

Merton Council

General Purposes Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

17th September 2014

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Executive summary

Key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the General Purposes Committee - on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2013/14 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- ▶ As of 10 September 2014, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements adequately.

Value for money

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- ▶ We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.
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Extent and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2013/14 financial statements
- Report on any exception on the governance statement or other information included in the foreword
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)

In addition, this report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.

As a component auditor, we also follow the group instructions and send to the NAO our group assurance certificate, audit results report and auditor's report on the consolidation schedule.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
<p>Significant audit risks (including fraud risks)</p> <p>The Council has made material changes to the valuation, classification and completeness of disclosures of its property, plant and equipment in recent years. We also identified material errors and omissions in last year's audit.</p> <p>The Council is proposing further changes in 2013/14 through a reclassification of its investment properties. This will lead to a material change to the financial statements.</p> <p>These indicate wider risks around the completeness of property, plant and equipment disclosed in the financial statements and the accurate classification of these assets.</p>	<ul style="list-style-type: none"> Reviewed management controls over the completeness and classification of assets in the asset register and underlying records; Tested the completeness and classification of assets and corresponding valuations; Tested reasonableness of the valuation including assessment against central reports provided by the Audit Commission's expert valuer; We did not need to make use of our own valuation expert. 	<ul style="list-style-type: none"> Assurance gained over the valuation, classification and completeness of disclosures of your property, plant and equipment; We reviewed the Council's re-classification of its investment properties and we have no issues to report.
<p>As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; Reviewed accounting estimates for evidence of management bias; and Evaluated the business rationale for any significant unusual transactions. 	<ul style="list-style-type: none"> All our planned procedures are complete. We have no matters to bring to your attention from our testing.

Financial statements audit

Issues and misstatements arising from the audit

Progress of our audit

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the General Purposes Committee meeting:
 - ▶ Receipt of a Letter of Representation
 - ▶ Receipt and check of the amended financial statements
 - ▶ Final audit closing procedures and review procedures.
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected Misstatements

- ▶ Our audit has not identified any uncorrected misstatements within the financial statements.

Corrected Misstatements

- ▶ Our audit identified a number of misstatements which we have highlighted to management for amendment. All of these have been corrected during the course of our work.
- ▶ We do not consider any of these to be significant and therefore we have not provided further details in this report.

Financial statements audit (continued)

Issues and misstatements arising from the audit

Other Matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and,
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest;

We encountered delays in receipt of information from your general ledger to support our work on completeness and review of journals. We will work with your Finance team to integrate this work earlier into the overall closedown process in future.

We have two matters we wish to report.

We recommended improvements last year in the linkage between internal reporting and the financial statements. Some improvements have been made this year, but further improvements can be achieved by using the management outturn report as the basis for segmental reporting in Note 2. This would ensure full compliance with the Code of Accounting Practice.

This is the first year councils have been required to include a provision for appeals against business rateable values. We reviewed the adequacy of the provision and concluded that we had sufficient assurance. However, a more structured approach is needed to the work carried out by the Council, the assumptions made and the supporting documentation.

Financial statements audit (continued)

Internal Control, Written Representations & Whole of Government Accounts

Internal Control

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.

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have reviewed the Annual Governance Statement and can confirm that:

▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and

▶ It is consistent with other information that we are aware of from our audit of the financial statements.

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.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters. In addition to the standard representations, we have requested a specific representation as the Council makes use of its own qualified internal valuer for the valuation of property, plant and equipment.

Whole of Government Accounts

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

We are currently concluding our work in this area and will report any matters that arise to the General Purposes Committee. We expect to issue an unqualified confirmation to the NAO regarding the Whole of Government Accounts submission.

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Merton Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 - Arrangements for securing financial resilience

▶ *"Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future"*

■ We did not identify any significant risks in relation to this criteria.

■ We reviewed the Council's systems and processes relevant to this criteria and we have no issues to report.

Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

▶ *"Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity."*

■ We did not identify any significant risks in relation to this criteria.

■ We also considered the work we carried out in our investigation into whistleblowing allegations about the Council's use of consultants.

■ We reviewed the Council's systems and processes relevant to this criteria and we have no issues to report.

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since the confirmation in our Audit Plan dated 3 March 2014.
 - ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
 - ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
 - ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.
- If you wish to discuss any matters concerning our independence, we will be pleased to do so at the meeting of the General Purposes Committee on 17 September 2014.

- ▶ We confirm that we have met the reporting requirements to the General Purposes Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements was set out in our Audit Plan of 3 March 2014.

Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
Total audit fee - Code work	£ TBA(*)	£ 188,730	(*) - see comment below
Certification of claims and returns	TBA	54,500	Work not yet completed
Non-audit work	0		

(*) – we reported the results of our whistleblowing work at the March meeting of the General Purposes Committee. A scale fee variation of £16,500 for this work was subsequently agreed by the Audit Commission. We have experienced difficulties with our data analytics work as part of our final accounts audit and will discuss a scale fee variation with the Council at the conclusion of the audit.

- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

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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 Audit Results Report 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.

