suggestions are taken into account when producing the audit plan. Key to ensuring that the service adds value is maintaining a dynamic audit plan which responds to changes in the organisation's risk profile. This is managed through quarterly reporting and attendance at DMT meetings during the year to discuss the audit plan and departmental risks.

The Internal Audit Plans are based on the following:

- **Governance Arrangements:** Internal Audit has a key role in assessing the effectiveness of governance arrangements by comparison with principles contained in the CIPFA/SOLACE Governance Framework. A number of audits

will support this assessment and will take account of any emerging governance arrangements.

- **Transformation:** Considering the significant financial challenges facing the public sector and the all the Council's ambitions, the annual audit plan will need to be flexible enough to respond to emerging issues and risks from change.
- **Risk Based Systems Audit:** Audits of systems, processes or tasks where the internal controls are identified, evaluated and confirmed through a risk assessment process. The internal controls depending on the risk assessment are tested to confirm that they are operating correctly. The selection of work in this category is driven by the AGS, Corporate Risk Registers, Departments' own risk processes and will increasingly include work in areas where the Council services are delivered in partnership with other organisations.
- **Value for money:** This is an integral part of our risk-based audit approach, in particular being alert to opportunities and reporting issues and agreed management actions
- **Key Financial Systems:** The effectiveness of controls and management of risks within key financial systems remain a core part of our audit work. We continue to develop our audit approach to give greater assurance.
- **Probity Audit (schools and other establishments):** Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice is confirmed. For schools this includes assessment against the Schools Financial Value Standard.
- **Computer Audit:** Information technology is fundamental to the delivery of all the Council's services and is an area of rapid change. Due to this high risk, providing assurance on the adequacy of electronic systems and controls is a key part of our annual audit plan.
- **Contract Audit:** Changing approaches to procurement and contract management are a key part of delivering improved services. This also brings additional inherent risks that need to be managed. Audits of the procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.
- **Special Projects:** Specific areas of Council business which may be subject to change through the development and implementation of new systems, or delivery models, where poor value for money or failing service standards have been identified or where there are new or significant risks will be targeted for review as part of the audit planning process.
- **Risk Management:** Risk management support is provided to some of the partners to facilitate the review and implementation of risk management strategies and to take the lead in compiling the Annual Governance Statement. Where this function is provided by the SWLAP, an independent review is undertaken by the Internal Audit contractor under the Croydon Framework contract to ensure independence. This review will assess the risk management arrangements, including risk strategy, adequacy of strategic and operational risk registers and the extent to which it is embedded.
- **Partnerships:** Councils are increasingly operating and delivering services jointly through partnerships. This brings risks and opportunities to councils and the delivery of services. We will review key partnerships.
- **Provision of advice and support:** Increasingly Internal Audit are involved in providing advice and support on an ad hoc basis. This may involve the provision of general advice on risks and controls or more detailed work with specific

business areas where there are significant changes to systems and processes or decisions which require independent due diligence. The Heads of Audit also sit on boards, such as Information Governance, Corporate Governance and Risk Management and working groups;

- **Fraud, Corruption and Financial Irregularities:** The SWLFP will investigate fraud and irregularity arising during the year and may work alongside officers from the SLWAP on cases particularly where there are significant control issues requiring audit and fraud input. The audit plan will also include a programme of pro-active fraud checks.
- **Follow up work:** Follow up work on outstanding audit recommendations will be regularly undertaken. Progress will be reported to Audit Committee and where progress is unsatisfactory, or management fail to provide a satisfactory response to follow up requests this will be reported to the relevant Assistant Director, Director or Audit Committee where required.

### **Policies and Procedures**

All audit work will be undertaken in accordance with Council regulations and professional standards. There is an Audit Manual and Internal Audit Protocol which sets out the audit process for staff to adhere to, including quality control procedures.

### **Quality Assurance and Improvement Programme**

The Head of the South West London Audit Partnership continuously reviews the quality and effectiveness of all aspects of the Internal Audit service. This includes:

- Establishing procedures that comply with the Public Sector Internal Audit Standards
- Maintaining a professional audit team with sufficient knowledge, skills and experience to carry out the Audit Plan. This includes undertaking appraisals and ensuring that training needs are identified and addressed
- Undertaking, reviewing and acting on client satisfaction surveys and feedback
- Reviewing audit methodology and benchmarking against best practice
- Independent review of all audit assignments undertaken.

In line with the Public Sector Internal Audit Standards, Internal Audit has a quality and improvement programme in place. The results of the quality and assurance programme and progress against any improvement plans will be reported in the Annual reports to each Borough's Audit Committee.

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

**Date: 10 March 2022**

Wards: All Wards

### **Subject: Internal Audit Progress Report 2021/22**

Lead officer: Caroline Holland - Director of Corporate Services

Lead member: Chair of Standards and General Purposes Committee

Contact officer: Margaret Culleton - Head of Internal Audit  
Auditmargaret.culleton@merton.gov.uk

#### **Recommendation:**

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To consider and comment on the Internal Audit Plan 2021/22 progress

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

- 1.1 In March 2021, the Standards and General Purposes Committee agreed to an Annual Audit Plan comprising a total of 765 chargeable days. This report summarises Internal Audit's progress in delivering the Annual Audit Plan up to March 2022.

## **2 Details**

- 2.1 The Accounts and Audit Regulations 2015 require an adequate and effective internal audit of accounting records and the system of internal control in accordance with proper practices. This task has been delegated to the responsible finance officer under Section 151 of the Local Government Act 1972. At Merton, the role of the responsible finance officer is fulfilled by the Director of Corporate Services and the internal audit requirement is met through the South West London Audit Partnership (SWLAP), which Merton joined in October 2015.
- 2.2 Internal Audit follows the Public Sector Internal Audit Standards (PSIAS). These standards comprise the public sector interpretation of existing standards set by the Chartered Institute of Internal Auditors. As supplementary guidance, specific to the local government sector, an application note has been issued by CIPFA/IIA; this guidance establishes the requirement for interim reporting [of Internal Audit activity] during the year and this report is designed to meet that requirement.

## **3 Internal Audit Progress**

- 3.1 The table shown below summarises progress of the audit plan.

<b>2021/22 Audit Plan</b>	<b>Audits</b>
Number of Final (completed) audits	30
Number of audits at draft stage	3
Number of audits in progress	12

3.2 Thirty-two audit assurance opinions have been issued since April 2021, categorised as follows:

- 1 (3%) **Full Assurance** audit opinion
- 24 (75%) **Substantial Assurance** audit opinions
- 7 (22 %) **Limited Assurance** audit opinions
- 0 (0%) **No Assurance** audit opinions.

195 audit recommendations were issued to management, of which:

- 13 (7%) were Priority 1
- 159 (81%) were Priority 2
- 23 (12%) were Priority 3

3.3 Appendix A includes details of the results of all individual audit assignments that were initiated during the period up to March 2022, including the draft audits and recommendations, which may be subject to change.

3.4 Each audit is given an opinion based on 4 levels of assurance depending on the conclusions reached and the evidence to support those conclusions. Members and management should note that the assurance level is an opinion of controls in operation at the time of the audit.

<b>Levels of assurance</b>	
<b>Full Assurance</b>	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
<b>Substantial Assurance</b>	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
<b>Limited Assurance</b>	There are significant weaknesses in key control areas, which put the system objectives at risk.
<b>No Assurance</b>	Control is weak, leaving the system open to material error or abuse.

<b>PRIORITY OF RECOMMENDATIONS</b>	
<b>1</b>	Major issues that we consider need to be brought to the attention of senior management.
<b>2</b>	Important issues which should be addressed by management in their areas of responsibility to avoid exposure to risk.
<b>3</b>	Minor issues where the risk is low. Action is advised to enhance control or improve operational efficiency.

3.5 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.

3.6 The year-end position on all work undertaken during 2021/22, including any third-party assurances, will be evaluated, and reported in July 2022 and used to determine the Head of Audit's annual opinion on the Council's internal control environment.

#### **Advisory reviews**

3.7 Internal Audit undertake advisory reviews as well as signing off grant claims and accounts. To date the following accounts and grant returns have been reviewed and signed off by the Head of Internal Audit.

- Merton and Sutton Joint Cemetery account
- Mayor's accounts
- Compliance and Enforcement grant

3.8 The work currently undertaken as advisory reviews are: -

- Departmental schemes of management – advisory report issued

- Financial Procedures and Financial Regulations – advisory work and input for an on-going review
- Co-ordination of the Council’s Annual Governance Statement (input from all areas of the Council, self-assessments from Directors and Assistant Directors on the Internal Controls and Governance arrangements in place in their areas of responsibility)
- Attendance at the Corporate Risk Management Group
- Lead on the Whistleblowing Monitoring group (Head of Audit, Monitoring Officer, Head of HR and Legal). Co-ordinator of whistleblowing register
- Other ad-hoc advice

### **Limited Assurances**

3.9 Since April 2021, there have been 7 limited assurance final reports. Three limited assurance reports have previously been reported to Committee. There have been 3 limited assurance final reports issued since the last Committee report in November 2021. A summary of the issues and management response is provided below. The actions from these reviews will be followed up.

