

Merton Council

Standards and General Purposes Committee Agenda

Membership

Councillors:

Peter McCabe (Chair)
Janice Howard (Vice-Chair)
Agatha Mary Akyigyina
Adam Bush
Stephen Crowe
John Dehaney
Mary-Jane Jeanes
Ian Munn BSc, MRTPI(Rtd)
Gregory Patrick Udeh
David Williams
Mike Brunt
Martin Whelton

Substitute Members:

Michael Bull
Sally Kenny
Oonagh Moulton
Imran Uddin

Date: Thursday 9 March 2017

Time: 7.15 pm

Venue: Committee rooms C, D & E - Merton Civic Centre, London Road,
Morden SM4 5DX

This is a public meeting and attendance by the public is encouraged and welcomed.
For more information about the agenda please contact
democratic.services@merton.gov.uk.

All Press contacts: press@merton.gov.uk, 020 8545 3181

Standards and General Purposes Committee Agenda

9 March 2017

1	Apologies for Absence	
2	Declarations of Pecuniary Interest	
3	Minutes of the previous meeting	1 - 8
4	Internal Audit Plan	9 - 34
5	Annual Governance Statement 2015/16 - Improvement Plan Update	35 - 40
6	Fraud Investigation Update	41 - 50
7	External Audit Certification of Claims report	51 - 60
8	External Audit Plans for Council and Pension Fund accounts	61 - 96
9	Nomination for Freedom of the Borough	97 - 102
10	Civic Regalia	103 - 106
11	Update on RIPA authorisations Six monthly update report.	107 - 110
12	Complaints against Members A verbal update to be provided at the meeting.	
13	Temporary and Contract Staff update <i>Appendix A contained within Exempt Agenda</i>	111 - 118
14	Work Programme	119 - 120

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. If members consider they should not participate because of a non-pecuniary interest which may give rise to a perception of bias, they should declare this, withdraw and not participate in consideration of the item. For further advice please speak with the Assistant Director of Corporate Governance.

Agenda Item 3

STANDARDS AND GENERAL PURPOSES COMMITTEE 3 NOVEMBER 2016

(7.15 pm - 9.35 pm)

PRESENT Councillor Peter McCabe (in the Chair), Councillor Michael Bull, Councillor Adam Bush, Councillor Stephen Crowe, Councillor Mary Curtin, Councillor John Dehaney, Councillor Mary-Jane Jeanes, Councillor Marsie Skeete, Councillor Gregory Udeh and Councillor David Williams.

ALSO PRESENT: Paul Audu, Investment Manager
Kim Brown, HR Lead
Paul Dale, Assistant Director Resources
Paul Evans, Monitoring Officer
Paul Foster, Head of Regulatory Service Partnership
Caroline Holland, Director Corporate Services
Susanne Wicks, Senior Democratic Services Officer

Paul King, Ernst & Young.

1 APOLOGIES FOR ABSENCE (Agenda Item 1)

Apologies were received from Councillors Agatha Akyigyina and Janice Howard.

Apologies were also received from the Director of Community & Housing, the Director of Children, Schools and Families, and the Director of Environment and Regeneration.

Derek Prior, the Independent Person, also sent apologies.

2 DECLARATIONS OF PECUNIARY INTEREST (Agenda Item 2)

Councillor Adam Bush declared a personal interest in agenda item 7 (Procurement of External Auditors), as he is employed by BDO LLP. The Monitoring Officer confirmed that it would be appropriate for him to participate in discussion of this item.

3 MINUTES OF THE PREVIOUS MEETING (Agenda Item 3)

RESOLVED: That the minutes of the meeting held on 8 September 2016 are agreed as an accurate record.

4 MOTION FROM COUNCIL REGARDING HONORARY FREEMAN OF THE BOROUGH ANDY MURRAY (Agenda Item 4)

The report was introduced by the Monitoring Officer, Paul Evans, who reminded the Committee of the motion agreed by Council on 14 September and pointed members to the options for their consideration as outlined in paragraph 3.2.

Members discussed their views on when and how Andy Murray's success could and should be commemorated.

RESOLVED: That the Standards and General Purposes Committee agrees:

1. That any measure agreed to commemorate Andy Murray's success should be proportionate, low-cost and low-maintenance.
2. That no action should be taken until towards the end of this tennis career.
3. That the following two options could be investigated further as an appropriate way to commemorate his success:
 - To name the tennis courts in Wimbledon Park after Andy Murray
 - To purchase a trophy, to be awarded in Andy Murray's name, as part of an existing successful tennis tournament, in which young people in the borough participate.

5 EXTERNAL AUDIT ANNUAL LETTER (Agenda Item 5)

Paul King, Executive Director, Ernst & Young, introduced the Annual Audit Letter, which is a requirement at the conclusion of the annual audit of accounts, and explained that the Letter summarised the key messages delivered to this Committee at the September meeting.

Paul King also advised that work on the Housing Benefit Subsidy Claim is complete and a lower rate of errors has been identified than in previous years, so the Claim falls below the error threshold.

In response to a query from a member of the Committee, the Assistant Director of Resources gave a detailed explanation of the impact of the Highways Network Asset Code upon the balance sheet, and the accounting changes that will be required to manage the new valuation basis.

Report noted.

6 INTERNAL AUDIT PROGRESS REPORT ON ANNUAL AUDIT PLAN (Agenda Item 6)

The report was presented by the Head of Internal Audit, who invited comments and questions.

With regard to the summary of limited assurance audits detailed in Appendix B to the report, the Head of Internal Audit gave an update on the actions taken following the audits, and responded to questions from the Committee, if an officer from the service was not present to do so.

The Investment Manager, Paul Audu, gave an update on the audit of the Pension Investments, and described the process for moving from two custodians to one. This

will take place as part of the broader Investment Strategy Review and is scheduled for completion in 2017.

The Head of the Regulatory Service Partnership, Paul Foster, gave a detailed presentation on how the issues had arisen with regard to market trader payments and reported the actions underway to resolve them.

The Chair of the Committee noted his disappointment that the managers from the other services were not present in order to answer questions from the Committee, despite previous requests in the past. The Head of Audit undertook to ensure that managers attend meetings where there are limited assurances in their service.

The Committee agreed it would be useful that where appropriate, financial context should be included in future reports.

RESOLVED: That the Standards and General Purposes Committee notes the report.

7 PROCUREMENT OF EXTERNAL AUDITORS (Agenda Item 7)

The Head of Internal Audit introduced this report and invited comments and questions.

Councillor David Williams suggested that there may be a requirement for local authorities to change external audit providers after a set period. The Director of Corporate Services responded that even if the same company is used, the audit manager is regularly changed, but undertook to check the legal position in this matter.

RESOLVED: That the Standards and General Purposes Committee recommends to Full Council that Merton opt into the appointment person arrangements made by Public Sector Audit Appointments Ltd (PSAA) for the appointment of external auditors.

8 ANNUAL GIFTS AND HOSPITALITY REPORT (MEMBERS) (Agenda Item 8)

The Monitoring Officer, Paul Evans, introduced this report, noting that there are no concerns arising from the declarations made. He reminded the Committee that a protocol on gifts and hospitality was agreed in 2013 and the Committee suggested that it would be useful to circulate this to all Members.

In response to a query from the Committee, the Monitoring Officer advised that the (now defunct) Standards Committee had agreed that tickets for the Wimbledon Tennis should be declared, even if they had been paid for, as Members had an advantage being able to purchase tickets that are not available to the public at large.

RESOLVED: That the Standards and General Purposes Committee notes the extract from the register.

9 ANNUAL GIFTS AND HOSPITALITY REPORT (OFFICERS) (Agenda Item 9)

The Monitoring Officer presented the report and invited comments and questions.

RESOLVED: That the Standards and General Purposes Committee notes the report.

10 ANNUAL COMPLAINTS REPORT (Agenda Item 10)

The Monitoring Officer introduced the report, highlighting key aspects of the council's performance in 2015/16 with regard to responding to complaints and member enquiries.

With regard to Local Government Ombudsman (LGO) enquiries, the Monitoring Officer corrected information given in paragraphs 5.1, 5.2 and 5.3 of the report, which should read as follows:

5.1 The LGO received 70 complaints and enquiries about the council's services during 2015/16. This is 28 less than in 2014/15.

5.2 In 2015/16 22 complaint investigations took place.

5.3 Of the 10 cases that the LGO investigated, 11 (50%) were upheld.

Councillor Stephen Crowe asked how Merton's compares against other boroughs with regard to LGO enquiries, and the Monitoring Officer advised that there is comparative data available on the LGO website, which he undertook to send to Committee members.

RESOLVED: That the Standards and General Purposes Committee notes the report.

11 PROGRESS REPORT ON RISK MANAGEMENT (Agenda Item 11)

The Assistant Director of Resource, Paul Dale, introduced this report and invited comments and questions.

Councillor David Williams sought reassurance that the risk register is taken seriously and subject to regular review. The Director of Corporate Services advised that she chairs the Risk Management Board, and that the register is discussed at Departmental Management Team meetings, to review the mitigating actions and ensure it is subject to regular refresh.

Report received.

12 COMPLAINTS AGAINST MEMBERS (VERBAL UPDATE) (Agenda Item 12)

The Monitoring Officer provided a short verbal update on complaints made about members since the Committee last met in September.

The Monitoring Officer advised that, as reported recently in the local press, he had received three complaints against the Leader of the Council. He gave a brief outline of actions he had taken with regard to those complaints.

The Monitoring Officer reminded the Committee of how member complaints are handled, and undertook to circulate the complaints and hearing procedure to the Committee.

Report received.

13 PROPOSED RESPONSE TO THE 2018 BOUNDARY REVIEW OF PARLIAMENTARY CONSTITUENCIES CONSULTATION (Agenda Item 13)

The Monitoring Officer presented this report and invited comments and questions.

Committee members commended the draft response to the consultation and noted that additional responses are likely to be made by politicians.

RESOLVED: That the Standards and General Purposes Committee approves Merton's response to the 2018 Boundary Review of Parliamentary Constituencies consultation.

14 MEMBER LEARNING AND DEVELOPMENT (Agenda Item 14)

The report was introduced by the HR Lead, Kim Brown. She described her key aims for member development and sought agreement from the Committee to the recommendations detailed in the report.

Councillor David Williams suggested that a session be added to the programme for opposition members.

Members of the Committee expressed some concern about the introduction of "mandatory" training, noting that some members may already be expert in those areas, through their work and other roles. Kim Brown reassured members that she would use her discretion and that common sense would prevail in this regard.

With regard to the budget for member development, Kim Brown advised that HR officers scrutinises and approves requests for external training, and that the London Member Development Network seeks to make economies of scale when procuring training facilitators. She also noted that the low take-up of member training is not particular to Merton.

The Committee undertook to encourage colleagues to participate in learning and development where possible.

RESOLVED That the Standards and General Purposes Committee:

1. Agrees the draft learning and development plan for 2016/18

2. Agrees the priority development activities for members as outlined in 2.10 of this report
3. Agrees that there will be elements of mandatory training for members
4. Agrees that sessions are offered to prospective councillors in September/October 2017 and March 2018
5. Considers ways to encourage increased member take-up for development activities.

15 TEMPORARY AND CONTRACT STAFF UPDATE (Agenda Item 16)

The report was presented by the HR Lead, Kim Brown. As part of her introduction to this item, she read out a statement from the Director of Community & Housing, the Director of Children, Schools and Families and the Director of Environment and Regeneration, who could not attend the meeting. The statements detailed the action being taken in each department to reduce the use of temporary and contract workers.

At the request of the Committee for some financial context to the information presented, Kim Brown undertook to include a range of information within future reports.

The Committee discussed the information in some detail. The Chair advised that the Committee will continue to review the rates of temporary and contract staff used by the authority and are keen to see a reduction in numbers, whilst recognising that the Council must provide statutory services.

RESOLVED: That the Standards and General Purposes Committee notes the report.

16 UPDATE OF TERMS OF REFERENCE (Agenda Item 17)

The Monitoring Officer introduced the new terms of reference for the Committee. He explained that when the new committee was formed, the terms of reference for the (now defunct) Standards Committee and General Purposes Committee were merged. The terms of reference presented are a simplified, clearer version. If agreed, the new terms of reference will be put to Council for agreement and inclusion in the Constitution.

RESOLVED: That the Standards and General Purposes Committee recommends that Council approve the terms of reference, for inclusion in Merton's Constitution.

