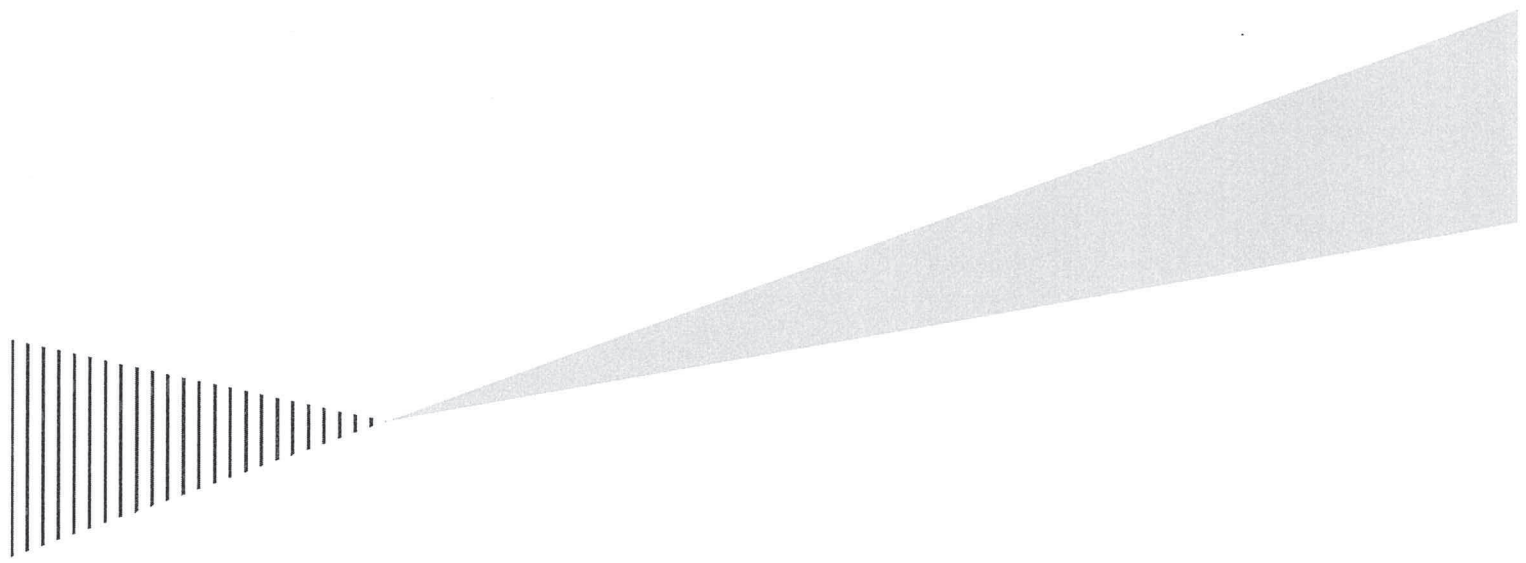


Merton Council

Audit Progress Report to General Purposes Committee

March 2015

Ernst & Young LLP





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

March 2015

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 and 2014-15 audits for the Council and the Pension Fund 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 work on your 2013-14 audits is complete and we include the audit planning report for the 2014--15 Council audit as separate agenda item to the Committee.

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 2013-14 audit

We presented our 2013-14 annual audit letter to the November 2014 meeting of the Committee.

The only outstanding element of work to report to you is the certification of claims and returns report which is attached as a separate agenda item to this meeting of the Committee.

1.2 Other claims and certification work for 2013-14

The certification of the teachers' superannuation return no longer forms part of the work we are required to carry out as part of the arrangements with the Audit Commission. For the 2013-14 return, this work fell outside the Audit Commission grant certification regime and we carried out this work for the Council under a separate engagement letter and an agreed fee of £10,000. We completed the work before the extended deadline of 31 December 2014. Not all working papers were available at the start of our review and we have set out what our requirements will be in future. We did not make any amendments to the claim.

1.3 CHAS 2013 Ltd 2013-14 audit

The Council has established a wholly-owned company (CHAS 2013 Ltd) to carry out health and safety pre-qualification assessments for contractors in the construction industry. We carried out this audit under a separate audit engagement. We completed the audit under Companies Act requirements and gave our audit report on 21 January 2015. Our audit identified some material changes to the accounts, principally on the opening and closing balances. The basis for preparation of the accounts changed during the course of the audit to implementation of FRS102 and this contributed to the delays in completion of the audit.