### **Special Guardianship/Adoption and Fostering Payments** (final report November 2021)

3.10 Summary of findings Council Policy and Procedural Guidance for Fostering, Adoption, Special Guardianship Order (SGO) and Child Arrangement Order (CAO) Allowances, had not been reviewed within the required timescales. Annual reviews of means-tested allowances, not carried out in a timely manner. Overpayments of Adoption, Special Guardianship Order or Child Arrangement Order, not being calculated or reclaimed. Referrals forms not used to authorise the changes to Adoption, Special Guardianship Order or Child Arrangement Orders leading to an incomplete audit trail of the decision-making process. A formal budget-monitoring process has not been established for the Adoption, SGO and CAO income and expenditure.

3.11 Management response ‘The policies and procedures for Fostering, Adoption and SGO have now all been reviewed and updated to reflect current practice and payments. We have created a master spreadsheet to monitor and review all payments that are being made so that they can be easily reviewed in the same place.

There is now a clear agreed process of how the means tests will be reviewed / quality assured to ensure their accuracy. We have agreed a process whereby letters will be sent to carers to request the updated information for the financial reviews. If after a certain period of time the information is not received, we will freeze payments. With regards to the current backlog of payments, we are working to clear the outstanding reviews and formally contact the carers to request the information in line with our new policy. When we have all the necessary information the longest outstanding assessments will be prioritised and completed and updated on the new master spreadsheet with a new annual review cycle being established.



We will establish clear packages on Mosaic so that the allocation of monies ties in with the financial reviews. We will be seeking to recoup the overspend from last financial year of £8,337.93 We will also recoup any overpayments from this financial year. The Finance manager will train officers to recoup any overpayments on a 2 weekly basis in line with payment runs.

We have now established the codes for where the Adoption Support Funds (ASF) are received. The monies in and out regarding the ASF will be recorded in the master financial spreadsheet. We are currently working on identifying and reconciling previous payments and interventions that took place historically'.

### **Merton Abbey Primary School\_(final report November 2021)**

- 3.12 Summary of findings The school produced a predicted deficit budget for 2021/22 financial year of £99,460. The 1-year budget plan was approved by Governors on the 06/06/2021 and submitted to the Local Authority. At the time of audit (October 2021), the LA had not approved the deficit budget.

Budget monitoring – lack of evidence of monthly monitoring. Supporting evidence of financial reports to be made available to Governors. In 2021/22 (April 2021 to September 2021) 89% of total invoiced expenditure had not been committed to before expenditure had occurred.

- 3.13 Management response 'The School is awaiting indicative 3-year budget figures from LBM and a date for a deficit budget meeting. Consequently, the school has not submitted a 3-year budget, or a recovery plan. We are doing everything we can to ensure good financial management moving forward. The most recent budget-monitoring report shows a projected deficit of £38k at the end of this financial year – significantly better than the £98k we were predicting when we set the budget.

The Head Teacher and Finance Officer have regular discussions on budget monitoring so will ensure that all signed records are kept as evidence. The Finance Officer will include an FMS report as supporting back up for the 'line by line' figures contained in the excel report for reports to Governors'.

### **Gorrington Park Primary School (final report February 2022)**

- 3.14 Summary of findings The approved budget must be fixed on SIMS FMS to aid effective budget monitoring. Lack of evidence of monthly monitoring. Supporting evidence of financial reports to be made available to Governors, included extended school and closing journals Official orders not always raised and authorised prior to purchase. Adherence to the Scheme for Financing Schools (Annex E) not demonstrated and signed contracts not in place.

- 3.15 Management response Original budget for 21/22 as approved by Governors re-loaded and fixed on FMS on 30/11/21. Regular budget monitoring meetings and financial information provided to governors. *Review all on-going contracts to ensure value for money is achieved*

## Parking Enforcement Services - (final report February 2022)

- 3.16 Summary of findings. Where services are provided there is no one overall agreement in place and no overall management oversight. The Council would benefit from a more joined-up approach to providing commissioned services.

Charges made for services provided do not reflect the actual cost to the Council, for example, the invoices only cover overtime paid, tow truck hire, traffic charges and vehicle hire, but have missed other costs and do not include overheads as well as failing to re-charge VAT. A full reconciliation should be undertaken of all costs incurred and a review of additional overheads included.

The arrangements for claiming overtime are currently inadequate as there is insufficient separation of duties and the rates paid are inconsistent with agreed rates.

- 3.17 Management Response 'We will set up agreements and new procedures to ensure all costs are included We will review the overtime claim process. We will ensure full reconciliations are carried out and clear management oversight'.

### Progress of all Priority 1 audit actions

- 3.18 We currently have 28 Priority 1 actions outstanding on limited assurance audits, 9 actions are for audits completed prior to 2021/22 and 19 actions for reports issued since April 2021. An update on progress of all outstanding Priority 1 actions is detailed below and in Appendix B.

#### Limited Assurance reports issued prior to 2021/22 with outstanding Priority 1 audit actions.

Audit	Final report date	Number of Priority 1 recommendations	No of P1's outstanding
Building Control	5/8/20	3	3
PCI compliance	20/12/19	3	3
Prepaid Cards	8/2/21	5	3
<b>Total</b>			<b>9</b>

#### Limited Assurance reports issued in 2021/22, with outstanding Priority 1 audit actions.

Audit	Final Report Date	No of P1 recommendations	No of P1's outstanding
Disclosure Barring Service checks	28/5/21	2	1
Care Management System (CM2000)	16/6/21	4	4
Merton Abbey Primary school	26/11/21	1	1
Parking Enforcement services*	8/2/22	12	12
Gorrige Park Primary School*	23/2/22	1	1
<b>Total</b>			<b>19</b>

\*actions not yet followed up

3.19 All audit actions are followed up monthly when the target date is reached. If a response is not received by the 2<sup>nd</sup> follow up, these are escalated to the Heads of Service or Assistant Director. Outstanding actions are also reported regularly to DMT's. At the time of this report, we had not received an update for actions due on the prepaid cards.

### **Counter-Fraud and Investigations**

3.20 The responsibility for managing the risk of fraud and its prevention and detection lies with management. However, Internal Audit's planned work includes evaluating controls for their effectiveness in mitigating the risk of fraud.

3.21 Counter-fraud work has been undertaken by the South West London Fraud Partnership (SWLFP) since April 2015. This falls across three categories, namely:

- Reactive investigations arising from external intelligence, management referrals or whistleblowing disclosures
- Co-ordination and investigation work in line with the requirements of the National Fraud Initiative data matching exercise
- Proactive counter-fraud work which includes data matching and online fraud awareness training

3.22 A separate report is provided twice yearly by the SWLFP detailing the cases referred and the outcome of any investigations. During 2021/22 the SWLFP have provided support to the Business Rates team administering Covid 19 support applications for the Small Business Grant and the Retail, Hospitality and Leisure Grant schemes.

3.23 Any allegations of corporate fraud or corruption are brought to the attention of the Head of Internal Audit in the first instance. Whistleblowing concerns are also recorded by Internal Audit and the outcome reported annually to the Committee.

3.24 Any areas of potential internal control weaknesses identified during fraud investigations are considered for inclusion in the Internal Audit plan.

## **4 Alternative options**

4.1 None for the purposes of this report.

## **5 Consultation undertaken or proposed**

5.1 n/a

## **6 Timetable**

6.1. None for the purposes of this report.

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

7.1 The Council's budget includes provision for the audit plan.

## **8 Legal and statutory implications**

8.1 This report sets out a framework for Internal Audit to provide a summary of internal audit work for 2021/2022. 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. This report also complies with the requirement of the following:

- Local Government Act 1972
- Accounts and Audit Regulations 2015
- CIPFA/IIA: Public Sector Internal Audit Standards (PSIAS)
- CIPFA/IIA: Local Government Application Note for the UK PSIAS

8.2 The provision of an Internal Audit service is integral to the financial management at Merton and assists in the discharge of the Council's duties.

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

9.1 n/a

## **10 Crime and disorder implications**

10.1 n/a

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

11.1 n/a

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

Appendix A - Audit Assurances since April 2021

Appendix B - Progress on Outstanding Priority 1 actions.