17 WORK PROGRAMME (Agenda Item 18)

The work programme was agreed.

STANDARDS AND GENERAL PURPOSES COMMITTEE
13 DECEMBER 2016

(7.15 pm - 8.20 pm)

PRESENT Councillor Peter McCabe (in the Chair),
Councillors Janice Howard, Agatha Akyigyina, Michael Bull,
Adam Bush, John Dehaney, Mary-Jane Jeanes, Oonagh
Moulton, Ian Munn, Gregory Udeh and Martin Whelton

ALSO Paul Evans, Monitoring Officer
PRESENT: Derek Prior, Independent Person
Pam Donovan, Independent Person

1 APOLOGIES FOR ABSENCE (Agenda Item 1)

Apologies were received from Councillors David Williams and Stephen Crowe.
Councillors Michael Bull and Oonagh Moulton were present as substitutes.

Apologies for lateness were given for Councillor Gregory Udeh, who arrived during
the Monitoring Officer's introduction to his report.

2 DECLARATIONS OF PECUNIARY INTEREST (Agenda Item 2)

There were no declarations of interest.

3 MEMBER COMPLAINTS (Agenda Item 3)

The Monitoring Officer, Paul Evans, gave a detailed introduction to his report.

The Monitoring Officer noted that the complaint made by Councillor Jeff Hanna was
not included in the published agenda, and was subsequently issued in a
supplementary agenda. He also advised that Sally Burns had asked that members
be made aware that her complaint (shown on page 29 of the agenda) was submitted
in her capacity as Chair of the Carers Partnership Group.

The Monitoring Officer drew Committee Members' attention to the letter from the
Leader of the Council, which had been circulated by email and tabled at the meeting.
He confirmed that £1380 had been paid to LB Merton in respect of costs relating to
the use of the reply paid address.

At the invitation of the Chair, Derek Prior, the Independent Person, addressed the
Committee.

The Monitoring Officer reminded the Committee that their duty was to consider
whether a potential breach of the code of conduct had arisen, and if it was in the
public interest for an independent investigation to take place. He advised that the
Committee should not discuss nor attempt to investigate either the complaint itself, or
issues relating to the complaint, such as levels of council tax or the outcome of the
consultation.

Members of the Committee raised a series of questions, to which the Monitoring Officer responded.

The Committee then debated the recommendation contained within the report.

A vote was taken on the recommendation. Seven members voted for the recommendation and five voted against.

RESOLVED: That, having considered complaints made against the Leader of the Council, the Standards and General Purposes agrees the recommendation of the Monitoring Officer and Independent Person that the complaints made merit formal investigation.

Councillor Mary-Jane Jeanes asked that her vote (in favour of the recommendation) be recorded in the minutes.

Committee: Standards & General Purposes Committee

Date: 9 March 2017

Wards: All

Subject: Internal Audit Strategy, Plan and Charter 2017/18

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Peter McCabe -Chair of the General Purposes Committee

Contact officer: Margaret Culleton – Head of Internal Audit

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Recommendation:

- A. That members review and comment upon the 2017/18 Draft Internal Audit Strategy, Plan and Charter.**
-

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. The Draft Internal Audit Strategy, Audit Plan and Audit Charter 2017/18 are included in Appendix 1.

2 DETAILS

- 2.1. The Internal Audit Plan has been compiled using the following planning mechanism:
- The Corporate Risk Register
 - Financial systems audit reviews
 - Strategic audit plan and audit previously identified as limited
 - Areas of concern arising from fraud investigations and Whistleblowing concerns.
 - Departmental requests
 - Best Practice and knowledge of significant new initiatives
 - The Contracts Register
 - The Capital Programme
 - Service Plans
 - On-going projects and new IT systems
- 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 and key managers, business partners, departmental finance advisors.

- 2.3 Final Audit reports are sent to Directors and Heads of service as well as the Business Partners, in order to improve efficiencies.

Anti-fraud work

- 2.4 Audit days are included in the audit plan for Council-wide anti-fraud initiatives such as on-line fraud training and updating of anti-fraud policies.

- 2.5 Other anti-fraud work is, as far as possible, integrated into individual audits, e.g. an audit of payments would evaluate the controls in place that mitigate the risk of fraud and error. Fraud alerts and information provided by London Audit Group provide areas of potential fraud risk to the authority. Audits are included in the plan where risk is considered high.

- 2.6 In 2017/18, proactive fraud work will be undertaken by Internal Audit in relation to procurement and the threat of infiltration by organised crime.

- 2.7 A recent Home Office pilot explored the threat from Serious and Organised Crime pose to publicly procured services in Local Government. Their report recommends raising awareness, protecting and reducing vulnerability, and taking action collaboratively. To help achieve this, their report recommends that local authorities undertake a serious and organised crime threat audit using a suggested toolkit and checklist they have developed

Information Technology audits

- 2.10 The Internal Audit service will cover non specialist IT work, such as reviewing the controls in place on the main financial systems. Internal Audit also provides advice on new systems. In 2017/18 this will include the new E5 system and Corelogic (new social care system).
- 2.11 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.

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 has met with the members of each

departmental management team 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 2017/18 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 function 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** require the responsible financial officer of a body, whose accounts are to be audited in accordance with Part III of the Local Government Act 1982, *'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.*

- 7.2. The Director of Corporate Services is the designated officer responsible for ensuring compliance with these pieces of legislation. In a similar manner to a private company:-

- a) Elected Members will look to the Director of Corporate Services to provide them with an assurance as to the adequacy of the Authority's financial systems and system of internal audit.
- b) Chief Officers will also seek an 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 ethnic 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 priorities 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 Strategy, Plan and Charter 2017/18

12 BACKGROUND PAPERS

- 12.1. Papers held within the Internal Audit Service.

INTERNAL AUDIT
STRATEGY, AUDIT PLAN AND CHARTER
2017/18



Contents

	Page
Introduction	3
Responsibilities and Objectives of Internal Audit	3
Internal Audit's Role in the Risk, Internal Control and Assurance Framework	4
Key Issues and Priority Areas for 2017/18 <ul style="list-style-type: none"> • Governance Arrangements • Key Financial Systems • Transformation • Risk Management • ICT and Information Governance • Partnerships • Contracts, Procurement and Major Projects • Counter Fraud • Implementation of Agreed Audit Recommendations 	5
Anti-Fraud and Corruption	6
Internal Audits role providing advice	7
Audit Resources and Skills	7
Protocol for Audit Reviews	8
External Audit	8
Implementation of Agreed Audit Recommendations	8
Annual Audit Plan 2017/18	9
The three lines of defence	9
Our Performance Management	10
Appendices	11-15
A Detailed Annual Audit Plan 2017/18	16-20
B Audit Charter	16-20
C Service Performance Targets	21

Introduction

This document sets out the council's Internal Audit Strategy and Annual Audit Plan for the year 2017/18

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

- Ensure effective audit coverage and a mechanism to provide independent and objective overall assurance to Members, 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

Responsibilities and Objectives of Internal Audit

As an independent appraisal function within the authority, the primary objective of Internal Audit is to review, appraise and report upon the adequacy of the control environment comprising the systems of governance, risk management and internal control as a contribution to achieving the council's objectives and the proper, economic, efficient and effective use of resources.

In addition, the other objectives of the function are to:

- Support the Director of Corporate Services to discharge "Proper Officer duties" (S151 responsibilities)
- Provide an Anti-Fraud function
- Contribute to the overall effectiveness of corporate governance in the council's activities
- Promote the council's anti-fraud policies
- To provide assurance to management on the integrity, effectiveness and operation of the council's internal control system;
- Delivery of the Annual Audit Plan
- To be responsive to transformational change and service demands;
- To provide advice on new IT projects.
- To continue to meet the requirements of the council's external auditors;
- To follow up on agreed actions to ensure agreed they have been fully implemented;
- To continue to develop and have a lead in the council's corporate governance arrangements including production of the 'Annual Governance Statement' to provide assurance on the council's governance arrangements and any areas for improvement.

Internal Audits Role in the Risk, Internal Control and Assurance Framework

The Accounts and Audit Regulation 2015 require an annual review of the effectiveness of its system of internal control to be reported to the Standards/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 effective managed controls. Assurances are provided by a range of internal and external providers. The Head of 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 internal audit work 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 Public Sector Internal Audit Standards. We continually ensure compliance with these professional standards and reflected in our terms of reference contained in our Terms of Reference, shown at Appendix B.

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

In order to give such an assurance, a balanced programme of Internal Audit review 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.

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

- Full
- Substantial Assurance
- Limited Assurance
- No assurance

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

Key Issues and Priority Areas for 2017/18

Having regard to the current risk profile of the council, the following areas have been identified as key issues and priority areas of our work for 2017/18.

Governance Arrangements

The council's governance framework covers all aspects of its business, including risk management, internal control and ethical standards. We have a key role to play in assessing the effectiveness of governance arrangements by comparison with principles contained in the CIPFA/SOLACE Governance Framework (Delivering Good Governance in Local Government, 2007). A number of audits will support this assessment and will take account of the emerging governance arrangements as the council implements its new operating model. The statutory Annual Governance Statement will be produced in June, for approval by the Standards/General Purposes Committee and then signed by the Leader and Chief Executive.

Key Financial Systems

The effectiveness of controls and management of risks within key financial systems remains a core part of our audit work. Key Financial systems are carried out on a 3 year rolling cycle. This work is important in providing annual assurance to the council and to meet the requirements of the External Auditor. We continue to develop our audit approach to give greater assurance and ensuring it meets the External Auditor's requirements, including carrying out testing to assist with the annual audit of accounts.

Additional work was provided in 2016/17 on the pre implementation of the new E5 system, replacing the main financial ledger, accounts payable and accounts receivable systems. Internal audit work will continue into 2017/18 on the post implementation.

Transformation

Considering the significant financial challenges facing the public sector and the council's continuous transformation program, our Annual Audit Plan will need to be flexible enough to respond to emerging issues and risks from change.

Value for money (VFM) will continue to be an integral part of our risk based audit approach, in particular being alert to opportunities and ensure reporting of issues raised and agreed management actions from audit recommendations. In addition we will support transformation projects, consider changes to the control environment and risk exposure and provide assurance on program management and realisation of benefits.

Risk Management

We will assess the council's risk management arrangements, including risk management strategy, adequacy of strategic and operational risk registers, risk reporting and the extent to which it is embedded. The Head of Audit is a member of the Corporate Risk Management Group.

ICT and Information Governance

Information technology is fundamental to the delivery of the council's services and is an area of rapid change. Due to this high risk to the council, providing assurance on the adequacy of electronic systems and controls is a key part of our Annual Audit Plan. Our work recognises the pace of change and adoption of new information technology and as such will be well informed to focus our resources on areas of highest risk and benefit.

Partnerships

The council is increasingly operating and delivering services jointly through partnerships. This also brings risks and opportunities to the council and the delivery of services. We will continue to review key partnerships. Internal Audit is part of a 5 borough audit partnership and can benefit from sharing knowledge and experience. Some of the audits in the 2017/18 are across the partnership, such as income generation and serious fraud work.

Contracts, Procurement and Major Projects

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. Major projects also represent a high risk to the council in terms of corporate importance and resources. Our audit work will continue to focus on embedding risk management and controls. In 2016/17 and into 2017/18 we will be involved in providing advice on key new systems, such as the financial system E5, the social care system Corelogic and the new Phase C contracts on the South London Waste Partnerships.

A sample of procurement spend will be examined to ensure that VFM has been obtained and councils procedures adhered to. Compliance work will also be carried out on procurement card expenditure.

Anti-Fraud and Corruption

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

During 2017/18 proactive fraud work will be undertaken on Serious Organised crime threat to the public sector. A recent Home Office pilot explored the threat from Serious and Organised Crime pose to publicly procured services in Local Government.

They concluded that public procurement is attractive to and is therefore at risk of infiltration by organised criminals (particularly in areas such as waste, taxi and transport services, and lower-level spend) and recommended action is taken to address their concerns.

The report recommended raising awareness, protecting and reducing vulnerability, and taking action collaboratively. To help achieve this, the report recommends that local authorities undertake a serious and organised crime threat audit using a suggested toolkit and checklist they have developed.

One of the actions suggested in the report is to ensure that there is a strong link between the procurement team and internal audit.