We will discuss with your Finance team responsible for preparation of the CHAS 2013 Ltd financial statements the learning we can take from the audit process and the most effective timing and approach to the audit in future years. This includes whether to carry out the audit in tandem with the audits of the Council and the Pension Fund or after these as the CHAS 2013 Ltd audit has a later submission deadline.

1.4 2014-15 audit

We presented the fee letters for our 2014-15 audits of the Council and the Pension Fund to the 25 June 2014 General Purposes Committee meeting.

We have largely completed the planning and interim work including the walkthroughs of your main financial systems. This work has informed our audit planning reports.

The audit planning report for the Council is attached as a separate agenda item. The audit planning report for the Pension Fund will need to be reviewed by the Pension Fund Advisory Committee later this month and will therefore be presented to the General Purposes Committee in June.

1.5 Letters to management and those charged with governance

We include in appendices 2 to 3 letters to management and those charged with governance that we request each year. These cover arrangements around fraud and error, laws and regulations and going concern. In previous years we have sought a joint response covering the Council and the Pension Fund; this year we seek separate responses for each.

1.6 Audit process review and further improvements for 2014-15

We reported in the last progress report the main points from the 2013-14 Council and Pension Fund audits where further improvements can be made for 2014-15.

As part of this process – and to help with supporting the transition to the issuing of an earlier audit report by the end of July 2018 for the 2017-18 audit - the date of the September 2015 General Purposes Committee has been brought forward to 16 September 2015.

We will continue to work with the Finance team to carry out early work on ensuring we have the necessary 'mapping' to support our work. The Finance team will also collect payroll information quarterly to prevent delays at the year end. This will also support providing the added value from analysis of your financial data. We have shared with the Finance team the output from this analysis for the 2013-14 audit.

We have also discussed the proposed treatment in the Council's 2014-15 financial statements for CHAS 2013 Ltd. The current proposal is to apply the same approach as in 2013-14 with the Council presenting single entity accounts (on the grounds that, from a financial perspective, CHAS is not material to the Council) rather than full group accounts.

1.7 Audit fee for 2015-16

We will bring the audit fee letter for the Council to the June General Purposes Committee. The 2015-16 fees will feature a further 25% reduction over the 2014-15 scale fee.

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 2014-15 General Purposes Committee cycle.

| Audit phase | Timetable | General Purposes Committee timetable | Deliverables |
|---|-------------------------------------|--------------------------------------|---|
| High level planning: | December 2014 - January 2015 | | Audit Fee letter (presented to 25 June 2015 General Purposes Committee) |
| Risk assessment and setting of scopes | December-January | 12 March 2015 Committee | Council Audit Plan (presented to 12 March 2015 General Purposes Committee) Pension Fund Audit Plan (to come to June 2015 General Purposes Committee) Audit Progress Report |
| Testing of routine processes and controls | January-February | 26 June 2015 Committee | Audit Progress Report |
| Year-end audit | July – September | 16 September 2015 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 | 4 November 2015 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 2: Letter to management – Merton Council and Merton Pension Fund

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

25 February 2015

Ref: MLB-MAN 15

Direct line: 01189281556

Email: pking1@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.

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 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 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 2014-15?
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 separate response for the Council and a separate response for the Pension Fund by email or letter, either on behalf of Management or from yourself in your capacity as s151 officer. If possible, please could we receive your response by 20 April 2015 to ensure that your response covers the period 1 April 2014 to 31 March 2015.

Please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Paul King
Director
For and on behalf of Ernst & Young LLP
United Kingdom

Appendix 3: Letter to those charged with governance – Merton Council and Merton Pension Fund

Cllr Peter McCabe
Chair, General Purposes Committee
London Borough of Merton
Civic Centre
London Road
Morden
SM4 5DX

25 February 2015

Ref: MLB TCWG 15

Direct line: 01189281556

Email: pking1@uk.ey.com

Dear Cllr McCabe

Understanding how the Audit Committee gains assurance from management

Auditing standards require us to formally update our understanding of your oversight processes and arrangements annually. Therefore, I am writing to ask that you please provide a response to the following questions.

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's 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 2014-15?
4. Is the Committee aware of 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 2014-15?
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 would you provide a separate response for the Council and a separate response for the Pension Fund by email or letter on behalf of the General Purposes Committee. If possible, please could we receive your response by 20 April 2015 to ensure that the response covers the period 1 April 2014 to 31 March 2015?

Yours faithfully

Paul King
Director
For and on behalf of Ernst & Young LLP
United Kingdom

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