Audit Assurance Opinions: 2021/22

AUDIT TITLE	Department	FINAL DATE	ASSURANCE LEVEL				RECOMMENDATIONS			
			FULL	SUBSTANTIAL	LIMITED	NO	Priority 1	Priority 2	Priority 3	
1	Compliance and Enforcement Grant	E&R	7/5/21	Y						
2	Role of the Operational Procurement Groups	All	13/5/21		Y				8	
3	Mascot Centre	C&H	19/5/21		Y				12	1
4	Cash and Bank	CS	19/5/21		Y				5	1
5	Disclosure Barring Service	CS	27/5/21			Y		2	3	2
6	Payroll (joint audit with LBS and RBK)	CS	28/5/21		Y				4	
7	MSJCB	ER	8/6/21	Accounts sign off						
8	Corporate Procurement follow up	CS	17/6/21		Y				3	3
9	CM2000 Home Care Monitoring	CH	17/6/21			Y		4	13	
10	Cyber Security	CS	24/6/21			Y			8	8
11	Troubled Families grant-quarter 1	CSF	30/6/21		Y					
12	Duplicate Payment Checks- quarter 1	CS	30/6/21		Y					
13	Accounts Payable	CS	10/9/21		Y				3	
14	Declaration of Interests & Gifts & Hospitality-Officers	CS	10/9/21		Y				7	

15	Annual Governance Review	all	28/9/21		Y				5	
16	Departmental Schemes of Management	all	30/9/21		Y				1	
17	Troubled Families Grant-quarter 2	CSF	30/9/21		Y					
18	Duplicate Payments – quarter 3	CS	30/9/21		Y					
19	Mayor's Account	CS	1/10/21		Y				2	2
20	Capital Programme	CS	20/10/21		Y				4	
21	Planning Applications	ER	4/11/21		Y				3	
22	Adoption, Fostering and Special Guardianship Payments	CSF	26/11/21			Y		2	9	
23	Merton Abbey Primary School	CSF	26/11/21			Y		3	12	
24	Adult Social Care Debt	CH	29/11/21		Y				5	
25	Pension Administration (Joint Audit with Wandsworth Council)	CS	11/1/22		Y				1	1
26	ICT Change Management	CS	11/1/22		Y					3
27	St Marks Primary School	CSF	11/1/22		Y				9	
28	Transport Fleet Management	ER	20/12/21		Y			1	3	
29	Parking Enforcement	ER	8/2/22			Y				
30	Gorringe Park Primary School	CSF	23/2/22			Y		1	27	
31	Infection Control Payments	CH	draft		Y				4	
32	E Return Process	CS	draft		Y				4	
33	Wimbledon Ticket Allocation	ER/CS	draft		Y				4	2
34	Children Placements-Short Breaks Commissioning	CSF	in progress							
35	Accounts Payable -Bank Mandates	CS	in progress							

36	Covid 19 Recovery (Grants)	CS	in progress							
37	Adelante (Cash Receipting System) Post Implementation	CS	in progress							
38	Petty Cash Imprests	CS	in progress							
39	Overtime	CS	in progress							
40	Parking Income	ER	in progress							
41	BeDifferent Federation	CSF	in progress							
42	Recruitment	CS	in progress							
43	General Ledger	CS	in progress							
44	Adult Safeguarding	CH	in progress							
45	Leaving Care Team- Financial Controls	CSF	in progress							

<b>TOTALS</b>				<b>1 (3%)</b>	<b>24 (75%)</b>	<b>7 (22%)</b>	<b>0 (0%)</b>	<b>13 (7%)</b>	<b>159 (81%)</b>	<b>23 (12%)</b>
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**Progress on outstanding Priority 1 actions**

**Appendix B**

Auditable Area Name	Recommendation/Agreed Action	Management Comment	Target Date	Revised target date
<p><b>PCI compliance</b> Final report issued 20/12/19</p>	<p>An approve charter for the PCI DSS compliance programme should be put in place by management to include a communication structure that ensures executive / senior management are accountable for and aware of any compliance impacting risks on an ongoing basis. This should also include sets of metrics that summarises the performance of implemented security controls and compliance programme that can be reported to Senior Management monthly.</p>	<p>Adelante has replaced Civica ICON. Adelante is PCI compliant to level1, this is attested by Barclaycard and Adelante as a host. The PRISM scan for the LBM network was due to complete in late October, PRISM are tied up with LBMIT. The target date for the Adelante SCAN is November/December 2021</p> <p><b>Updated comments February 2022 We are trying to resolve this, as there are on-going issues (revised target date moved)</b></p>	<p>31/05/20</p>	<p>31/05/22</p>
<p>PCI compliance</p>	<p>Management should review the findings within the report produced by Prism Infosec and instigate a remediation project immediately. Following that, a second security review should be undertaken to assess the effectiveness of any controls that have been implemented.</p>	<p>Comments as above</p>	<p>31/05/20</p>	<p>31/05/22</p>
<p>PCI compliance</p>	<p>Quarterly PCI scanning should be conducted by an Approved Scanning Vendor (ASV) to ensure that internal and external vulnerabilities are timely identified, and remedial actions are timely taken.</p>	<p>Comments as above</p>	<p>31/05/20</p>	<p>31/05/22</p>
<p>Building Control Final report issued 5/8/20</p>	<p>A full review of the processes and procedures relating to the BC52: Request for inspection fee form should be undertaken in order to ensure that this is effective and robust. The possibility of running a report from M3 of all BC52 forms printed, and all outstanding</p>	<p>Without a qualified Operation Manager, the Building and Development Control Manager has extremely limited time available to undertake this task given other statutory responsibilities, especially in Development Control.</p>	<p>01/03/21</p>	<p>31/10/22</p>

	<p>fees held in M3 should be investigated in order to aid the reconciliation of income. A full system reconciliation should be established and undertaken regularly to ensure that the BC52 requests for inspection fees have been recorded correctly on M3, submitted to finance for payment and payment subsequently received on E5.</p>	<p><b>Updated comments received February 2022</b> <b>I can confirm that none of the actions have been completed and will not be by 31st March either. We are intending to undertake a complete review of Building Control which will include all of these necessary actions. However, we anticipate that this will not commence until the end of April and will take approximately 6 months.</b></p>		
Building Control	<p>As instructed in the Charges Regulations, the financial statements should be completed and signed by the Section 151 officer within 6 months of the end of the financial year.</p>	<p>In conjunction with finance, we are looking at how this needs to be implemented. Older records are being sought to ensure the process is complied with. <b>Updated comments received February 2022 (as above).</b></p>	01/01/21	31/10/22
Building Control	<p>The building control surveyor should not be the same officer involved in agreeing the invoices, undertaking site inspections, reviewing the applications for approval, updating the M3 system and issuing the completion certificate. The lack of separation of duties in the work undertaken by building control surveyors should be reviewed and an appropriate separation in approval processes or a peer review process introduced.</p>	<p>There are no Principle Senior Surveyors and no Operations Manager. The B @ DC Manager does not have capacity to evaluate all such cases. We are just finishing a LABC review and are expecting the report within the next month and with matters moving forward quickly in relation to the required competencies in building control following Grenfell, the target dates have been supplied in line with the expected outcome of that review. <b>Updated comments received February 2022 (as above).</b></p>	01/06/21	31/10/22
Pre Paid Cards Final Report issued 8/2/21	<p>A review of employees with access to the PFS systems must be undertaken as soon as possible. A reconciliation must be carried out between system access and employee records to identify all individuals no longer employed by the Council. The accounts of employees identified as not</p>	<p>Liaison with PFS to identify all users and to include details from Adult Social Care to action the reconciliation of the users accounts. Deactivation of users that should no longer have access has been completed. The 'Policy' is to include details regarding removal of users from the account when they are no longer employed by Children's Social Care or no longer</p>	31/03/21	31/3/22

	<p>working for LBM must have their access and account immediately deactivated.                  Any employees also identified as being a card holder must have their card cancelled immediately and any remaining funds transferred from the card to the relevant team budget.                  Going forward a process must be put in place to ensure that employees leaving the Council have their access and accounts deactivated immediately on leaving LBM.                  The controls around access and account deactivation must form part of the Prepaid Card Policy document.</p>	<p>working for Merton Council.                  Details in regard to control for access and account deactivation will be included in the policy.  <b>Updated comments February 2022 -We have allocated an officer to review the outstanding actions as a matter of urgency and will provide an update by the end of March. (revised target date).</b></p>		
<p>Pre Paid Cards</p>	<p>An overarching Prepaid Card Policy stipulating the use and management of the card must be drawn up taking into account (and making reference to) other corporate financial policies where appropriate. The policy document must detail the administrative function of the prepaid card .i.e. the purpose of the prepaid card, the prepaid card limitations/parameters, the process for authorising new prepaid cards as well as the lines of responsibilities (to include titles of officers).                  In addition, the current localised guidance documents must be reviewed with a view to having one divisional prepaid card guidance document, detailing the day-to-day processing and procedures (the PFS manual should be used as a template).                  On completion, both documents must be made available to all teams using prepaid cards as a means of disbursing funds either to clients or as a means of petty cash.</p>	<p>Agreed.  <b>Updated comments-see above</b></p>	<p>31/03/21</p>	<p>31/3/22</p>

	<p>To ensure that this is appropriate version control in place the two documents must be annotated with the following details                  Date it was approved:                  Whom it was approved by:                  Date of the review:                  Date of next review:.</p>			
PrePaid Cards	<p>To ensure that there is an adequate separation of duties, a single officer must not be able order, register and upload funds on to a prepaid card.</p>	<p>An exercise is underway working with PFS to identify access levels for each user – details will be included within the Policy as to whom is responsible for each activity in regard to the use of the cards and funding requests for the prepaid cards.</p> <p><b>Updated comments-see above</b></p>	31/03/21	31/3/22
DBS Final report issued 28/5/21	<p>The Service Level Agreement in place since May 2016 should be reviewed in order to ensure that the DBS service provided to LB Merton is accurately reflected in the agreement.                  Where discrepancies are found, the agreement should be varied in accordance with the terms. A process must be put in place to ensure management information, as stipulated in the shared service agreement, is provided.</p>	<p>This is a Kingston response as the provider of the DBS Service:                  • Kingston to report quarterly on the number of DBS checks carried out by the team <b>(update- now complete)</b>.                  • HR to provide a report on the number of Schools signing up to the service – annually <b>(update – complete)</b>.                  • Kingston to seek customer satisfaction levels and report – annually <b>(Update- Survey to take place during March/April to assess customer satisfaction)</b>.                  • HR to provide number of new providers (Schools) signed up to the service – annually. Training to be provided <b>(Update comment – end of March)</b>.                  • If the outcome of the report on the future of the service is to remain with Kingston, then the charging model will be reviewed. <b>(Update</b></p>	31/08/21	30/04/22