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
- Whistle-blowing 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 templates for schools to improve controls and share best practice. We also issue a guidance manual to schools called 'On the Right Track 5' which covers guidance on all areas of good financial practice.

In order to establish an audit presence and to create sound informal lines of communication as much audit work as possible will be done on location.

Audit Resources and Skills

The staffing structure of the partnership (SWLAP) section comprises a mix of qualified, experienced, technician and trainee auditors, with a mix of professional expertise to reflect the varied functions of the section. There is a sum available to buy in some expertise from a framework agreement set up by Croydon Council to use Mazars.

As far as is practicable, Internal Audit will not participate in the day-to-day operation of any systems of internal financial control. However, in strict emergency situations only, audit personnel may be called upon to carry out non-audit work on a short-life basis.

Members of the internal audit partnership will be expected to contribute to the general management and conduct of business through membership of working groups and participation in ad hoc exercises. Upon request from the Director of Corporate Services, appropriate specialists from departments other than Corporate Services should be made available to take part in any audit or review requiring specialist knowledge.

The Head of Audit will carry out a continuous review of the development and training needs of all audit personnel and will arrange through the audit partnership in-service training covering both internal and external courses.

Protocol for Audit Reviews

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

the scope, objectives, approach, timetable are understood and agreed.

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

External Audit

We work closely with the council's external auditors to minimise duplication and maximise the benefits the council receives from total audit resources. We will continue to ensure full reliance is placed on our work and continue to seek opportunities for minimising the external audit fee.

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 2017/18

The methodology used for developing the Annual Audit Plan focuses upon the quantification of the risks associated with achieving corporate and departmental objectives. Auditable areas have been selected and prioritised on a rational and objective basis following a systematic assessment using the following predictive factors:

- Control and previous assurance;
- Corporate importance including criticality to the achievement of priorities, legislative and regulatory impact;
- Materiality;
- Value for money and service delivery; and
- Corporate sensitivity and management concern.

The predictive factors are used to determine a risk rating of high, medium or low to reflect the inherent risk or vulnerability. We ensure our coverage is proportionate and appropriately aligned.

Based on past experience and good practice, the Annual Audit Plan includes a contingency for unplanned work requirements to ensure we are able to respond to changing needs and demands.

The Annual Audit Plan will be indicative and it is inevitable that changes will be made during the year as the risk profile of the council changes. This will be achieved through ongoing review and amendment, in consultation with the relevant lead clients and service managers to reflect the changing needs of the council and to add

maximum value.

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

The Three Lines of Defence

There are three lines of defence in place on controls in the council. The first line of defence is the day to day operational controls, the second line is the management controls which include trend analysis, budget monitoring etc. The third line of defence is independent inspection such as Internal Audit or other assurance providers.

Internal audit provides assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the first and second lines of defence achieve risk management and control objectives

Annual Audit Plan 2017/18

Appendix A shows the detailed Annual Audit Plan and provides a brief 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/General Purposes Committee receiving regular progress reports against the plan, Corporate Management Team Members will be provided with progress reports as necessary through the year summarising the outcome of reviews and other audit work for the quarter and planned for the quarter ahead. The Head of Audit will also attend Management Team meetings as required, to discuss audit coverage and outcomes.

Internal Audit Plan 2017/18

Summary of days per department	2017/18
Cross cutting	130
Corporate Services	231
Childrens Schools and Families	153
Community and Housing	90
Environment and Regeneration	100
Support	204
Total	908

Cross cutting

Corporate Procurement	Review of the corporate procurement strategy, contract register, exemptions.	25
Income Generation	A review of income generation - to include the councils approach to income generation and a comparison with other neighbouring authorities	25
Acting up and Honoraria Payments	To review the arrangements for acting up and honoraria payments across all Departments are in accordance with Council's policy and that such payments are approved, controlled, monitored and reviewed.	10
Asset Management	Review of the councils arrangements in place for managing its assets. This audit covers CS/ E&R and CSF.	25
Annual Governance Statement	To produce Annual report for use in the AGS and attendance at AGS meetings	25
Proactive fraud work	Proactive fraud work on the Home Office serious fraud organisation recommendation in relation to suppliers	20
	Total cross cutting	130

Corporate Services

E5	To carry out a post implementation review of the new financial system	10
Staff Declaration of Interests	To review the systems for declaration of interests by staff across Department to ensure that they are sound and secure	10

Pension investment (follow up)	to follow up the limited assurance audit 2016/17	6
Management and Control of Information Security Breaches and Incidents	to examine the effectiveness of current arrangements for reporting, investigating and actioning information security breaches and incidents to ensure that rules and regulations are complied with.	12
Procurement cards	To carry out substantive testing on a sample of transactions to ensure that expenditure is appropriate.	15
Interims/agency IR35	To review the arrangements in place for the use for interims/agency to ensure compliance with procedure and follow up on 2016/17 audit.	15
Fixed Assets	To review the fixed asset register to ensure completeness, accuracy	15
Itrent	Joint review of the controls on Itrent (Sutton, Merton, Kingston and part Richmond)	15
Creditors	Key financial system review	15
General Ledger	Key financial system review	15
Business Rates	Key financial system review	15
Blue Badge	Review of the procedures for applying and issue of blue badges. To include the arrangements for corporate cards	15
Staff recruitment	To ensure that recruitment to established posts are in compliance with the Councils recruitment policy and procedures	15
Pension Administration	review of the pension admin arrangements with Wandsworth	10
Mayors Account	Annual review of mayors accounts	10
MSJCB	To audit annual accounts	8
Cyber security	To review the councils cyber security arrangement and analysis against the Governments Cyber essential initiative	15
Change management	To review the arrangements in place for change management including software, hardware and asset changes	15
	Total Corporate Services	231

Community and Housing

Corelogic	To carry out a Post implementation review of new social care system	15
Contract Monitoring of Commissioned Services	To examine systems and procedures for monitoring a sample of commissioned services to ensure that providers effectively deliver the services to vulnerable service users and that payments are made in line with the rates set out in the contract.	15
Reviews of Care Plans	To review the controls in place to ensure that Care Plans for vulnerable adults are completed within the statutory time period and that the plans are properly costed and budgeted for.	15
Adult Social Care Debt management	To review the debt management arrangements in Adult social services	15
Direct Payments	To review the processes and procedures for direct payments.	15
Adult Safeguarding	To review strategy, policies, training, roles and responsibilities in relation to safeguarding	15
	Total C&H	90

Children, Schools and Families

APS cards and alternatives	The review the arrangements in place for paying clients and whether alternative methods should be considered	15
Troubled families grant	To review a sample of submissions for the TFG to ensure that that claims are clearly supported by evidence.	10
Leaving care	review commissioning arrangements for 16+	15
Commissioning of Special Education Placements	To review the effectiveness of procuring and monitoring placements for SEN pupils to ensure that the placements provide good value for money and that Council's procedures are complied.	15
Schools Probity Audit	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.	68

Nursery Grants	To review a sample of nurseries to ensure compliance with new requirement for 2 and 3 year old funding	15
Transport	To review the arrangements in place following the transfer from E&R. To include new e procurement arrangements.	15
Total CSF		153

Environment and Regeneration

EAMS (confirm replacement)	IT audit on new system	12
Penalty Charge Notices	To review the systems and controls for processing and management of PCNs, including the effectiveness of debt recovery through the bailiff contract.	15
Section 106/CIL	To review the arrangements in place for managing and monitoring S106 and CIL	15
Planning Permissions and Approvals	To provide assurance that the Council's arrangements for granting and approving planning permissions are in accordance with rules and regulations.	15
Market Street traders - follow up	Follow up review of previous limited assurance report. (to include Richmond)	8
SLWP	Review of Parks contract (joint with Sutton) and Waste contract monitoring arrangements	25
Service tenancies f/u	follow up review of previous limited assurance report	10
Total E&R		100

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.	25
Committee and member support	Providing support including advice and reporting to Committee	25
Audit Planning / Monitoring	allocation of time for audit planning and monitoring	20
Follow up audits	follow up of reviews carried out in 16/17 to ensure implementation of recommendations	25
Carry over of 16/17 audit plan	To finalise all draft reports from 2016/17	60

Contingency	To cover additional request for audit work	14
Corporate Governance	Advice and guidance on corporate governance issues including attendance at risk management group	15
Fraud Management and reactive work	Allocation of time for managing the fraud partnership. Updating whistleblowing and referring cases.	20
	Total support	204

Internal Audit Charter 17/18

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 Committee¹ 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 AfC, internal audit provides assurance to its Strategic Leadership Team and Audit 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 is defined 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.

¹ 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 and Audit Committees at LB Richmond, LB Sutton and AfC.

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 have 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 ²is required to provide the Council, via the Director of Finance 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

² 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.

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.

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

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 done 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 Head of Internal Audit has full and unrestricted access to the following:

- The Director of Finance/Resources/Corporate Services (S151 officer)
- Chief Executive
- Chair of the Audit Committee or equivalent Committee (including AfC)
- The Council's Monitoring Officer
- The Head of Corporate Governance (Kingston)
- The Executive Head of Finance (Sutton)
- The Assistant Director of Corporate Governance (Merton)
- The Chief Executive and Director of Children's Services (AfC)
- 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)
- External Audit

The Head of the SWLAP is line managed by the Assistant Director of Resources (Financial Services)(SSA), who is responsible for carrying out the Head of SWLAP annual appraisal. The Director of Finance and / or the Head of Corporate Governance, Kingston 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 (Richmond and Kingston) can give feedback.

The Deputy Head of the SWLAP is line managed by the Head of the SWLAP who is responsible for carrying out the Deputy Head of SWLAP appraisal. The Deputy Head of SWLAP is the statutory Head of Internal Audit for Sutton and Merton, both the Director of Corporate Services / Assistant Director of Corporate Governance (Merton) and the Executive Head of Finance (Sutton) Chair of Audit Committee (Sutton) and Chair of Standards/General Purposes Committee (Merton) can participate in this appraisal review.

The Assistant Director of Resources (Financial Services) is line managed by the Director of Resources and Assistant Chief Executive 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 Deputy Head of the SWLAP who will undertake the annual appraisal and the Director of Finance 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 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. 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 Procurement (this function is 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. 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 Auditor's 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.

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 to support them in discharging their responsibilities under S151 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 organisation's 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.

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.

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.

Quarterly performance reports to the Shared Service Board will provide 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, LB Richmond, LB Sutton and AfC, 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 will take the lead as the statutory Head of Internal Audit for LB Richmond and RB Kingston. The Deputy Head of the SWLAP will take the lead as 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.

Key Performance Targets

Key Performance Targets are established and monitored on a quarterly basis by the Shared Service Board.. A risk register has also been established and is 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/General Purposes committee).

Audit Planning

The Head of Audit has 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 :

- 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
- 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.

The Internal Audit Plans are based on the following:

- **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 operating correctly. The selection of work in this category is driven by 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.
- **Key Financial Systems:** Audits of the Council's key financial systems
- **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:** The review of ICT infrastructure and associated systems, software and hardware.
- **Contract Audit:** Audits of the procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.
- **Special Projects/Value for Money:** 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. Value for money work is generally incorporated within the main functional areas of audit activity.
- **Risk Management support:** 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.

- **Provision of advice and support:** Increasingly Internal Audit are involved in providing advice and support on an adhoc 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.
- **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 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.

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 Committees.

Committee: Standards & General Purposes Committee

Date: 9 March 2017

Wards: All

Subject: Annual Governance Statement 2015/16 – Improvement Plan Update

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Mark Allison, Cabinet Member for Finance and Deputy Leader

Contact officer: Margaret Culleton, Head of Internal Audit, 0208 545 3149

Recommendations:

- A. That the Standards/General Purposes Committee discuss and comment on that progress achieved to date against the 2015/16 Annual Governance Improvement Plan (set out in Appendix 1).
-

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. Corporate governance comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.
- 1.2. The Annual Governance Statement is the formal statement that recognises, records and publishes an authority's governance arrangements. It was published with the Council's financial statements in June relating to 2015/16 to ensure compliance with the Accounts and Audit (Amendment) Regulations 2015. These Regulations require authorities to "*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*" and to prepare an annual governance statement "in accordance with proper practices in relation to internal control".
- 1.3. The Annual Governance Statement Improvement Plan is a statement of the actions to be taken by the Council in order to remedy any weaknesses that it has identified in the Council's governance arrangements.
- 1.4. This report sets out progress against each of the items in the 2016/17 Improvement Plan which was included in the Annual Governance Statement for 2015/16. This will allow Members to understand the progress that has been made against the actions

and to ensure that the appropriate action is being taken to remedy weaknesses in the Council's governance processes.

