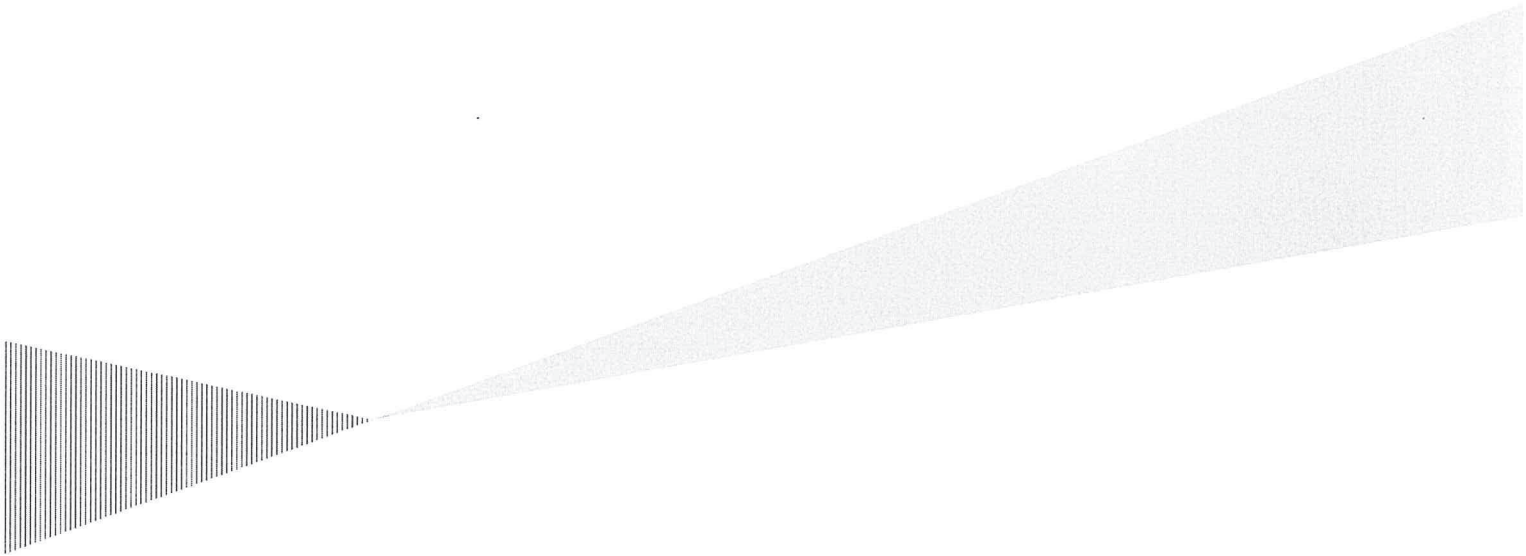


Merton Council

Annual Audit Letter

Year ending 31 March 2014

22 October 2014



Building a better
working world



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The Members

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22 October 2014

Dear Members,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Merton Council (the Council) and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of Merton Council in the following reports:

2013/14 Audit results report for Merton Council

Issued 8 September 2014

2013/14 Audit results report for the London Borough of Merton Pension Fund

Issued 10 September 2014

The matters reported here are the most significant for the Council.

I would like to take this opportunity to thank the officers of the Council for their assistance during the course of our work.

Yours faithfully

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

Executive summary

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued on 3 March 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

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 an annual basis on the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their 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.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements;
- ▶ reviewing the Annual Governance Statement;
- ▶ forming a conclusion on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Merton Council and its Pension Fund for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)	On 19 September 2014 we issued an unqualified audit opinion in respect of the Council.
	On 19 September 2014 we issued an unqualified audit opinion in respect of the Pension Fund.
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources.	On 19 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Council (the General Purposes Committee) communicating significant findings resulting from our audit.	On 8 September 2014 we issued our report in respect of the Council. On 10 September 2014 we issued our report in respect of the Pension Fund.
Report to the National Audit Office on the accuracy of the consolidation pack the Council is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 24 September 2014.

Executive summary

Consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report.
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	On 24 September 2014 we issued our audit completion certificate.
Issue a report to those charged with governance of the Council summarising the certification (of grant claims and returns) work that we have undertaken.	On 28 February 2014 we issued our annual certification report to those charged with governance with respect to the 2012/13 financial year. Our work on your 2013/14 housing subsidy and benefit claim is in progress. On completion of this work, we will issue our annual certification report to those charged with governance with respect to the 2013/14 financial year.

Key findings

Key findings

Financial statement audit

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 19 September 2014.

We issued a 'short-form' report which reflected that there were few issues to report for the Council. We identified a larger number of amendments and additional disclosures for the Pension Fund.

In our view, the quality of the process for producing the accounts, including the supporting working papers, was good.

The main issues identified as part of our audit were:

Significant risk 1: Property, plant and equipment (Council only)

Risk

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.

The Council included further changes in 2013/14 through a reclassification of its investment properties. This led to a material change to the financial statements.

These indicated wider risks around the completeness of property, plant and equipment disclosed in the financial statements and the accurate classification of these assets.

Results

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 had no issues to report.

Significant risk 2: Risk of management override (Council and Pension Fund)

Risk

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. We identify and respond to this fraud risk on every audit engagement.

We also considered the findings from our work responding to allegations made about the Council's appointment and use of consultants.

Results

We presented the findings from our review of whistleblowing allegations to the 12 March 2014 General Purposes Committee meeting. The Committee has subsequently received update reports from the Council on progress made in implementing our recommendations.

We had no other matters to bring to your attention from our testing for both the Council and Pension Fund.

Other key findings:

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 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 to the Council's financial statements. This would ensure full compliance with the Code of Accounting Practice.

This was the first year councils were 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.

For the Pension Fund, we identified the need for inclusion of additional disclosures. These amendments were to more closely align the Fund's financial statements with the Chartered Institute of Public Finance and Accountancy (CIPFA) example as best practice and to be internally consistent

Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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

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

We reviewed the Council's systems and processes relevant to both criteria and we had no issues to report.

We issued an unqualified value for money conclusion on 19 September 2014. Our audit did not identify any significant matters.

Objections received

We received no objections to the 2013/14 accounts from members of the public.

Whole of government accounts

We reported to the National Audit Office on 24 September 2014 the results of our work performed in relation the accuracy of the consolidation pack the Council is required to prepare for the whole of government accounts. We did not identify any areas of concern.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance.

Key findings

We completed this work and did not identify any areas of concern.

Certification of grants claims and returns

We presented our Annual Certification Report for 2012/13 to those charged with governance at the General Purposes Committee meeting on 12 March 2014. We certified three claims and returns worth £195.155 million. We issued qualification letters in relation to two claims/returns highlighting a number of areas where the Council had not fully complied with the relevant grant conditions.

We will issue the Annual Certification Report for 2013/14 on completion of work on your 2013/14 housing subsidy and benefit claim.

Control themes and observations

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. Although our audit was not designed to express an opinion on the effectiveness of internal control, we would communicate to those charged with governance at the Council, as required, significant deficiencies in internal control.

We did not identify 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 were not aware.

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