		<b>comment- report to CMT in September on service provided).</b>		
CM2000 Home Care Monitoring Final report issued 16/6/21	Legal Services should be contacted as soon as possible, with a view to correcting the error identified in the contract documentation.	Agreed and will be completed as part of work to ensure contracts are signed and sealed.  <b>Updated comments received February 2022. Advice has been requested from Legal Services -implementation date extended.</b>	31/10/21	31/3/22
CM2000 Home Care Monitoring	The LBM guidance on sealing contracts advises that for services relating to vulnerable adults, consideration should be given to having a deed, even if the value of the contract is lower than £250,000. Legal services should be contacted for advice regarding the signing and sealing of the contracts.	Agreed  <b>Updated comments received February 2022 Advice has been requested from Legal Services. Implementation date extended.</b>	31/10/21	31/3/22
CM2000 Home Care Monitoring	Whilst it is acknowledged that the use of CM may not be financially viable for all domiciliary care providers a review of current providers not using CM should be carried out as soon as possible. The review should consider the viability of each provider being required to use CM to record and monitor the care provided for LBM clients. Where the use of CM is found to be viable, the use of the system should be introduced as soon as possible.	Agreed and in progress. C&H DMT have agreed the methodology for identifying which providers CM should be rolled out to and a project plan is in place.  <b>Updated comments received February 2022 To be completed as part of the migration to the new version of finance manager – implementation date extended.</b>	31/12/21	31/3/22
CM2000 Home Care Monitoring	Whilst it is acknowledged that there may be occasions when a care worker may not be able to use an opted in clients landline phone, the contract states: - “All and part-manually entered visit duration on opted-in customers will be subject to a 5% recharge of the total cost of those visits submitted.”	Partially agreed, as we need to balance our approach to invoking the 5% recharge with our wider market sustainability responsibilities, particularly in the context of the Pandemic. As part of the work to implement the new version of Finance Manager, and to roll out the CM solution to a wider group of Lot 4 & 5 providers we will document a clear set of business rules relating to	31/12/21	31/3/22

	<p>To ensure compliance with the contract, the penalties for noncompliance as stated in the contract should be invoked. The possibility of the authority achieving significant savings in the event of contract compliance should also be considered.</p>	<p>the recharge and the steps to be taken prior to invoking this requirement.</p> <p><b>Updated comments received February 2022</b></p> <p><b>To be completed as part of the migration to the new version of finance manager – implementation date extended.</b></p>		
<p>Merton Abbey School final report 26/11/21</p>	<p>The school must produce and have approved by Governors a 3 Year Budget, Recovery Plan and a 1 Year Budget Cash Flow to supplement the currently 1 year deficit budget being submitted for 2021/22.</p>	<p>This has always been the practice. However, this year we are still awaiting indicative 3 year budget figures from LBM, these are normally issued end of March. Despite enquiries regarding 3 year budget figures and a date for a deficit budget meeting to discuss the 1 year proposed deficit, 3 year figure have not been forthcoming and we have not yet been invited to meet to discuss the deficit/ recovery plan. Consequently, the school has not submitted a 3 year budget, or a recovery plan. Note neither of these has been requested, or chased up, by the LA. Our budget and cash flow are very closely monitored in line with an internal recovery plan. The proposed in year deficit is forecast to reduce.</p> <p><b>Updated comments- February 2022. Headteacher confirmed that the School Finance Team had not yet provided the 3-year projected income figures as agreed.</b></p>	<p>15/12/21</p>	<p>31/3/22</p>

## Committee: Standards and General Purposes Committee

**Date: 10 March 2022**

Agenda item:

Wards: All

### **Subject: Member Induction 2022**

Lead officer: Louise Round, Managing Director, South London Legal Partnership

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

Contact officer: Amy Dumitrescu, Democracy Services Manager, x3357

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#### **Recommendations:**

- A. To agree the proposed member induction programme for 2022 set out in paragraph 2.2
  - B. To agree to the provision of electronic devices to all members and to agree that papers will be circulated electronically unless there are specific accessibility reasons why members require printed copies. .
  - C. To agree the main member induction event will take place on the evening of Monday 9 May 2022,
- 

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

- 1.1. Following the May 2022 elections, a number of statutory and non-statutory training and induction events will be required to be provided to new Councillors as well as those new to particular committees or roles. This report sets out the proposals for how these events could be organised and also sets out the proposed arrangements for providing information technology support and equipment.

## **2 DETAILS**

- 2.1. As in previous years, a distinction will be made between a number of induction events to be held in the days and weeks immediately following the election and an ongoing training and development programme.
- 2.2. The main Councillor induction event is proposed for the evening of Monday 9 May 2022. This will be an opportunity for councillors to hand in completed forms, ask any questions, have their photographs taken and meet the Council's senior managers. This will include a presentation by the Chief Executive as in previous years. Over the next few weeks some of follow up sessions will be run and the programme will therefore be as follows:

<b>Date</b>	<b>Subject</b>	<b>Delivered By</b>	<b>Attendees</b>	<b>Mechanism</b>
Monday 9 May	Induction Evening	Chief Executive, Directors, IT and	All Councillors	In person

		Democracy services staff		
Thursday 12 May	Role of Councillor/ Code of Conduct/ decision making/ Information Governance and Social media	Monitoring Officer, Head of Communications and Community Engagement, Head of IT Systems	All Councillors	In person
Tuesday 17 May	Introduction to Policy and Scrutiny	Head of Policy Strategy and Partnerships	All Councillors	In person
Tuesday 24 May	Introduction to Finance and Business Planning	Director of Corporate Resources	All Councillors	In person
Tuesday 31 May	Keeping our People Safe	Directors of Children Schools and Families and Communities and Housing	All Councillors	In person
Wednesday 8 June	Community Leadership	Director of Environment and Regeneration	All Councillors	In Person
TBC	Planning Training	Head of Development and Building Control	Members of PAC	In person
TBC	Licensing Training	SLLP/ RSP officers	Members of the Licensing Committee	In person
21 June 2022	London Councils Event for new councillors	London Councils	New members who are interested	In person



Within first two months	Information Governance training	Cyber Ninjas	All Councillors	Online module
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- 2.3. It is proposed that the session be run in person in the first instance but that further follow up sessions be run via Zoom. Experience has shown that training using the hybrid models used for council meetings works less well than either having everyone in the room or everyone joining remotely.
- 2.4. Once the nominations process for election has closed, letters will be sent to all candidates letting them know what will be required of them should they be elected so they can keep the relevant dates free.
- 2.5. Councillors would also be provided with a link to the Councillor handbook to refer to. This handbook is already provided electronically and the content is being reviewed. It will be important to keep it under review throughout the four year term as the information in it can quickly become out of date.
- 2.6. Some Committee-specific training could take place immediately prior to the first meeting, for instance, the Standards and General Purposes Committee could be preceded by a briefing on audit and accounts – this may help to increase training attendance.
- 2.7. Statutory training for members on the Planning and Licensing committees would be provided as soon after the election as possible and prior to the first Committee meetings of Planning and Licensing taking place. Where changes to committee memberships happen ad-hoc during the year, those members are provided with 1-2-1 training on Planning/Licensing from a Council officer(s). This rolling approach to training could also apply to other subjects such as Chair’s training for new Chairs.
- 2.8. It would be sensible to carry out a skills audit of members once elected in order to identify specific training for individuals both in the early days and throughout their term. All training requests are sent through the group office staff in the first instance. The latter will be drawn up once the new councillors are in place, on the basis of an audit of their skills and in consultation with the group offices. By way of illustration, attached as appendix A is a schedule of all the training which has been delivered over the course of the current term. Once the make-up of the Council is known, and the Cabinet appointed, we could consider a specific programme for cabinet members.
- 2.9. Ward Information
- As part of the welcome pack for members we would aim to produce ward information packs containing key demographic data and information about key service delivery points, projects and issues in their ward. This could be supplemented by a series of “ward walks “ with senior council officers over the summer months following the election and, possibly, with the offer of a borough tour.