2 DETAILS

- 2.1. Appendix 1 sets out achievements to date against each of the objectives.
- 2.2. Each of the improvement areas have made progress and the majority should be completed by the year end. The AGS working group meets regularly throughout the year, which helps to ensure that progress is made on these areas and to identify other areas where improvements are needed. The AGS for 16/17 will report on those areas that improvement is required.

3 ALTERNATIVE OPTIONS

- 3.1. None for the purposes of this report.

4 CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1. None for the purposes of this report.

5 TIMETABLE

- 5.1. The results of this report will be included in the Annual Governance Statement for 2016/17, which will be completed by 31 May 2017, in accordance with the deadline for the Statement of Accounts.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1. There are no specific financial implications.

7 LEGAL AND STATUTORY IMPLICATIONS

- 7.1. There are no specific legal implications.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 8.1. There are no specific human rights, equalities or community cohesion implications.

9 CRIME AND DISORDER IMPLICATIONS

- 9.1. There are no specific crime and disorder implications.

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 10.1. The risk management process is included in the improvement plan in Appendix 1. There are no health and safety implications.

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

11.1 Appendix 1 – update on progress on AGS Improvement programme

12 BACKGROUND PAPERS

12.1. The Annual Governance Statement 2015/16 was reported to Standards/General Purposes Committee on 30 June 2016. These documents do not form part of the report.

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Action	Lead	Implementation date	Comments
To review and update financial procedures	Head of Business Planning	<p>In progress</p> <p>Target date: November 2016</p> <p>Revised date:- September 2017 Cabinet</p>	<p>Work on this documentation has started, and will be finalised over the next few months once the new financial system goes live on 6/2/17. Detailed work will be undertaken to ensure procedures properly incorporate any movement caused by the new system. It is currently envisaged that the revised documentation will be presented to committee as follows:</p> <p>Standards & General Purposes Committee 7/9/17 Cabinet 18/9/17</p> <p>Any refinements to Financial Regulations will be considered at the same time.</p>
Potentially Violent persons Policy to be agreed at DMT and CMT and process to be put in place with new core systems	Head of Information Governance	<p>In progress</p> <p>Target date:-July 2016</p> <p>Revised date:- July 2017</p>	<p>The policy review has been carried out. Technology changes that will enable staff to access information about potentially violent individuals are under development and when completed will require the guidance in the Policy to be updated. It is envisaged the changes will be in place by July 2017</p>
To review the terms of reference of the new Standards and General Purposes Committee.	Head of Democracy Services	Complete	<p>These were reviewed by the committee and revised terms of reference were approved by Council on 23 November 2016.</p>
New financial system – to review internal controls in light of new financial system.	Head of Business Planning	<p>In progress</p> <p>Target date:- October 2016</p> <p>Revised target</p>	<p>In progress</p> <p>Process Maps have been compiled for Purchase to Pay, Accounts Receivable, Account Reconciliation, Debt Recovery and Bank Reconciliation. Separation of duties has been built into access permissions to the system. Authorisation structures have been</p>

AGS Improvement Plan 2015/16

			date:- March 2017	loaded into the system for purchase to pay and debt write off.
To ensure that the strategy for volunteers is in place	Head of Partnerships	Complete		Joint voluntary sector and volunteer strategy was approved by Cabinet in January 2017.
Declaration of Interests On-Line form New on-line form for staff to complete their annual returns. This will include declaration of staff relationships	Head of Organisational Development & HR Strategy	In progress Target date:- September 2016 New date March 2017		In progress work in progress Should be tested and implemented by 31/03/2017. Council wide communication to all employees will be issued and a form and guidance provided.
Disclosure & Barring Service (DBS) To carry out a full review of all staff to be DBS checked to ensure they are done and to implement audit recommendations	Head of Organisational Development & HR Strategy	Complete		A full review has been undertaken. A follow up Internal Audit is being undertaken to provide assurance.

Committee: Standards & General Purposes Committee

Date: 9 March 2017

Wards: All

Subject:

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Councillor Mark Allison, Cabinet Member for Finance and Deputy Leader

Contact officer: Kevin Holland – Head of Shared Fraud Partnership, Tel. 020 8871 6451 kholland@wandsworth.gov.uk

Recommendations: That members note the Fraud Progress report and comment on the matters arising from it.

1. INTRODUCTION

- 1.1 One of the responsibilities of the Committee is to monitor the Council's arrangements to protect the Council from fraud and corruption, including the Anti-Fraud & Anti-Corruption Policy and the Whistle Blowing Policy.
- 1.2 This report is provided to the Committee to provide assurance over the arrangements for protecting the Council against fraud and corruption. Merton Council entered into a shared fraud investigation service, known as the South West London Fraud Partnership (SWLFP), with Kingston, Richmond, Sutton & Wandsworth Councils from 1 April 2015 to ensure that an effective fraud investigation and prevention service would be maintained following the transfer of benefit fraud investigation to the Department for Work and Pensions (DWP).
- 1.3 The bringing together of retained knowledge and expertise under a single team strengthens resilience for individual authorities, enabling a collaborative approach to fraud investigations and introduces the ability to undertake regional proactive counter fraud exercises. Individual partner authorities retain responsibility for ensuring that its affairs are managed in accordance with proper standards of financial conduct and for preventing and detecting fraud and corruption.
- 1.4 The SWLFP investigation team comprises 14.5 permanent and 2 fixed term posts, with a mixture of expertise from both within and outside local government. 14 officers hold relevant Accredited Counter Fraud Specialist qualifications. The SWLFP has the ability to deploy flexible resources with knowledge and experience to provide coverage across a range of counter-fraud activities.

1.5 Priority areas of coverage for individual partner Councils are agreed through consultation with the Heads of Audit. The SWLFP continues to work closely with the Merton Priory Circle Housing Partnership in relation to concerns over tenancy fraud and abuse. Working with social landlords via the Social Housing Investigation Partnership (a forum that is accessible to social housing providers who have property within at least one of the fraud partnership authorities) continues to provide a sound framework for partnership working to help identify and respond to tenancy fraud and abuse. Partnership working results in the recovery of misused tenancies which can be assigned to those in genuine eligible need thus reducing the call upon temporary housing provided by local authorities.

2. Governance Arrangements

2.1 The initial governance arrangement for the SWLFP involved the nomination of an officer by each partner to a Steering Group which would meet at least four times a year; the nominees being the Heads of Audit from each Authority. However, with the extension of the Shared Audit Partnership across the same five authorities and with the shared fraud partnership being part of the overall Audit, Risk and Fraud Service the governance arrangements needed amending.

2.2 The revised governance arrangements are that the SWLFP now reports to a Shared Service Board which meets at least four times a year. The Board is made up of the Directors of Finance (s.151 responsible officer) or their nominee. For Merton the nominee is Paul Evans, Assistant Director of Corporate Governance. In addition regular fraud update reports are provided to each Director.

3. Summary of Fraud Investigations and Performance Results

3.1 Tables 1 to 3 below summarise the fraud work undertaken for Merton Council. Table 1 provides a breakdown of how the funding resource will and has been used. The plan is on course for delivery by the year end with the actual resource used to 31 January 2017 equating to 79.5% of the total planned resource. There has been a need for the contingency* to be used as one officer has been off long term sick.

Table1 Fraud Resource Plan

	Planned Days	%	Actual (to 31/1/17)	%
Referral Review	40	6.5	29.2	6.0
Pro Active Fraud Drives	67	11.0	43.7	9.0
Fraud Investigation	451	74.2	361.6	74.9
Fraud Awareness/prevention	14	2.3	5.9	1.2
Contingency	36	6.0	42.8	8.9
Total	608	100	483.2	100.0

3.2 Tables 2 and 3 provide a breakdown of the fraud/abuse referrals that have been investigated and a summary of the value of fraud/overpayments and notional savings identified as a result of the fraud work undertaken.

Table 2: Summary of fraud referrals

	2015/16	2016/17 to 31/01/17
Referral accepted in period for investigation by type:		
- Tenancy fraud/abuse	103	150
- Right to Buy	3	13
- Permit Fraud	1	4
- Corporate (Internal)	6	11
- Corporate (External) i.e. CTR & SPD	6	16
Total referrals in period	119	194
Closed in period		
- Closed no fraud	45	125
- Closed with sanction	11	13
Referrals still under investigation	63	56

Table 3: Summary of Overpayments and Notional savings

(* notional savings figures as per Audit Commission estimates)	2015/16 £	2016/17 to 31/01/17 £
Social Housing (notional @ £18k per property recovered*)	126,000 (7 prop)	144,000 (8 prop)
Right to buy (notional @ £100k discount)	200,000	100,000
Blue Badges & Parking Permit (notional @ £500 per case*)	0	0
Council Tax (identified overpayments and administrative penalties)	10,753	132,782
Other	0	800
Total actual and notional savings	336,753	377,582

3.3 Appendix A shows closed investigations into fraud and financial irregularity to date in 2016/17. The referrals received are a reflection of the effectiveness of the implementation of the Council's Anti-Fraud and Anti-Corruption Strategy. This indicates a reasonable level of general fraud awareness by officers across all the Council's departments.

4. Local Government Transparency Code.

4.1 Under the code the Council is required to publish the following data regarding its Fraud Investigation activity. Listed below are 2016/17 figures to 31 January (with 2015/16 comparative figures shown within brackets)

- Accredited number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers

Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014	18 (19)
--	---------

Council Tax Reductions Scheme (Detection of Fraud and Enforcement) (England) Regulations 2013	5 (0)
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- Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud

	Absolute	FTE
Fraud Investigation - SWLFP #	17 (20)	16.5 (19.3)

- Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists

	Absolute	FTE
PINS trained Fraud Specialist	7 (10)	7.0 (10.0)
CIPFA Certificate in Investigative Practices/ Accredited Counter Fraud Specialist	8 (2)	8.0 (1.8)

- Total amount spent by the authority on the investigation and prosecution of fraud

	16/17	15/16*	14/15*
Other Fraud Investigation (14/15* in year SFIS transfer, see 4.2) (15/16* includes DCLG Funding, see 4.3)	£172.8k	£170.9k	£223.4k

- Total number of fraud cases investigated.

	16/17 (to 31/1/17)	15/16	14/15
Benefit Fraud Investigations	1	0	31
Housing/Tenancy related Investigations	150	103	0
Right to Buy	13	3	0
Permit Fraud Investigation	4	1	0
Other Investigations	26	12	28

- 4.2 On 1st November 2014, responsibility for housing benefit fraud investigation transferred to the DWP under the Single Fraud Investigation Service (SFIS) and the team of officers responsible for housing benefit fraud investigation transferred to the DWP.
- 4.3 To ensure that sufficient knowledge and capability for fraud investigation was maintained Merton entered into a partnership with four neighbouring boroughs, the SWLFP. For 2016/17, the number of Fraud Investigation Officers and Officers with specialist fraud qualifications relates to the pool of officers within the SWLFP # that can be called upon although Merton's funding contribution equates to 3 FTE investigators.

5. CONCLUSION

- 5.1 A recent national public sector fraud report (Protecting the Public Purse) highlighted the three most significant items that local authorities needed to be addressed as: capacity; effective fraud risk management; and better data sharing. Partnership working helps maintain resilience and access to specialist investigative skills, resources and enables lawful and effective data sharing.
- 5.2 The Council has made suitable provision for the investigation and prevention of fraud and corruption.

