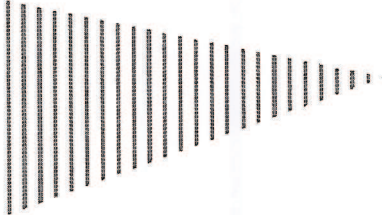


Merton Council

Audit Progress Report to General Purposes Committee

March 2014

Ernst & Young LLP





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working world

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INVESTOR IN PEOPLE

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

4 March 2014

Dear committee members

Audit Progress Report

We are pleased to attach our Audit Progress Report.

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

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

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

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

Yours faithfully

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

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

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

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

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

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

1. Work programme

1.1.1 2012-13 audit

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

1.1.2 2013-14 audit

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

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

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

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

Letters to management and those charged with governance

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

Value for money assessment

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

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

1.1.3 Pension Fund 2013-14 audit

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

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

2. Timetable

General Purposes Committee timeline

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

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

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

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

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

Appendix 1: Audit Progress

Progress against key deliverables

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

Appendix 2: Letter to management

Private and confidential

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

28 February 2014

Ref:
Your ref:

Direct line:

Email: DWilkinson@uk.ey.com

Dear Caroline

Understanding your management processes and arrangements

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

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

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

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

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

Yours sincerely

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

Appendix 3: Letter to those charged with governance

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

28 February 2014

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

Dear Peter

Understanding how the General Purposes Committee gains assurance from management

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

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

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

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

Yours sincerely

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

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