- 2.10. IT Provision
- 2.11. Democratic Services have worked with members and officers to move towards higher usage of the Modern Gov app to reduce reliance on paper agendas and to reduce printing costs. Whilst this has led to some reductions, it is proposed that all members are provided with a Merton device with the Modern Gov application installed to use for receiving and annotating agendas. No councillors will be issued with paper agenda packs unless there were specific accessibility reasons why they required them. The one exception to this would be for the budget papers and scrutiny savings packs which are too substantial to read online and in respect of which councillors may elect to receive a printed copy.
- 2.12. This proposal would lead to a substantial reduction in the amount of paper being printed to service meetings and is therefore in line with the Council's commitment to reducing waste embodied in the Climate Change Action Plan. Officers are aware that using laptops in the Council chamber has previously been problematic because of the absence of power points and the relatively short battery life of some laptops. Accordingly, power points are in the process of being installed in the Council Chamber and these will be available for use shortly.
- 2.13. An audit is currently being undertaken of the equipment which has already been provided to members and new laptops have been ordered. Members will be given a choice between a standard and a lightweight option or they may choose to retain their own devices. Since the Council moved to Office 365, it is possible for members to use the full Outlook functionality remotely using their own devices. Officers will be on hand on the welcome evening on 9 May to take details of members' preferences and the kit will be available for collection over the course of the following days. Members will be able to access their email addresses with effect from the 9 May.
- 2.14. Over recent months a number of questions have been raised by members about the information governance requirements relating to their casework and other information gathered by them in their course of their duties. In order to assist with records management and to ensure compliance with requirements around sharing and retaining data, officers are recommending creating SharePoint sites for each councillor which can be sub divided as convenient to allow for good records management. This will be covered in the session on the role of a councillor and further personalised support will be available when councillors collect their laptops. Staff from the IT team will also run regular surgeries before council meetings to provide ongoing advice and support.
- 2.15. Online training for councillors on their information governance requirements and it will be mandatory for them to carry out that training within two months of being elected.
- 2.16. It is also suggested that the resources for member move to a more online-based system. In close consultation with IT colleagues Democratic

Services would design a Councillor section of the Merton hub or similar where they could access councillor specific information, forms (such as those for declaring interests and gifts and hospitality ) and training resources. This would reduce printing costs but also enable councillors to find all information in one place.

### **3 ALTERNATIVE OPTIONS**

- 3.1. We could decide not to deliver a full induction programme but that would be unlikely to help us meet our aspirations for good governance. Similarly it would seem to be a wasted opportunity not to move to a paperless environment for members in the next term.

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

- 4.1. Group office staff and other departments will be consulted as part of the working group.

### **5 TIMETABLE**

- 5.1. If agreed the training programme put in place for after the elections on 5 May 2022.

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

- 6.1. If agreed to provide devices to new Councillors, some may be re-issued from retiring Councillors. If further devices are required these will need to be costed and purchased. An analysis of existing stock issued to councillors will be carried out to inform an estimate of likely additional cost..
- 6.2. External training provider costs will be met from existing budgets.

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

- 7.1. It is good practice to ensure that new members receive the training and support need properly to carry out their duties, perhaps especially in relation to the requirements of the Code of Conduct and for those members making planning and licensing decisions, given the impact of those decisions on individuals and businesses. It is therefore proposed that such training be mandatory.

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

- 8.1. Training locations and providers will need to be fully accessible and adaptations made where required

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

- 9.1. None for the purposes of this report

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

- 10.1. None for the purposes of this report.

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

Appendix A - Proposed Training Programme

### **12 BACKGROUND PAPERS**

12.1. None

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

**Date: 10 March 2022**

Wards: All

### **Subject: Governance Issues**

Lead officer: Louise Round

Lead member: Owen Pritchard

Contact officer: Louise Round: louise.round@merton.gov.uk

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#### **Recommendations:**

- A. To establish a member working group to consider the nominations of Councillor Simpson and Councillor Williams, together with any other nominations received for awarding Freeperson of the Borough Status.
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#### **1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1. Members will be aware that the Council has the power under section 249 of the Local Government act to admit “persons of distinction” as freemen or freewomen of the Borough. After receiving the aforementioned nominations, this report proposes a process for doing this over the course of the next committee cycle.

#### **2 DETAILS**

- 2.1.1 This Committee has previously agreed that the following process should be followed in order to award freedom of the borough status:
- 2.1.2 Nominations for persons or organisations to be granted Freedom of the Borough, may be made by any serving Member of the Council to the Monitoring Officer on the appropriate form. The Member should first raise the matter for discussion within their political group.
- 2.1.3 Once a nomination is received, the Monitoring Officer will check that sufficient information has been provided on the form and will pass it to the Standards and General Purposes Committee for consideration.
- 2.1.4 The Standards and General Purposes Committee may establish a small working group to informally assess nominations and the likelihood of meeting the 2/3 criteria. The working group would report back to the Standards and General Purposes Committee in regard to any nominee who it believed would meet the criteria and achieve sufficient support at Council.
- 2.1.5 The Standards and General Purposes Committee shall report to Council and, should Council accept the nomination, a Special Meeting of Council would then be called to pass the resolution as required by Section 249 of the Local Government Act 1972.
- 2.1.6 Subject to the Committee’s views, the Monitoring Officer will write to all members seeking any further nominations. The Committee is being asked to establish a working group of members to consider any nominations received with a view to considering that group’s recommendations at its meeting 21

June 2022. If at that stage, any nominations are agreed, a special Council meeting would be arranged. Although such a meeting would formally be a separate meeting, it could be held on the same night as a meeting which has already been scheduled to take place.

### **3 ALTERNATIVE OPTIONS**

- 3.1. Members could choose not to make any nominations for freeperson status at this time and defer any such considerations until after the local elections in May.

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

- 4.1. In relation to conferring freedom of the borough status, all councillors will be invited to make nominations and the final decision will rest with full Council. There is no requirement for public consultation.

### **5 TIMETABLE**

- 5.1. If the Committee agrees the proposals set out in this report, the aim would be to hold a special council to confer freedom of the borough status in late summer or early autumn.

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

- 6.1. There are no significant implications although a modest amount of expenditure will be required to hold the special council referred to above.

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

- 7.1. The power to confer freedom of the borough status is contained in section 249 of the Local Government Act 1972 and includes the ability to incur reasonable expenditure in connection with the same.

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

- 8.1. None

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

- 9.1. None

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

- 10.1. None

### **11 BACKGROUND PAPERS**

- 11.1. None.

## **NOMINATION FOR FREEDOM OF THE BOROUGH**

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

Cllr David Simpson CBE

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

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

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

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

The award may be granted posthumously.

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

YES

NO

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

Cllr Simpson has been a Hillside councillor since 2002. During the last Conservative administration between 2006 and 2010 Cllr Simpson was both Cabinet Member for Community Engagement and then for the Environment where he delivered the rollout of the weekly food waste collection service across Merton.

In addition to serving in the Shadow Cabinet Cllr Simpson is the Vice Chairman of the Borough Licensing Committee. Cllr Simpson was appointed CBE for Political and Public Service in the New Years Honours list in 1993.

- 5. Nomination submitted by:**

**Councillor\_Nick McLean Date 24/2/22**

***Please return this form to The Monitoring Officer, Merton Civic Centre or by e-mail to [democratic.services@merton.gov.uk](mailto:democratic.services@merton.gov.uk)***



## **NOMINATION FOR FREEDOM OF THE BOROUGH**

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

Cllr David Williams MBE JP

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

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

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

- artistic and cultural endeavours
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- charitable work
- improvement to the built and natural environment
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- sports activities
- civic service

The award may be granted posthumously.

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

YES

NO

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

Cllr Williams was first elected in 1974 in Cannon Hill and remained as a Cannon Hill councillor until 1987 when he stood down to pursue a career abroad. Cllr Williams was again elected in Hillside in 1990 and has remained as a Hillside councillor ever since.

In 2006 Cllr Williams became the Leader of Merton Council and led the council until 2010. In addition, he has also served as leader of the opposition and Mayor of Merton in 2012/13.

In the 2019 Queens Birthday Honours Cllr Williams was awarded an MBE, he has also served as a magistrate since 1986.

- 5. Nomination submitted by:**

**Councillor\_Nick McLean Date 24/2/22**

***Please return this form to The Monitoring Officer, Merton Civic Centre or by e-mail to [democratic.services@merton.gov.uk](mailto:democratic.services@merton.gov.uk)***

## **Standards and General Purposes Committee Forward work plan**

### June

- Annual Governance Statement
- Internal Audit Annual Report
- External Audit – Fee Letters for the Council and Pension Fund Accounts
- External Audit of the Council and Pension Fund Accounts
- Final Accounts
- Revisions to Contract Standing Orders
- Freedom of the Borough (recommendations from working group)
- Complaints against Members
- Work Programme

### September

- Internal Audit progress report on annual audit plan
- Update on RIPA authorisations (March and September)
- Complaints against Members
- Recruitment of Independent Person
- 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
- Appointment of Independent Person
- Complaints against Members
- Work programme

### March

- 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)
- Temporary and Contract Staff update
- Complaints against Members
- 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: February 2022 (data to December 2021)**

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

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Lead officer: Liz Hammond, HR Lead

Lead member: Councillor Owen Pritchard

Contact officer: Liz Hammond, 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**