GLOSSARY

CIPFA	Chartered Institute of Public Finance and Accountancy
CTR	Council Tax Reduction
DCLG	Department for Communities and Local Government
DWP	Department for Work and Pensions
FTE	Full Time Equivalent
NFI	National Fraud Initiative
PINS	Professionalism IN Security
POSHFA	Prevention of Social Housing Fraud Act
RTB	Right to Buy
SFIS	Single Fraud Investigation Service
SPD	Single Person Discount
SWLFP	South West London Fraud Partnership

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FRAUD, CORRUPTION AND FINANCIAL IRREGULARITIES – RESULTS OF CASES CLOSED 01/04/16 to 31/01/17

Offence/irregularity, sanctions and redress	Key outstanding actions
<p>1. (0141) – Suspected Abandonment/false tenancy: Pro active data matching exercise linked occupant to an alternative address. Several visits made to the site but tenant not seen. Investigation identified occupant was currently liable for council tax at alternative property In Surrey. They claimed that the tenant had moved overseas and they had been given the tenancy. This was not substantiated by MPCCH records. Notices were issued and legal proceedings commenced. At court the Judge awarded possession and following bailiff action the tenancy was recovered.</p>	None
<p>2. (0241) – Suspected sub-letting: Pro active data matching exercise linked tenant to alternative address. Further investigation carried out which identified that the tenant got married in 2013 and moved in with their partner whilst sub-letting their tenancy. The relationship broke down and the tenant moved back in February 2016, being absent for this period of time means that they could lose their security of tenure. Tenant interviewed and whilst initially denied subletting they admitted subletting and agreed to return the property with vacant possession. The tenant accepted a formal caution and property was recovered.</p>	None
<p>3. (0195) – Suspected sub-letting: Pro active data matching exercise identified an alternate address for the tenant. Further investigation identified tenant had got married and was living elsewhere in house they owned and had left their son in the property. Tenant had informed her bank of her new address. Tenant attended an IUC and stated they had moved out leaving their son in occupation. Notices were served and the tenant returned the property with vacant possession.</p>	None
<p>4. (0611) – Suspected abandonment: Referral from MPCCH who have experienced issues with gaining access to the property since June 2015. When access was finally gained there was little evidence of personal belongings; clothes were in suit cases and there were locks on bedroom & living room doors. Additional system check completed but these failed to provide any evidence to support occupation. Notices served and provisional court date sought. Further court action not required as tenant returned the keys and the property with vacant possession.</p>	None
<p>5. (1039) – Suspected sub-letting: Sub-tenant informed MPCCH they had been renting property from tenant. Investigation identified that tenant had credit history at another property. Tenant was interviewed and initially claimed that their ex-partner had moved the sub-tenant into the property but had no knowledge of the arrangement. Further evidence came to light and tenant was interviewed under caution again during which the tenant confirmed that they no longer live at the property. Notices were issued and tenant relinquished possession.</p>	None
<p>6. (1542) – Suspected sub-letting: Referral from MPCCH who suspected that the tenant has inherited another property and moved out, leaving their daughter and her family reside there. Checks carried out confirming the suspicion that tenant no longer used her MPCCH property as her main and principle home and the tenancy was ended.</p>	None

Offence/irregularity, sanctions and redress	Key outstanding actions
<p>7. (1869) – Suspected False Housing Application: Referral received advising the tenant was the owner of a property prior to being assigned the tenancy. Visit made to the property and in a discussion with the tenant following this it was explained that if Merton Priory had been aware of this he would not have been entitled to the tenancy. Dates for a formal interview were offered to tenant however he made the decision to sign back the tenancy. The keys were returned prior to the date of the notice period expiring of 11/09/2016.</p>	None
<p>8. (1922) – Suspected false succession claim/Right to buy application: Referral from MPCH as they received notification that the tenant was in a residential home, since November 2015, and is a permanent resident. In July 2017 the tenant's son submitted a Right to Buy joint application, claiming to be a co-resident at the tenancy. System checks only identified a residency history for the tenant who had been receipt of HB and had declared to live alone, claiming SPD and was the only person on the electoral register. As there was no evidence to support the Son's residency claim the Right to Buy application was refused. The Son then sought to have the tenancy transferred to him. However, as this was no longer the tenant's main or principal home and the Son could not provide proof of residency notices were served and vacant possession of the property was obtained.</p>	None
<p>9. (1372) Suspected of undertaking secondary employment whilst claiming to be unfit to attend for work: Management referral about an officer who was off long term sick with a suspicion that they were working. The employee had declared that they had an interest in a Minicab business but as they did not hold a valid taxi license they could not work. Manager suspected that they might be working within the minicab office. Enquires with TFL established that contrary to what had been claimed the employee did hold a valid taxi licence. In discussion with HR it was decided to progress the matter on a sickness capability basis rather than request the officer to attend for interview. Employment ended.</p>	None
<p>10. (1884) Suspected misuse of resources: Management referral raising a concern about officer usage of a Council oyster card. An analysis of records obtained from TFL highlighted that a card had been used more frequently than the others and it appeared that an officer was using the card for their own personal travel including travel to and from work and for travel on days when not at work. Officer attended for interview, during which they claimed that they thought the card was part of their remuneration package and as such could be used for non work related travel. The extent of personal usage was calculated to be in the region of £800. Disciplinary hearing convened, officer admitted personal use and agreed to pay back the cost of this. Officer given a written warning.</p>	None
<p>11. (0806) Suspected false CTR application: Information provided by DWP following data matching. Claimant failed to declare a change to their employment, at a Merton School, as a result they received £3,100 in HB and £447.89 in CTR that they were not entitled to. Claimant attended an interview, provided a prepared statement and then proceeded with a 'no comment' response. Claimant issued with an administrative penalty, £223.95 and was subject to informal management action at the school and received a warning.</p>	None

Offence/irregularity, sanctions and redress	Key outstanding actions
<p>12. (0926) False HB application: Following joint working with the DWP information obtained that an applicant had claimed HB, CTB and IS that they were not entitled to over a six year period between 2006 to 2013 and is so doing had obtained £129k in public funds that they were not entitled to. The claimant pleaded guilty to all 8 allegations and was sentenced to 2 years imprisonment, suspended for 18 months</p>	

Glossary

- CTB Council Tax Benefit
- CTR Council Tax Reduction
- DWP Department for Works & Pensions
- HB Housing Benefit
- IS Income Support
- MPCH Merton Priory Circle Housing
- SPD Single Person Discount
- TFL Transport For London

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Certification of claims and returns annual report 2015/16

Merton Council

February 2017

Ernst & Young LLP



Building a better
working world

Members of the Standards and General Purposes Committee
Merton Council
Civic Centre
London Road
Morden
SM4 5DX

22 February 2017
Ref: LBM/15-16/HB

Direct line: 0118 928 1556
Email: PKing1@uk.ey.com

Dear Members

Certification of claims and returns annual report 2015/16

We are pleased to report on our certification work. This report summarises the results of our work on Merton Council's 2015/16 claims and returns.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2015/16, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

Summary

Section 1 of this report outlines the results of our 2015/16 certification work and highlights the issues identified.

We checked and certified the housing benefits subsidy claim with a total value of approximately £92 million. We met the submission deadline for this work. We issued a qualification letter and details of this are included in section 1. In addition, our certification work found errors which the Council corrected in the final version of the subsidy claim. These amendments resulted in a small amount of expenditure being reclassified but had no net impact on the grant due. The Council did not breach its error threshold. This has resulted in the Department for Work and Pensions accepting the Council's certified claim.

Fees for certification and other returns work are summarised in section 2. The housing benefits subsidy claim fees for 2015/16 were published by PSAA in March 2015 and are now available on their website (www.psaa.co.uk).



We welcome the opportunity to discuss the contents of this report with you at the meeting of the Standards and General Purposes Committee on 9 March 2017.

Yours faithfully

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

Contents

1. Housing benefits subsidy claim.....	1
2. 2015-16 certification fees.....	3
3. Looking forward.....	4

1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£92,035,790
Amended/Not amended	Amended – no net impact on subsidy
Qualification letter	Yes
Fee – 2015/16	£41,242
Fee – 2014/15	£37,760

Recommendations from 2014/15

We did not raise specific recommendations in our 2014/15 Annual Certification Report. This was because the level of error identified in 2014/15 was reduced compared to previous years.

However, in common with prior years errors were still identified regarding the calculation of income (both tax credits and earned income), and the classification of overpayments. There were also system errors identified during the course of our work which required manual amendments to the claim form.

Findings in 2015/16

Based on the results of our work improvements continue to be made to the control environment for housing benefit at the Council and 2015/16 was the first year in some years where the local authority error threshold was not breached by the Council. This has resulted in the Department for Work and Pensions accepting the Council's certified claim. The improvement in the control environment, coupled with better programming and management of extended testing undertaken by the Council and reviewed and re-performed by us, allowed us to certify the amended claim form well in advance of the required deadline. This is also an improvement compared to previous years.

Although progress continues to be made there remains clear scope for further improvement. The 2015/16 return remained subject to both amendment and qualification, and there remains scope to improve assessment of benefit entitlement, particularly in relation to the assessment of claimant income. There also remains some scope to improve the initial quality of the extended testing undertaken by the Council.

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid. The DWP require appropriately qualified auditors to certify housing benefit subsidy claims, and determine the methodology auditors follow when certifying them.

The certification guidance stipulates the level of initial testing auditors are required to perform and requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out to determine if errors detected in the prior year's claim have reoccurred.

We then either report underpayments, uncertainties and the extrapolated value of other errors in a qualification letter or, if appropriate, agree an amendment to the claim with the Council. The DWP then decides whether to ask the Council to carry our further work to quantify the error or to claw back the benefit subsidy paid.

We have highlighted the following issues during the course of our work:

Rent Rebates

- ▶ From an initial sample of Rent Rebates cases we identified three errors as a result of incorrect calculation of earned income. The impact was:
 - ▶ One error in the assessment of the claimant's earned income leading to overpayment of benefit with a total value of approximately £69.
 - ▶ One case leading to a misclassification of expenditure leading and an overstatement of subsidy of approximately £55.
 - ▶ One case where the start date for benefit had been incorrectly assessed.

40+ or extended testing was undertaken in relation to both errors identified. The 40+ testing identified:

- ▶ A further six cases where employed income had been incorrectly calculated, with two of the six cases resulting in an overpayment of benefit. For these two cases the total value of the overpayment was approximately £91.
- ▶ A further seven cases where benefit expenditure on short-term leased or self-contained licenced accommodation where the Local Authority is the landlord had been incorrectly split between cells 14 and 15. One of these cases one led to an overpayment of subsidy, with cell 14 being overstated by approximately £104.
- ▶ Two further cases where the start date of benefit had been incorrectly assessed. In both cases this led to an understatement of benefit.

We extrapolated our findings which indicated that subsidy had been overstated by approximately £1,000. No amendments were made to the claim in respect of the extrapolated error.

Rent Allowances

Our initial sample of Rent Allowance cases also identified one error where self-employed income had been incorrectly calculated based on the information provided by the claimant.

40+ or extended testing was undertaken in relation to the error identified. This identified a further 15 cases where self-employed income had been incorrectly calculated. In four cases this led to an overpayment of benefit, with a total value of £463.82.

We extrapolated our findings which indicated that subsidy had been overstated by approximately £20,400. No amendments were made to the claim in respect of the extrapolated error.

We also reported a small balancing adjustment of approximately £5,900 made by the Council to its software supplier's reconciliation granted to benefit paid.

Due to the complex nature of the claim a certain number of errors are inevitable. The issues above have been reported in the qualification letter where applicable and have been discussed with officers. The Council is aware of the need to keep error rates as low as possible, particularly in relation to the assessment of claimant income in the determination of benefit entitlement. Given the further improvement in the control environment we have concluded that, formal recommendations on the above issues are not required in this report.

2. 2015-16 certification fees

PSAA determine a scale fee each year for the audit of claims and returns. For 2015/16, these scale fees were published by PSAA in April 2015 and are now available on their website (www.psa.co.uk).

Claim or return	2014-15	2015-16	2015-16
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	37,760	41,242	41,242

PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent from 2015/16 onwards, to reflect savings from the closure of the Audit Commission. The 2015/16 fee is based on the fee for 2013/14 less 25 per cent. The indicative fee for 2016/17 (see section 3) is based on 2014/15 less 25 per cent.

3. Looking forward

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to PSAA by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2016/17 is £28,320. This was prescribed by PSAA in March 2016, based on no changes to the work programme for 2015/16. Indicative fees for 2016/17 housing benefit subsidy certification work are based on final 2014/15 certification fees. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2014/15.

Details of individual indicative fees are available at the following web address:
<http://www.psaa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We would discuss the matter with the Director of Finance before seeking any such variation.

PSAA is currently consulting on the 2017/18 work programme. There are no changes planned to the work required and the arrangements for certification of housing benefit subsidy claims remain in the work programme. However, this is the final year in which these certification arrangements will apply. From 2018/19, the Council will be responsible for appointing their own auditor and this is likely to include making their own arrangements for the certification of the housing benefit subsidy claim in accordance with the requirements that will be established by the DWP.

Ernst & Young LLP

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Merton Council

Year ending 31 March 2017

Audit Plan

February 2017

Ernst & Young LLP



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

22 February 2017

Dear Committee Members

2016/17 Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Standards and General Purposes Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. We will present you with an update of progress on our Audit Plan at a subsequent meeting and after our early interim work has been performed.

We welcome the opportunity to discuss this plan with you on 9 March 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Suresh Patel

Executive Director

For and behalf of Ernst & Young LLP
Enc

Contents

1. Overview	1
2. Financial statement risks	3
3. Economy, efficiency and effectiveness	6
4. Our audit process and strategy.....	8
5. Independence.....	12
Appendix A Fees.....	14
Appendix B UK required communications with those charged with governance	15

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies 2015-16". It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

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 from 1 April 2015' issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. 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. Overview

Context for the audit

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ our audit opinion on whether the financial statements of Merton Council give a true and fair view of the financial position as at 31 March 2017 and of the income and expenditure for the year then ended; and
- ▶ a statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

When planning the audit we take into account several key inputs:

- ▶ strategic, operational and financial risks relevant to the financial statements;
- ▶ developments in financial reporting and auditing standards;
- ▶ the quality of systems and processes;
- ▶ changes in the business and regulatory environment; and
- ▶ management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council. Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In parts two and three of this plan we provide more detail on the above areas and we outline our plans to address them. Our proposed audit process and strategy are summarised below and set out in more detail in section four.

We will provide an update to the Standards and General Purposes Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2017.

Our process and strategy

Financial statement audit

We consider materiality in terms of the possible impact of an error or omission on the financial statements and set an overall planning materiality level. We then set a tolerable error to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality to an appropriately low level. We also assess each disclosure and consider qualitative issues affecting materiality as well as quantitative issues.

To the fullest extent permissible by auditing standards, we will seek to rely on the work of internal audit wherever possible.

Further detail is included in section two of this Audit Plan.

Arrangements for securing economy, efficiency and effectiveness

Our approach to the value for money (VFM) conclusion for Merton Council for 2016/17 is based on the approach specified by the NAO. For 2016/17 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

We adopt an integrated audit approach, so our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.

We consider that the only significant risk to reaching our conclusion on arrangements to secure VFM is the Council continuing to develop arrangements to address budget pressures in adult social care and secure financial balance over the medium term.

Further detail is included in section three of this Audit Plan.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you. We will report back to the Committee where our risk assessment changes during the year.

Significant risks (including fraud risks)	Our audit approach
<p>Risk of management override</p> <p>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.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. ▶ Reviewing accounting estimates for evidence of management bias. ▶ Evaluating the business rationale for significant unusual transactions. ▶ Evaluating the rationale for any changes in accounting policy.
<p>New general ledger implementation</p> <p>The Council introduced its new E5 general ledger system with effect from 7 February 2017. It put in place measures to migrate data on 2016/17 transactions and balances from the old to the new general ledger system. The Council's 2016/17 financial statements will be prepared using data taken from the new general ledger at the end of the financial year.</p> <p>To ensure the Council prepares materially accurate and complete 2016/17 financial statements it is essential that the Council is assured that it has migrated all financial data to its new general ledger.</p>	<p>We will review the actions taken by the Council to ensure the complete and accurate migration of financial data to the new general ledger. This will include reviewing the effectiveness of the reconciliation processes.</p> <p>Where we judge we are able to do so we will seek to rely on any relevant controls over the migration of data established by the Council, and any relevant work of internal audit.</p> <p>If we are unable to gain sufficient assurance that the Council has migrated all the relevant data completely and accurately we may be required to undertake additional audit procedures, necessitating an additional audit fee. We will engage early with the Director of Corporate Services if this situation arises and report back to the Committee.</p>
<p>Other financial statement risks</p>	<p>Our audit approach</p>
<p>Financial statements presentation – Expenditure and funding analysis and Comprehensive income and expenditure statement</p>	
<p>Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) which change the way the financial statements are presented.</p> <p>The new reporting requirements impact on both the Comprehensive Income and Expenditure Statement (CIES) and the</p>	<p>The Council has already undertaken this restatement exercise which we plan to review as part of our interim visit. Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Reviewing the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the Code.

Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note.

The Code no longer requires statements or notes to be prepared in accordance with the Service Reporting Code of Practice (SeRCOP). Instead the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.

This change in the Code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

- ▶ Reviewing the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported.
- ▶ Agreeing restated comparative figures back to the Council's segmental analysis and supporting working papers.

Valuation and impairment of property, plant and equipment and investment property

Property, Plant and Equipment (PPE) represents the largest asset value on the Council's balance sheet.

PPE is initially measured at cost and then revalued to fair value, determined by the amount that would be paid for the asset in its existing use, on a 5 year rolling basis. The Council relies on its professional valuer using a number of complex assumptions.

Annually assets are assessed to identify whether there is any indication of impairment.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of external experts and assumptions underlying fair value estimates.

Our approach will focus on:

- ▶ Considering, for revaluations in year, the basis of valuation of significant assets and any significant changes in use to ensure they remain appropriate if circumstances change.
- ▶ The valuation expertise used by the Council.
- ▶ The reasonableness of the estimations and judgements used.

Pensions Accounting

The Council operates a defined benefits pension scheme. Accounting for this scheme involves significant estimation and judgement.

The Pension liability is the largest balance on the balance sheet and inherently represents a risk of material misstatement.

Our approach will focus on:

- ▶ The expertise of the Actuary used by the Council,
- ▶ The completeness and accuracy of the data provided by the Council to the Actuary.
- ▶ The reasonableness of the estimations and judgements used by the Actuary.

Respective responsibilities in relation to fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements, whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ identifying fraud risks during the planning stages;
- ▶ enquiry of management about risks of fraud and the controls to address those risks;
- ▶ understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ determining an appropriate strategy to address any identified risks of fraud; and
- ▶ performing mandatory procedures regardless of specifically identified fraud risks.

3. Economy, efficiency and effectiveness

We are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

For 2016/17 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ take informed decisions;
- ▶ deploy resources in a sustainable manner; and
- ▶ work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public.”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following significant VFM risk which we view as relevant to our value for money conclusion.

Significant value for money risk

Our audit approach

Failure to address adult social care budget pressures and deliver medium term financial balance

In common with many other councils Merton continues to face a highly challenging financial outlook. The annual budget gap net of planned savings and growth over the four years forecast in the Council's updated medium term financial strategy (MTFS) rises from a balanced position in 2017/18, to approximately £18 million in 2020/21.

The main budgetary pressure continues to be current and forecast future growth in adult social care spending. The latest forecast for the directorate is a £9 million overspend in 2016/17 leading to a forecast current year net overspend for the Council of approximately £6 million. The Council is therefore likely to call on reserves to a greater extent than budgeted for in the previous MTFS.

Our approach will focus on reviewing the robustness of the Council's plans and arrangements to address budget pressures in adult social care and deliver sustainable financial balance over the medium term.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice (the Code) our principal objectives are to review and report on the Council's:

- ▶ financial statements; and
- ▶ arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue a two-part audit report covering both of these objectives.

i Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also:

- ▶ review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require; and
- ▶ give a separate opinion on the part of the Council's financial statements that relates to the accounts of the pension fund.

ii Arrangements for securing economy, efficiency and effectiveness

We are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

4.2 Audit process overview

Processes

Our initial assessment of the key processes across the Council has identified that we will seek to test key controls, both manual and IT within the payroll key process. We have also identified the following key processes that we will walkthrough and test substantively:

- ▶ Accounts payable
- ▶ Accounts receivable
- ▶ Business rates
- ▶ Council tax
- ▶ Housing benefits
- ▶ Cash and bank
- ▶ Pensions
- ▶ Schools
- ▶ Social care
- ▶ Property, plant and equipment
- ▶ Treasury Management

We also review your procedures to close the ledger and produce the financial statements.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Standards and General Purposes Committee.

Internal audit

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our final reporting where we raise issues that could have an impact on the year-end financial statements. Where relevant, we will seek to use the work of internal audit if they have covered the key controls we wish to test in the Council's key processes outlined above, or any relevant work on general ledger migration.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Property, Plant and Equipment	Council valuer and EY valuations team
Pensions	Pension fund's actuary and EY pensions team
National Non-Domestic Rates – provision for the cost of appeals	Council commissioned external expert

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ assess the reasonableness of the assumptions and methods used;
- ▶ consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ assess whether the substance of the specialist's findings are properly reflected in the financial statements.

4.3 Mandatory procedures required by auditing standards

As well as the financial statement risks outlined in section three, we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations.

Procedures required by standards

- ▶ addressing the risk of fraud and error;
- ▶ reviewing significant disclosures included in the financial statements;
- ▶ reviewing entity-wide controls;
- ▶ reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- ▶ considering and reporting on auditor independence.

Procedures required by the Code

- ▶ reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- ▶ reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

4.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have initially determined that overall materiality for the financial statements of the Council is approximately £10.25 million based on 2% of gross expenditure on services. We will communicate uncorrected audit misstatements greater than £512,000 to you.

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 the circumstances that might ultimately influence our judgement. 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 financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. 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 NAO Code. The indicative fee scale for the audit of the Council is £143,498.

We have outlined in Section 2 risks to the financial statements that may require us to carry out additional audit procedures. Where this arises we will engage early with the Director of

Corporate Services to discuss the extent of the additional procedures and the potential impact on the audit fee. We will report the outcome of this engagement to the Committee.

4.6 Your audit team

We have made a change to your audit team. Suresh Patel, an Executive Director with significant experience of auditing local authorities and London Borough councils will lead the engagement. He is supported by Simon Mathers, your Senior Manager from the prior year. Simon also has significant experience of auditing local councils and is responsible for the day-to-day direction of audit work and is the key point of contact for the finance team.

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the VFM work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Standards and General Purposes Committee's cycle in 2016/17. These dates are determined to ensure our alignment with the PSAA rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Standards and General Purposes Committee and we will discuss them with the Committee Chair as appropriate.

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

Audit phase	Timetable	Standards and General Purposes Committee timetable	Deliverables
High level planning	December 2016	Delivered	Audit Fee Letter
Risk assessment and setting of scopes	December-February 2017	9 March 2017	Audit Plan
Testing routine processes and controls	February - March 2017	29 June 2017	Progress Report
Year-end audit	July-August 2017		
Completion of audit and Conclusion of reporting	August 2017	7 September 2017	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements; and overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Completion of audit and Conclusion of reporting	September 2017	7 November 2017	Annual Audit Letter

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

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us. ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review. ▶ The overall assessment of threats and safeguards. ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed. ▶ Details of non-audit services provided and the fees charged in relation thereto. ▶ Written confirmation that we are independent. ▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy. ▶ An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed; analysed in appropriate categories.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with the PSAA Terms of Appointment. At the time of writing, there are no agreed non-audit fees for 2016/17. No additional safeguards are required.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4. Should the Council engage us again to audit its 2016/17 Teachers' Pensions return we will assess our ability to undertake the work against the requirements of Ethical Standards.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Suresh Patel, the Executive Director and the audit engagement team have not been compromised.

5.3 Other required communications

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 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 ended June 2016 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2016/17 £	Scale fee 2016/17 £	Outturn fee 2015/16 £
Total Audit Fee – Code work	143,498	143,498	143,498
Certification of claims and returns	28,320	28,320	41,242
Non-audit work – Teachers’ Pensions	8,500*	N/A	8,500

All fees exclude VAT.

* *Subject to confirmation of 2016/17 work*

The agreed fee presented above is based on the following assumptions:

- ▶ officers meet the agreed timetable of deliverables;
- ▶ the internal controls operate effectively for the key processes outlined in section 4.2 above;
- ▶ we can rely on the work of internal audit as planned;
- ▶ our accounts opinion and value for money conclusion are unqualified;
- ▶ appropriate quality of documentation is provided by the Council; and
- ▶ the Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance. In addition, if we are required to undertake additional audit procedures in response to the risks identified in Section 2, we will discuss in advance with the Council any potential impact on the fee.