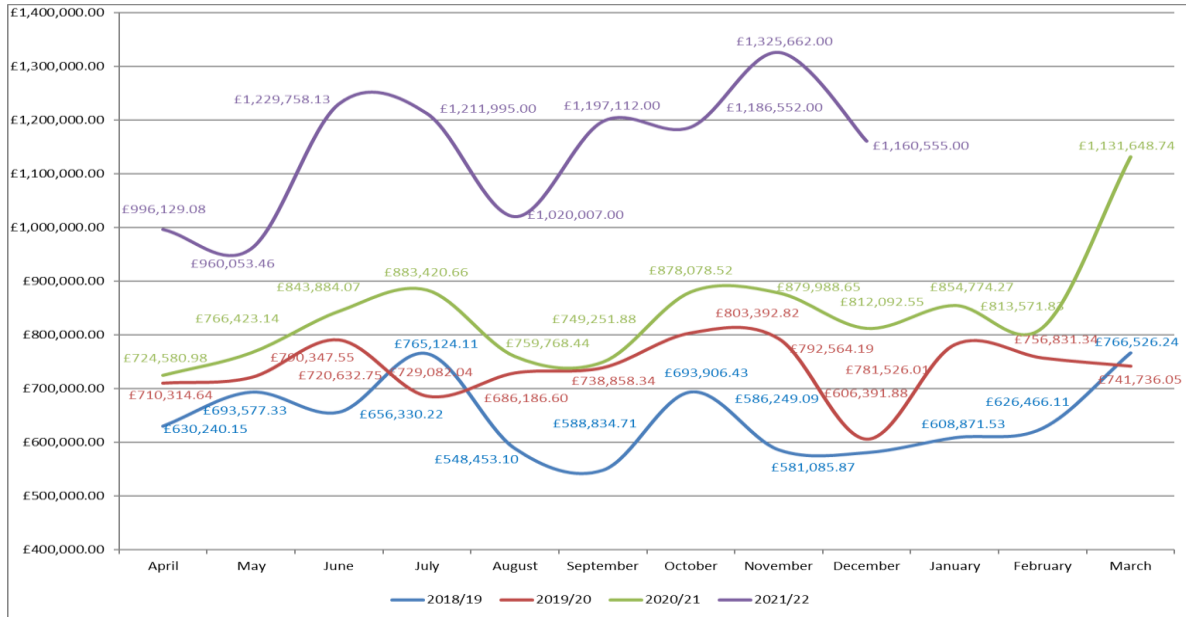
- 1.1. The Committee has received regular progress reports in relation to the number of interim appointments in the council and the mechanisms in place to monitor the use of such workers. The data in this report takes up to the end of Quarter 1 – June 2021.

## **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 being reported to this committee.
- 2.3 As at the end of December 2021, the Council employed 245 interim/temporary workers at £30 per hour (or more) compared to 196 in December 20, which is an increase of 49 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 know 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 After a successful tender process was completed, we have awarded the new agency worker contract to our current incumbent supplier Comensura, new processes will be introduced to allow the contract to run smoothly and offer savings such as statement of works, the new contract started on the 13<sup>th</sup> December 2021.
- 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 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. One hundred and eighty (180) agency workers have transferred to permanent employment from September 2017 to December 2021. From January 2021 to December 2021 we have transferred 31.
- 2.10 Within the services career pathways are being developed through the creation of apprenticeships schemes (where standards are available) and ensuring that the apprenticeship levy is used to meet the development element.
- 2.11 The total spend for interim and temporary workers from 2017 to date are listed below: interims via Comensura Graph 1 and Table 1, LGRP and off contract Graph 2 and Table 2

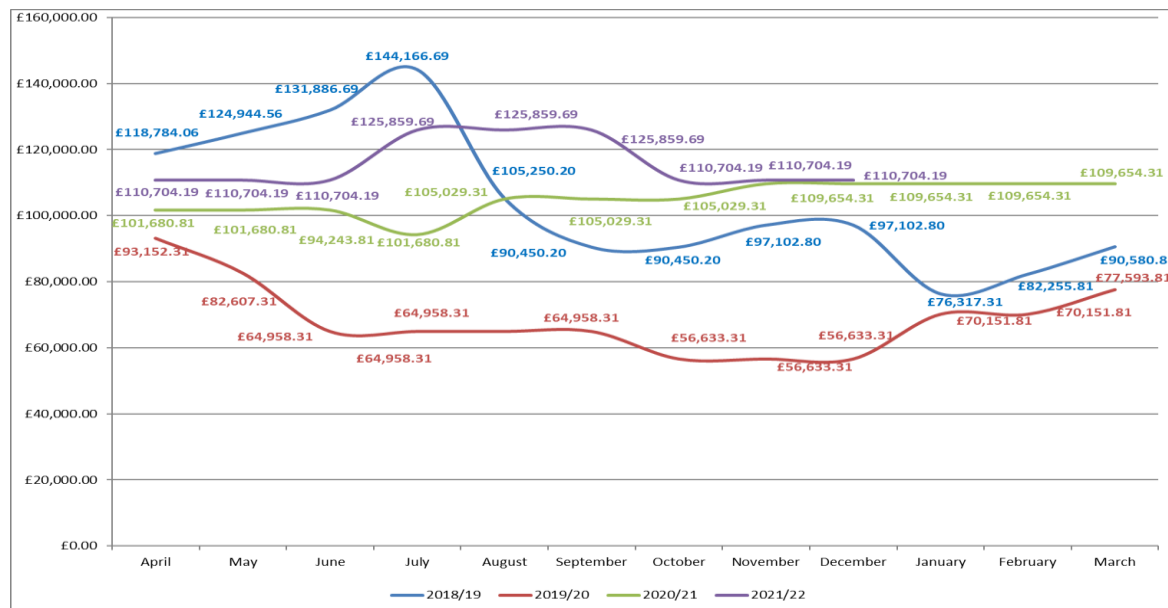
**Graph 1 – List totals for 17/18, 18/19, 19/20, 20/21 for interim and temporary workers – Comensura**



**Table 1 - List totals for 17/18, 18/19, 19/20 and 20/21 for Interim and temporary workers – Comensura**

	2018/19	2019/20	2020/21	2021/22
April	£630,240.15	£710,314.64	£724,580.98	£996,129.08
May	£693,577.33	£720,632.75	£766,423.14	£960,053.46
June	£656,330.22	£790,347.55	£843,884.07	£1,229,758.13
July	£765,124.11	£686,186.60	£883,420.66	£1,211,995.00
August	£588,834.71	£729,082.04	£759,768.44	£1,020,007.00
September	£548,453.10	£738,858.34	£749,251.88	£1,197,112.00
October	£693,906.43	£803,392.82	£879,988.65	£1,186,552.00
November	£586,249.09	£792,564.19	£878,078.52	£1,325,662.00
December	£581,085.87	£606,391.88	£812,092.55	£1,160,555.00
January	£608,871.53	£781,526.01	£854,774.27	
February	£626,466.11	£756,831.34	£813,571.83	
March	£766,526.24	£741,736.05	£1,131,648.74	
<b>Total</b>	<b>£7,745,664.88</b>	<b>£8,857,864.21</b>	<b>£10,097,483.73</b>	<b>£10,287,823.67</b>

**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**

2018/19				2019/20			
	LGRP	Off Contract	Total		LGRP	Off Contract	Total
Apr-18	£33,961.38	£84,822.69	£118,784.06	Apr-19	£83,902.31	£9,250.00	£93,152.31
May-18	£49,371.88	£75,572.69	£124,944.56	May-19	£75,577.31	£7,030.00	£82,607.31
Jun-18	£56,314.00	£75,572.69	£131,886.69	Jun-19	£57,928.31	£7,030.00	£64,958.31
Jul-18	£72,594.00	£75,572.69	£144,166.69	Jul-19	£57,928.31	£7,030.00	£64,958.31
Aug-18	£71,950.20	£33,300.00	£105,250.20	Aug-19	£57,928.31	£7,030.00	£64,958.31
Sep-18	£71,950.20	£18,500.00	£90,450.20	Sep-19	£57,928.31	£7,030.00	£64,958.31
Oct-18	£71,950.20	£18,500.00	£90,450.20	Oct-19	£49,603.31	£7,030.00	£56,633.31
Nov-18	£78,602.80	£18,500.00	£97,102.80	Nov-19	£49,603.31	£7,030.00	£56,633.31
Dec-18	£78,602.80	£18,500.00	£97,102.80	Dec-19	£49,603.31	£7,030.00	£56,633.31
Jan-19	£67,067.31	£9,250.00	£76,317.31	Jan-20	£63,121.81	£7,030.00	£70,151.81
Feb-19	£73,005.81	£9,250.00	£82,255.81	Feb-20	£63,121.81	£7,030.00	£70,151.81
Mar-19	£81,330.81	£9,250.00	£90,580.81	Mar-20	£70,563.81	£7,030.00	£77,593.81

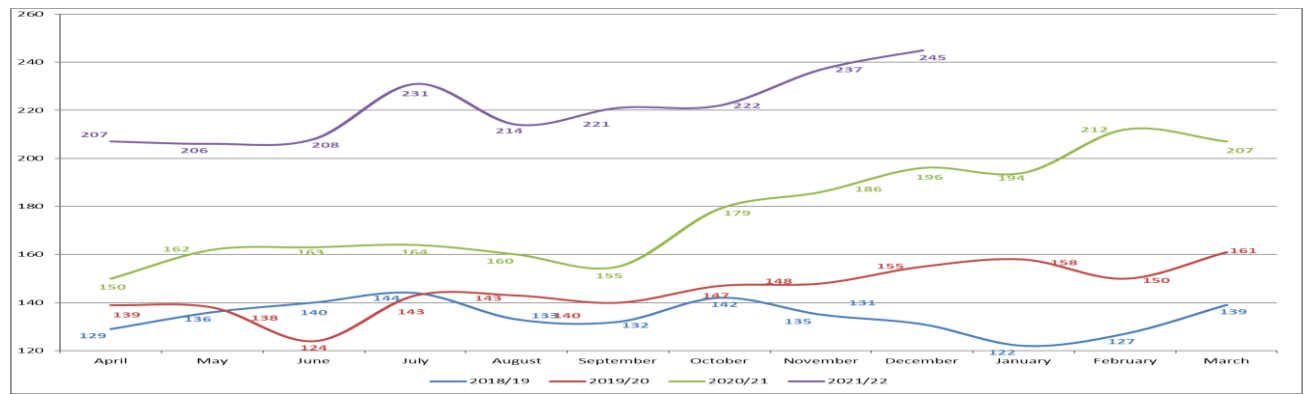
  

2020/21				2021/22			
	LGRP	Off Contract	Total		LGRP	Off Contract	Total
Apr-20	£94,650.81	£7,030.00	£101,680.81	Apr-21	£103,674.19	£7,030.00	£110,704.19
May-20	£94,650.81	£7,030.00	£101,680.81	May-21	£103,674.19	£7,030.00	£110,704.19
Jun-20	£94,650.81	£7,030.00	£101,680.81	Jun-21	£103,674.19	£7,030.00	£110,704.19
Jul-20	£87,213.81	£7,030.00	£94,243.81	Jul-21	£118,829.69	£7,030.00	£125,859.69
Aug-20	£97,999.31	£7,030.00	£105,029.31	Aug-21	£118,829.69	£7,030.00	£125,859.69
Sep-20	£97,999.31	£7,030.00	£105,029.31	Sep-21	£118,829.69	£7,030.00	£125,859.69
Oct-20	£97,999.31	£7,030.00	£105,029.31	Oct-21	£103,674.19	£7,030.00	£110,704.19
Nov-20	£102,624.31	£7,030.00	£109,654.31	Nov-21	£103,674.19	£7,030.00	£110,704.19
Dec-20	£102,624.31	£7,030.00	£109,654.31	Dec-21	£103,674.19	£7,030.00	£110,704.19
Jan-21	£102,624.31	£7,030.00	£109,654.31	Jan-22			
Feb-21	£102,624.31	£7,030.00	£109,654.31	Feb-22			
Mar-21	£102,624.31	£7,030.00	£109,654.31	Mar-22			



2.12 From January 2021 to December 2021 we have increased the number of staff paid £30 per hour and above (Graph 3 / Table 3) by 38, however zero increase via the LGRP contract and off contract. Merton are still keeping the costs as low as possible by using Comensura and the interim category. Due to covid-19 we saw an increase from April to December as Merton Council begin to implement Recovery Projects to be enable us to adapt to new ways of working and at the same time continue with the increasing demands that COVID brings.

**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**

Month	No. of workers over £30/hr				Month	No. of workers over £30/hr			
	Comensura	LGRP	Off Contract	Total		Comensura	LGRP	Off Contract	Total
Apr-18	112	2	15	129	Apr-19	127	7	5	139
May-18	119	3	14	136	May-19	128	7	3	138
Jun-18	122	4	14	140	Jun-19	118	5	1	124
Jul-18	129	5	10	144	Jul-19	137	5	1	143
Aug-18	117	7	9	133	Aug-19	137	5	1	143
Sep-18	120	7	5	132	Sep-19	134	5	1	140
Oct-18	130	7	5	142	Oct-19	141	5	1	147
Nov-18	122	8	5	135	Nov-19	142	5	1	148
Dec-18	118	8	5	131	Dec-19	149	5	1	155
Jan-19	112	6	4	122	Jan-20	149	8	1	158
Feb-19	115	7	5	127	Feb-20	141	8	1	150
Mar-19	127	8	4	139	Mar-20	151	9	1	161

Month	No. of workers over £30/hr				Month	No. of workers over £30/hr			
	Comensura	LGRP	Off Contract	Total		Comensura	LGRP	Off Contract	Total
Apr-20	140	9	1	150	Apr-21	199	7	1	207
May-20	152	9	1	162	May-21	198	7	1	206
Jun-20	153	9	1	163	Jun-21	200	7	1	208
Jul-20	155	8	1	164	Jul-21	222	8	1	231
Aug-20	150	9	1	160	Aug-21	205	8	1	214
Sep-20	145	9	1	155	Sep-21	212	8	1	221
Oct-20	169	9	1	179	Oct-21	214	7	1	222
Nov-20	175	10	1	186	Nov-21	229	7	1	237
Dec-20	185	10	1	196	Dec-21	237	7	1	245
Jan-21	183	10	1	194	Jan-22				
Feb-21	201	10	1	212	Feb-22				
Mar-21	196	10	1	207	Mar-22				

- 2.13 Directors have been invited to provide short overall summary comments on agency/consultant usage and action being taken in their area and these are:

### **Children, Schools and Families**

CSF currently have 1 direct payroll, which have been here over 24 months

Due to Ofsted currently being at Merton, we have been unable to receive comments from Children, School and Families.

However, HR is continuing to work closely with CSF to reduce the reliance on agency workers. CSF actively recruits to permanent roles, reducing the use and duration of agency workers. However, we are in a candidate driven market at the moment and there is a Nationwide shortage of social workers and all organisations are competing for the same resources.

Some additional temporary posts were created to deal with the increased workload working with children in need and at risk. Because of the restrictions in place due to COVID 19, the work to support and discharge from support has been slowed significantly resulting in higher workloads.

The other agency workers are for specialist posts such as speech and language therapy which is also a statutory requirement as part of children's Education, Health and Care Plans. Because of growth funding applied to this area in the 2020/21 budget, we anticipate more permanent recruitment in this area, which should assist in reducing the reliance on agency workers in SEND services.

### **Community and Housing**

C&H currently have 10 agency workers via Comensura, which have been here over 24 months

Due to the additional significant demands of responding to the pandemic, the department had to take on additional temporary staff across a number of service areas. The additional temporary staff have been retained to ensure that vacant posts are filled so we are at full capacity as well as additional short-term capacity to meet the significantly higher workload. The posts are mostly in Public Health and Adult Social Care and where appropriate, posts are funded from various COVID 19 grants. A number of temporary assignments, primarily related to Infection prevention and Control will be extended into 2022/23, using carried forward grant funding, in order to ensure continued support to a range of settings across the Council and wider health, care and housing sectors.

Adult Social Care currently have 6 (included in the total figure of 9 for the Department) agency workers via Comensura, who have been here over 24 months. A number of initiatives have been implemented to focus on recruiting and retaining permanent staff. However, the workforce challenge in social care is impacting nationally and not just in Merton. Equally, we have been recruiting

to posts to support the additional seasonal pressures that winter brings. Though we have had limited success, the main route for this temporary workforce is through Comensura and adds to the numbers of agency workers we employ. To support recruitment and retention of permanent staff, we have implemented an apprenticeship scheme and offered enhanced training and development opportunities. We are working with the Teaching Partnership to get Assessed and supported year in employment (ASYE) social work applicants who can convert to permanent staff. We aim to reduce significantly our reliance on agency staff by recruiting to our permanent vacancies throughout 2022.

### **Corporate Services**

CS currently have 15 agency workers via Comensura, which have been here over 24 months

Of the 15 agency workers, 12 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, alongside an increase in apprenticeships within SLLP but there has also been an increase in short term demand within SLLP as there has been an increase in Children's social care cases and the Courts are not open to progress cases. For the FM Comensura agency worker, the work is demand based on the schools capital programme and the Business Systems Manager, the assignment is coming to an end shortly, but had to be extended as the service area was not able to be available to help with the implementation of the system.

There are two posts in HR who will be recruited to once a decision has been taken on the future HR Operating Model to be adopted and the structure review of the senior posts in Corporate Services, linked to the CE review of CMT. The HR Operating Model forms part of the Recovery and Modernising Merton programme.

### **Environment and Regeneration**

E&R currently have 13 agency workers via Comensura, which have been here over 24 months and 1 consultant

Numbers have not reduced as much as anticipated because of the impact of Covid 19. This reflects Government advice and support for staff on interim / agency contracts. We shall be reviewing all positions as we move out of Lockdown and into recovery

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.

We have also been successful in securing some of the Your Merton [ Merton 2030 ] Money which is being used for some short term projects and requires some agency staff on 6 month contracts . These include Planning enforcement as well as some additional capacity we have in Street trees. Whilst we move out of Lockdown and reduce reliance on agency staff in Track and Trace and supporting the 2 other boroughs as part of the Regulatory Service Partnership it is hard to see how we will accelerate our reliance on these staff in the short term.