Fees for the auditor’s consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Standards and General Purposes Committee. These are detailed here:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit including any limitations.</p>	<p>▶ Audit Plan</p>
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Matters significant to the oversight of the financial reporting process 	<p>▶ Report to those charged with governance</p>
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	<p>▶ Report to those charged with governance</p>
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Standards and General Purposes Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	<p>▶ Report to those charged with governance</p>
<p>Related parties</p> <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"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	<p>▶ Report to those charged with governance</p>
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	<p>▶ Report to those charged with governance</p>
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Standards and General Purposes Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of 	<p>▶ Report to those charged with governance</p>

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance
<p>Going concern</p> <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"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance ▶ Annual Audit Letter if considered necessary
<p>Certification work</p> <p>Summary of certification work undertaken</p>	<ul style="list-style-type: none"> ▶ Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary

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Merton Pension Fund

Year ending 31 March 2017

Audit Plan

February 2017

Ernst & Young LLP



Building a better
working world

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

22 February 2016

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Standards and General Purposes Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Pension Fund, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 9 March 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Melissa Hargreaves
Executive Director
For and behalf of Ernst & Young LLP

Contents

1. Overview	1
2. Financial statement risks	2
3. Our audit process and strategy.....	4
4. Independence.....	8
Appendix A Fees.....	10
Appendix B UK required communications with those charged with governance	11

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

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 from 1 April 2015’ issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. 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. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Merton Pension Fund give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and the amount and disposition of the fund's assets and liabilities as at 31 March 2017; and
- ▶ Our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the published financial statements of London Borough of Merton.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Pension Fund.

We will provide an update to the Standards and General Purposes Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2017.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Pension Fund, identified through our knowledge of the Pension Fund's operations and discussion with those charged with governance and officers.

Significant risks (including fraud risks)	Our audit approach
<p>Risk of management override</p> <p>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.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ▶ Reviewing accounting estimates for evidence of management bias, and ▶ Evaluating the business rationale for significant unusual transactions
<p>New general ledger implementation</p> <p>Merton Council uses the Masterpiece ledger to record all Pension Fund financial transactions forming the basis of its financial statements. The Council introduced its new E5 general ledger system with effect from 7 February 2017. It put in place measures to migrate data on 2016/17 transactions and balances from the old to the new general ledger system. The Pension Fund 2016/17 financial statements will be prepared using data taken from the new general ledger at the end of the financial year.</p> <p>To ensure the Pension Fund prepares materially accurate and complete 2016/17 financial statements it is essential that it has assurance all financial data has migrated completely and accurately to its new general ledger.</p>	<p>We will review the actions taken by the Council to ensure the complete and accurate migration of Pension Fund financial data to the new general ledger. This will include reviewing the effectiveness of the reconciliation processes.</p> <p>Where we judge we are able to do so we will seek to rely on any relevant controls over the migration of data established by the Council, and any relevant work of internal audit.</p> <p>If we are unable to gain sufficient assurance that the Council has migrated all the relevant Pension Fund data completely and accurately we may be required to undertake additional audit procedures, necessitating an additional audit fee. We will engage early with the Director of Corporate Services if this situation arises and report back to the Committee.</p>

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages;
- ▶ Enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determining an appropriate strategy to address any identified risks of fraud, and,
- ▶ Performing mandatory procedures regardless of specifically identified risks.

3. Our audit process and strategy

3.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Pension Fund's financial statements:

- ▶ form an opinion on the financial statements under International Standards on Auditing (UK and Ireland); and
- ▶ form an opinion on the consistency of the pension fund financial statements within the pension fund annual report with the published financial statements of London Borough of Merton.

3.2 Audit process overview

Our audit involves:

- ▶ identifying and understanding the key processes and internal controls;
- ▶ where relevant reviewing the work of your internal auditors;
- ▶ reviewing and assessing the work of experts in relation to areas such as valuation of the Pension Fund to establish if reliance can be placed on their work; and
- ▶ substantive tests of detail of transactions and amounts.

Processes

We do not plan to rely on the operation of controls to support our work on the financial statements. However, as investments are managed by contracted fund managers and overseen by the appointed custodians, we will review the findings of independent ISAE 3402 assurance reports for the custodians and fund managers (where available), and assess if there are any issues reported that may impact on our testing strategy.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Standards and General Purposes Committee.

Internal audit

We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit

team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Pensions liability	Pension Fund actuary and EY actuary

In accordance with Auditing Standards, we will evaluate each specialist’s professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Pension Fund’s environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist’s findings are properly reflected in the financial statements.

3.3 **Mandatory audit procedures required by auditing standards and the Code**

As well as the financial statement risks (section two), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ▶ Addressing the risk of fraud and error;
- ▶ Significant disclosures included in the financial statements;
- ▶ Entity-wide controls;
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements;
- ▶ Auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement

We are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

3.4 **Materiality**

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

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Pension Fund is £10.6 million based on 2 per cent of net assets. We will communicate uncorrected audit misstatements greater than £530,000 to you.

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 the circumstances that might ultimately influence our judgement. 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 financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

3.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. 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 NAO Code. The indicative fee scale for the audit of Merton Pension Fund is £21,000.

We have outlined in Section 2 risks to the financial statements that may require us to carry out additional audit procedures. Where this arises we will engage early with the Director of Corporate Services to discuss the extent of the additional procedures and the potential impact on the audit fee. We will report the outcome of this engagement to the Committee.

3.6 Your audit team

The engagement team is led by Melissa Hargreaves, who has significant experience of pension audits. Melissa Hargreaves is supported by Simon Mathers who is responsible for the day-to-day direction of audit work and is the key point of contact for your finance and pension teams.

Suresh Patel is the director leading our overall engagement with Merton Council and our relationship with the Standards and General Purposes Committee.

3.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit. The timetable includes the deliverables we have agreed to provide to the Pension Fund through the Standards and General Purposes Committee's cycle in 2016/17. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Standards and General Purposes Committee and we will discuss them with the Chair as appropriate.

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

Audit phase	Timetable	Audit Committee timetable	Deliverables
Risk assessment and setting of scopes	January 2017	9 March 2017	Audit Plan
Year-end audit	July 2017- August 2017		
Completion of audit	September 2017	7 September 2017	Report to those charged with governance via the Audit Results Report Audit report including our opinion on the financial statements Audit report on our opinion on the consistency of the financial statements within the pension fund annual report with the pension fund financial statements.
Final reporting	October 2017	7 November 2017	Annual audit letter

4. Independence

4.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit service.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

4.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Pension Fund.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Pension Fund has approved and that are in compliance with PSAA Terms of Appointment.

At the time of writing, there are no non-audit services provided by us to the Pension Fund.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Pension Fund. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Melissa Hargreaves, the audit engagement director and the audit engagement team have not been compromised.

4.3 Other required communications

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 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 ended June 2016 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2016/17 £	Scale fee 2016/17 £	Outturn fee 2015/16 £
Total Audit Fee – Code work	21,000	21,000	21,000
Non-audit work	0	0	0

All fees exclude VAT.

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ The operating effectiveness of the internal controls for the key processes outlined in section 3.2 above
- ▶ Our accounts opinion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Pension Fund; and
- ▶ The Pension Fund has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Pension Fund in advance. In addition, if we are required to undertake additional audit procedures in response to the risks identified in Section 2, we will discuss in advance with the Council any potential impact on the fee.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Standards and General Purposes Committee. These are detailed here:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit including any limitations.</p>	<p>▶ Audit Plan</p>
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	<p>▶ Audit Results Report</p>
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	<p>▶ Audit Results Report</p>
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Standards and General Purposes Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	<p>▶ Audit Results Report</p>
<p>Related parties</p> <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"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	<p>▶ Audit Results Report</p>
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	<p>▶ Audit Results Report</p>

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY’s objectivity and independence</p> <p>Communication of key elements of the audit engagement director’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Audit Results Report
<p>Going concern</p> <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"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Audit Results Report ▶ Annual Audit Letter if considered necessary
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Standards and General Purposes Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Standards and General Purposes Committee may be aware of 	<ul style="list-style-type: none"> ▶ Audit Results Report

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Committee: Standards and General Purposes

Date: 9 March 2017

Wards: All

Subject: Freedom of the Borough

Lead officer: Paul Evans, Assistant Director of Corporate Governance

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

Contact officer: Julia Regan, Head of Democracy Services,
julia.regan@merton.gov.uk; 020 8545 3864

Recommendation:

That the Standards and General Purposes Committee establish a small working group to consider nominations for the award of freedom of the borough and report back to the Committee.

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. At its meeting on 2 April 2014, at the recommendation of the then General Purposes Committee, Council agreed criteria and procedures for considering nominees for the freedom of the borough. These are set out in section 2 of this report.
- 1.2. A number of nominations are currently under discussion by the political groups.
- 1.3. It is recommended that the Committee establish a small working group to consider these nominations and report its findings back to the Committee.

2 CRITERIA AND PROCESS FOR AWARDING FREEDOM OF THE BOROUGH

Criteria

- 2.1. 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.
- 2.2. 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.
- 2.3. 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

2.4. The award may be granted posthumously.

Procedures

- 2.5. 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.
- 2.6. 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.
- 2.7. The Monitoring Officer will write to all councillors at least once during the four yearly municipal cycle, preferably at or near the midpoint, to draw their attention to the opportunity to make nominations
- 2.8. 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.
- 2.9. 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 248 of the Local Government Act 1972.

3 ALTERNATIVE OPTIONS

- 3.1. Council may choose to agree alternative criteria and/or procedures.

4 CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1. Nominations are at an early stage and have been discussed within political groups.

5 TIMETABLE

- 5.1. To be determined by the Standards and General Purposes Committee.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

Any expenditure associated with conferring the Honorary Freedom of the Borough will be from existing budgets.

7 LEGAL AND STATUTORY IMPLICATIONS

- 7.1. Section 249 (paragraphs 5 and 6) of the Local Government Act 1972 states:

(i) (5) The Council of a London Borough... may, by resolution passed by not less than two-thirds of the members voting thereon at a meeting of the council specially convened for the purpose with notice of the object, admit to the borough persons of distinction and persons who have, in the opinion of the council, rendered eminent services to the borough”

(ii) (6) The Council of a London Borough...may spend such reasonable sum as they think fit for the presenting an address or a casket containing an address to a person upon whom they have conferred the title of (honorary alderman) or admitted to be an honorary freeman of the ...borough..

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

Appendix A – nomination form

12 BACKGROUND PAPERS

None

NOMINATION FOR FREEDOM OF THE BOROUGH

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

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.

5. Nomination submitted by:

Councillor _____ **Date** _____

Please return this form to The Monitoring Officer, Merton Civic Centre or by e-mail to democratic.services@merton.gov.uk

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Committee: Standards and General Purposes

Date: 9 March 2017

Wards: All

Subject: Civic regalia and other valuable items

Lead officer: Paul Evans, Assistant Director Corporate Governance

Lead member: Councillor Mark Allison, Deputy Leader and Cabinet Member for Finance

Contact officer: Julia Regan, Head of Democracy Services, 0208 545 3864

Recommendations:

- A. That the Standards and General Purposes Committee agree to the implementation of the civic regalia and other valuable items display and disposal policy as set out in paragraphs 2.12 onwards, subject to any changes the Committee wishes to make.
-

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. A review in August 2016 by the Internal Audit team of civic regalia and other valuable items made a number of recommendations with regard to documentation and financial control. An action plan was drawn up to address these and all but one of the recommendations has now been implemented.
- 1.2. The one remaining recommendation to address is that a disposal process should be agreed for those items donated and gifted to the Mayor's Office that are no longer required. A draft disposal process is set out in this report for consideration by the Standards and General Purposes Committee (details are contained in paragraphs 2.12 onwards).
- 1.3. In summary, the draft process recommends that all items of civic regalia should be retained by the borough, that other valuable items of cultural or historic interest should be securely displayed in the Mayor's Parlour and that the remaining valuable and miscellaneous items should be disposed of. It is recommended that the proceeds from disposal should be used first to purchase a secure display cabinet and the rest should be paid to the Mayor of Merton's Charitable Trust.

2 DETAILS

- 2.1. Audit review of civic regalia
- 2.2. Internal Audit have reviewed civic regalia & other valuable items in August 2016 as part of the 2015/16 audit plan. The auditor identified significant shortfalls with regard to the documentation of records of the civic regalia and other valuable items and concluded that the level of financial control was below the required standard.
- 2.3. An action plan was drawn up to address Internal Audit's recommendations and all but one of the recommendations has now been implemented. In

particular, all items have now been located and the inventory is now complete and up-to-date.