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

**Note: Due to the Government announcement on Monday 21<sup>st</sup> February that all COVID restrictions are to end, some with effect from Thursday 24<sup>th</sup> February it is likely that we will no longer have a requirement for a significant number of agency/casual roles currently undertaking COVID related work, such as PCR testing and Track and Trace activities. The Committee should therefore see a reduction in the agency numbers and cost when next reporting to this Committee.**

- 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 now been rolled out into the Private Sector.
- 2.16 HR monitors suppliers and contractors to ensure they are IR35 compliant and the IR35 process for off payroll workers was recently audited and received a substantial assurance.
- 2.17 At a previous Standards and General Purposes Committee meeting where the temporary workforce was discussed the Committee requested information on

our ability to attract and select BAME staff. The statistics for the last 3 quarters of calendar year 2020 and the whole calendar year of 2021 are provided at **Appendix 2**. There continues to be an improving picture of attracting BAME candidates with the majority of candidates applying for our roles identifying as BAME. This becomes more of a mixed picture at shortlist stage, with some quarters showing a majority of BAME candidates yet others show a majority identifying as white. The mixed picture continues at offer stage, while some quarters show slight majority of BAME candidates being offered, others are more evenly split and one quarter with a majority of white candidates. Roles at grade MGA and above (jobs with salaries of £50k plus) continue to have a slight majority of candidates who identify as white at all stages of the recruitment process.

- 2.18 For senior appointments we engage specialist head hunters through the LGRP framework who have a strong track record of being able to attract a diverse pool of candidates to senior roles. For Director and CEO appointments the choice of head hunter will be made by the Appointments Committee. In any year Merton normally benefit from a very stable senior workforce but the retirement of the CEO in July 2021 has had a knock on effect of raising senior management opportunities at the senior level. 9 appointments, either permanent or interim have been made since January. 7 of the 9 have gone to internal candidates which is very positive news from a succession planning perspective as it demonstrates a good track record of being able to grow our own senior level staff. 50% of these have also gone to females. The two successful external candidates are for the AD of Social Care & Youth Inclusion role (for which a BAME male was appointed) and for the Head of School Improvement (for which a White female was appointed. Please see **Appendix 3** below for full details of the ethnic breakdown of applicants. A number of senior recruitment campaigns are anticipated to take place in the next six months of 2022.

### **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 We will endeavour to give the most up to date information we have available.

### **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

.

## Appendix 2

### Applications received

	April to June 2020			July to Sept 2020			Oct to Dec 2020		
	BAME	White	PNS	BAME	White	PNS	BAME	White	PNS
CSF	61%	34%	5%	56%	40%	4%	57%	40%	3%
C&H	57%	40%	3%	61%	34%	5%	63%	36%	1%
CS	71%	29%	0%	48%	49%	3%	47%	47%	6%
E&R	28%	62%	10%	37%	60%	3%	29%	71%	0%

	Jan to March 2021			April to June 2021			July to Sept 2021			Oct to Dec 2021		
	BAME	White	PNS	BAME	White	PNS	BAME	White	PNS	BAME	White	PNS
CSF	56%	43%	1%	65%	28%	7%	54%	42%	4%	64%	35%	1%
C&H	60%	36%	4%	62%	35%	3%	75%	23%	2%	56%	36%	8%
CS	60%	35%	5%	66%	31%	3%	54%	41%	5%	42%	51%	7%
E&R	51%	49%	0%	40%	58%	2%	52%	44%	4%	35%	61%	4%

### Shortlisted

	April to June 2020			July to Sept 2020			Oct to Dec 2020		
	BAME	White	PNS	BAME	White	PNS	BAME	White	PNS
CSF	50%	49%	1%	36%	57%	7%	54%	45%	1%
C&H	58%	42%	0%	46%	46%	8%	36%	64%	0%
CS	57%	43%	0%	40%	56%	4%	25%	70%	5%
E&R	29%	65%	6%	15%	85%	0%	22%	78%	0%

	Jan to March 2021			April to June 2021			July to Sept 2021			Oct to Dec 2021		
	BAME	White	PNS	BAME	White	PNS	BAME	White	PNS	BAME	White	PNS
CSF	38%	62%	0%	61%	34%	5%	57%	40%	3%	67%	33%	0%
C&H	47%	47%	6%	56%	44%	0%	70%	28%	2%	48%	48%	4%
CS	63%	32%	5%	62%	34%	4%	52%	44%	4%	46%	50%	4%
E&R	33%	67%	0%	19%	81%	0%	58%	33%	0%	31%	69%	0%

**Appointed**

	April to June 2020			July to Sept 2020			Oct to Dec 2020		
	BAME	White	PNS	BAME	White	PNS	BAME	White	PNS
CSF	47%	50%	3%	33%	62%	5%	60%	20%	20%
C&H	68%	32%	0%	0%	100%	0%	50%	50%	0%
CS	71%	29%	0%	15%	85%	0%	40%	60%	0%
E&R	60%	40%	0%	0%	100%	0%	50%	50%	0%

	Jan to March 2021			April to June 2021			July to Sept 2021			Oct to Dec 2021		
	BAME	White	PNS	BAME	White	PNS	BAME	White	PNS	BAME	White	PNS
CSF	17%	83%	0%	50%	38%	12%	37%	63%	0%	44%	56%	0%
C&H	50%	50%	0%	60%	40%	0%	50%	50%	0%	25%	75%	0%
CS	40%	60%	0%	57%	29%	14%	43%	57%	0%	50%	50%	0%
E&R	50%	50%	0%	0%	100%	0%	0%	100%	0%	0%	100%	0%

**Applications received – posts at MGA and above**

	April to June 2020			July to Sept 2020			Oct to Dec 2020		
	BAME	White	PNS	BAME	White	PNS	BAME	White	PNS
	22%	61%	17%	55%	40%	5%	39%	61%	0%

	Jan to March 2021			April to June 2021			July to Sept 2021			Oct to Dec 2021		
	BAME	White	PNS	BAME	White	PNS	BAME	White	PNS	BAME	White	PNS
	32%	66%	2%	38%	55%	7%	48%	51%	1%	43%	55%	2%

**Shortlisted – posts at MGA and above**

	April to June 2020			July to Sept 2020			Oct to Dec 2020		
	BAME	White	PNS	BAME	White	PNS	BAME	White	PNS
	38%	62%	0%	56%	38%	6%	57%	43%	0%

	Jan to March 2021			April to June 2021			July to Sept 2021			Oct to Dec 2021		
	BAME	White	PNS	BAME	White	PNS	BAME	White	PNS	BAME	White	PNS
	28%	72%	0%	20%	73%	7%	31%	65%	4%	33%	67%	0%



**Appointed – posts at MGA and above**

	April to June 2020			July to Sept 2020			Oct to Dec 2020		
	BAME	White	PNS	BAME	White	PNS	BAME	White	PNS
	33%	67%	0%	50%	50%	0%	50%	50%	0%

	Jan to March 2021			April to June 2021			July to Sept 2021			Oct to Dec 2021		
	BAME	White	PNS	BAME	White	PNS	BAME	White	PNS	BAME	White	PNS
	13%	87%	0%	20%	60%	20%	17%	83%	0%	17%	83%	0%

**Appendix 3**

We have made 9 senior appointments recently, the details of which are as follows:-

It is usual practice to work with an executive head hunting agency through the LGRP on senior roles, and the brief always includes a focus on attracting a diverse pool of candidates.

<b>Assistant Director Public Protection</b>		
Applications – 15	Shortlisted - 4	Offered - 1
33% Black Asian and Minority Ethnic	50% BAME	100% White Female – internal interim candidate
67% White	50% White	
<b>Director Children, Schools &amp; Families</b>		
Applications – 17	Shortlisted - 6	Offered - 1
18% Black Asian and Minority Ethnic	17% BAME	100% White Female – internal candidate
71% White	83% White	
12% Prefer no say		
<b>Assistant Director Education &amp; Early Help</b>		
Applications – 13	Shortlisted - 4	Offered – 1
38% Black Asian and Minority Ethnic	25% BAME	100% White Female – internal candidate
62% White	75% White	
<b>Assistant Director Social Care &amp; Youth Inclusion</b>		
Applications – 11	Shortlisted - 4	Offered - 1
55% Black Asian and Minority Ethnic	50% BAME	100% BAME – Male – external candidate
45% White	50% White	
<b>Chief Executive</b>		
Applications – 13	Shortlisted – 3 (although 1 withdrew before interview)	Offered - 1
46% Black Asian and Minority Ethnic	33% BAME	100% White Female – internal candidate
54% White	67% White	

<b>Assistant Director Adult Social Care - Secondment</b>		
Applications - 1	Shortlisted - 1	Offered - 1
100% White	100% White	100% White Male - internal
<b>Assistant Director C&amp;H Commissioning - Secondment</b>		
Applications – 1	Shortlisted - 1	Offered - 1
100% White	100% White	100% White Male - internal
<b>Interim Director C&amp;H – Acting Up</b>		
Applications – 1	Shortlisted - 1	Offered - 1
100% White	100% White	100% White Male - internal
<b>Head of School Improvement</b>		
Applications – 6	Shortlisted - 3	Offered - 1
67% BAME 33% White	100% White	100% White Female

By virtue of paragraph(s) 2 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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