2.4. The one remaining recommendation to address is that a disposal process should be agreed for those items donated and gifted to the Mayor's Office that are no longer required. Internal Audit advised that a disposal policy should demonstrate a consistent approach and reduce storage costs. All disposals should be fully recorded; the reasons and the authority for the adjustment must be clearly stated. All disposals should be undertaken in line with LBM Financial Procedures (2007), which provides the following guidance for disposal:

- Up to £500, consult with staff, voluntary organisation and schools before passing to the Mayors charity
- Over £500 use auction or advertise

2.5. Description and value of items

2.6. All valuations date from 2012 and were undertaken by a valuer from Mappin and Webb. The next valuation is due to take place early in 2017.

2.7. The civic regalia that is in regular use includes the mace, badges and chains of office, the chaplain's cross and multi-faith insignia. The value of these items is £147,155.

2.8. There are other mayoral badges and chains are only worn occasionally. The value of these items is £227,800.

2.9. Various decorative items are kept on display in the Mayor's Parlour, including a silver tea set. Mappin and Webb reviewed these items in 2012 and valued those considered worth valuing – total value is £20,965.

2.10. A number of valuable items that are not in use are stored in a safe within the civic centre. These include three large ornamental silver nickel centrepieces dated 1868, two silver tea trays, silver coated tea urn, silver key and a presentation gavel. The value of these items is £10,350 – this excludes the tea urn as it was not valued in 2012.

2.11. A large number of miscellaneous items that have been donated to the Mayor over many years have all been listed on an inventory and are currently stored in crates prior to a decision being taken on disposal. It is unlikely that any single item will be worth more than £500. The items have been viewed by the Heritage and Local Studies service manager and she has advised that they are not of historic significance due to lack of evidential documentation.

2.12. Recommendations for display and disposal

2.13. These recommendations are based on discussion with five members of the Standards and General Purposes Committee who viewed the civic regalia and other valuable items on 6 December 2016 – Councillors Mary Curtin, Janice Howard, Mary-Jane Jeanes, Ian Munn and David Williams.

2.14. It is recommended that all the civic regalia that is in regular or occasional use (as set out in paragraphs 2.7 and 2.8 above) should be retained. It is further recommended that the mayoral badges and chains that are in occasional rather than regular use should be placed on display in a secure

cabinet in the Mayor's Parlour, rather than kept in a safe as at present, as these are of historical interest.

- 2.15. It is recommended that the various decorative items on display in the Mayor's Parlour should be retained. These will be included in the 2017 insurance valuation. It is further recommended that existing and new decorative items with a value below £100 (such as New Year Day Parade trophies) should be retained for a maximum of five years. Disposal will then be made through offering as a prize at a mayoral charity event.
- 2.16. It is recommended that the three large ornamental silver nickel centrepieces dated 1868, two silver tea trays, silver coated tea urn and the silver key should be sold through auction as these items are no longer required. The tea urn should be valued prior to disposal.
- 2.17. It is recommended that the presentation gavel should be retained and placed on display in a secure cabinet in the Mayor's Parlour, rather than kept in a safe as at present, as this is of historical interest.
- 2.18. It is recommended that the miscellaneous items currently stored in crates should be professionally assessed and then disposed of through auction, advertisement or prize at a mayoral charity event as appropriate. Any items that may of interest to a council department (for example certificates awarded by or to the department) will be offered to the department prior to disposal.
- 2.19. It is recommended that items subsequently donated to the Mayor are assessed initially by the Mayor's Executive Assistant and the Head of Democracy Services should be kept on display during that mayoral year and a decision made at a later date on whether to keep, dispose of through auction (value over £500) or through prize at a mayoral event (value below £500).
- 2.20. It is recommended that the monies raised from disposal of items should be used to purchase a secure display cabinet for the Mayor's Parlour. The balance should be paid to the Mayor of Merton's Charitable Trust so that the Trustees can determine how best to allocate in accordance with the public benefit aims of the Trust.

3 ALTERNATIVE OPTIONS

- 3.1. The Standards and General Purposes Committee is asked to consider the recommendations for display and disposal and make any changes that it considers appropriate. In doing this the Committee should be mindful of the historic and monetary value of the items under consideration as well as security and storage requirements.

4 CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1. Members of the Standards and General Purposes Committee were invited to view the civic regalia and other valuable items on 6 December 2016. Councillors Mary Curtin, Janice Howard, Mary-Jane Jeanes, Ian Munn and David Williams were able to take up this invitation. The proposals in this report are based on discussion with those councillors and their subsequent comments on an early draft of this report.

5 TIMETABLE

- 5.1. An insurance valuation of civic regalia and other valuable items is due to take place early in 2017.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1. As part of the work being undertaken to quinquennially revalue heritage assets within the Borough advice on the optimal disposal method will be provided on the items donated to the Mayor.

7 LEGAL AND STATUTORY IMPLICATIONS

- 7.1. There are no significant legal implications raised by this report.

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. To follow

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

- none

12 BACKGROUND PAPERS

- 12.1. South West London Audit Partnership report, civic regalia and other valuable items, August 2016

Committee: Standards & General Purposes Committee

Date: 9 March 2017

Wards: All

Subject: Regulation of Investigatory Powers Act
Authorisations

Lead officer: Graham Owen

Lead member: Councillor Peter McCabe

Contact officer: graham.owen@merton.gov.uk

Recommendations:

- A. That members note the purposes for which investigations have been authorised under the Regulation of Investigatory Powers Act (RIPA) 2000.
-

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. To inform members about investigations authorised since September 2016 under RIPA.

2 DETAILS

- 2.1. The council has a number of statutory functions that involve officers investigating the conduct of others with a view to bringing legal action against them. These functions include investigating anti-social behaviour, fly tipping, noise nuisance control, planning (contraventions), benefit fraud, contraventions of trading standards, licensing and food safety legislation.
- 2.2. Whilst the majority of investigations are carried out openly, some investigations must be carried out using covert surveillance techniques or involve the acquisition of communications data. Communications data is information about the times of calls or internet use and the location and identity of the callers, but not the content of the calls or details of the websites viewed.
- 2.3. RIPA regulates the authorisation and monitoring of these investigations to safeguard the public from unwarranted intrusion of privacy.
- 2.4. With effect from 1 November 2012, the Protection of Freedoms Act 2012 requires local authorities to obtain the approval of a magistrate for the use of covert surveillance.
- 2.5. In line with the revised Code of Practice, reports detailing the use of RIPA are submitted to Standards and General Purposes Committee on a regular basis.
- 2.6. Since September 2016, no covert surveillance has been authorised.
- 2.7. Since September 2016, there have been no requests for CCTV footage for RIPA investigations.

- 2.8. No RIPA no authorisations have been rejected by the Magistrates Court.
- 2.9. Since September 2016, no applications have been made for the acquisition of communications data.

3 ALTERNATIVE OPTIONS

- 3.1. The report is for information only.

4 CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1. No consultation has been undertaken regarding this report.

5 TIMETABLE

- 5.1. N/A.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1. None.

7 LEGAL AND STATUTORY IMPLICATIONS

- 7.1. All investigation using covert surveillance techniques or involving the acquisition of communications data is in line with the Regulation of Investigatory Powers Act 2000.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 8.1. RIPA was introduced to regulate existing surveillance and investigations in order that they meet the requirements of Article 8 of the Human Rights Act. Article 8 states:
- 1) Everyone has the right for his private and family life, his home and his correspondence.
 - (2) There shall be no interference by a public authority with the exercise of this right except such as is in accordance with the law and is necessary in a democratic society in the interests of national security, public safety or the economic well-being of the country, for the prevention of disorder or crime, for the protection of health or morals, or for the protection of the rights and freedoms of others.

9 CRIME AND DISORDER IMPLICATIONS

9.1. RIPA investigations are authorised for the prevention or detection of crime or the prevention of disorder.

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1. None.

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

11.1. None.

12 BACKGROUND PAPERS

12.1. None.

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Committee: Standards and General Purposes

Date: 9 March 2017

Wards: All

Subject: Report on the use of temporary workers and consultants

Lead officer: Kim Brown, HR Lead

Lead member: Councillor Mark Allison, Cabinet Member for Finance and Deputy Leader

Contact officer: Kim Brown, HR Lead, 020 8545 3152

Recommendations: That the Committee 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 progressed in relation to the number of interim appointments and the mechanisms in place to monitor the use of such workers.

2. Details

- 2.1 Appendix 1 attached to this report sets out the latest central monitoring database for all types of interim/temporary placement at a rate of £30 per hour or more across the Council, shown by department.
- 2.2 The database is updated on a monthly basis and double-checked with departments for accuracy.
- 2.3 The data about interim and consultancy placements is broken down by department and sent to each Department Management Team (DMT) on a monthly basis to review. HR attends monthly meetings of each DMT to review all the placements and to challenge on-going placements, especially where they are longer term. Every placement is reviewed with the respective DMT senior managers.
- 2.4 Arrangements are in place for HR to scrutinise all interim appointments and the single database provides a means of HR taking an overview of such appointments, together with the capability to ensure managerial compliance. In order to extend a placement, Comensura require written confirmation along with the signed Recruitment Authorisation form from either the HR Contracts Manager, or the Comensura Relationship Adviser. In recent months HR have actively challenged the completion of the ways the forms have been completed and have requested additional information.

The engaging of most interim workers is via Comensura, or the LGRP, which is a London wide contract for interim appointments. 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 require 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.

- 2.5 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. These are all engaged with the involvement and oversight of the HR function with a database that supplies monthly spend and usage reports to Council managers.
- 2.6 As at the end of January 2017, the Council employed 174 interim/temporary workers at £30 per hour (or more) compared to 157 for July 2016. **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.
- 2.7 Running concurrently with the work to monitor and control interim placements has been a Council-wide staffing establishment exercise completed within iTrent to provide a comprehensive view of a fully budgeted workforce. This provides a clear picture of the workforce, including vacancies and reconciliation with temporary worker appointments. The quarterly position as at 31st December 2016 was reported to the Financial Monitoring Task Group on 22nd February 2017.
- 2.8 The new "temp to perm" guidance has been agreed and implemented. This guidance enables managers to convert longer-term agency workers into "perm" directly employed staff. The conversion process is subject to safeguards, which check that a competitive recruitment process was followed when the worker(s) were first commissioned and establishment control procedures are followed.
- 2.9 Where difficulty in recruiting has been cited as a reason of long-term cover, HR will continue to work with client managers to identify what recruitment and retention measures are necessary, if any, to improve the recruitment offer. This may include review of recruitment efforts, pay market data and turnover statistics as well as a supporting business case.
- 2.10 At the last SGPC the committee requested that the interim monitoring data be provided to the committee on a quarterly basis. The period considered for this report is 1st October 2016 – 31st December 2016. Table A below outlines the spend by for the quarter: Comensura, LGRP and 'off contract'. These figures are based on the gross costs and these costs will be further reduced by:
 - the budgeted costs of the posts, which includes oncosts, which is an average of 27%.

- *the recharges of the partners organisations for whom the interim worker delivers services such as LAs, CHAS, Sutton Housing Partnership, Afc and others. The estimated recharge amounts to £200K.
- The estimated cost of permanent post cost covered by the interim where applicable.

October 2016 – December 2016 (Quarter 3)

CORPORATE SERVICES	TOTAL	EST PERM COST
*COMENSURA	*£590,474	£565,230.12
LGRP	£103,743	£26,663.34
OFF CONTRACT	£470,405	£175,359.61
CHILDREN SCHOOLS AND FAMILIES		
COMENSURA	£609,545	£751,067.68
LGRP	£0.00	£0.00
OFF CONTRACT	£209,685	£39,049.17
COMMUNITY AND HOUSING		
COMENSURA	£369,766	£407,356.68
LGRP	£45,843	£24,920.73
OFF CONTRACT	£19,344	-
ENVIRONMENT & REGENERATION		
COMENSURA	£189,828	£166,713.68
LGRP	£61,994	-
OFF CONTRACT	£32,801	-
TOTAL	£2,112,954	£2,156,361.01
<i>Less estimated recharge from other organisations</i>	<i>£200,000</i>	<i>£200,000</i>
Net total	£1,912,954	£1,956,361

Table A

**The Comensura total for the quarter is based on actual spend whilst that for LGRP and 'Off contract' is based on 'billed' to date.

- 2.11 Based on the information contained within para 3 of this report whilst the council will seek to permanently recruit there are instances where agency/temporary/interim workers if managed appropriately can assist in delivering key projects and covering vacant posts.
- 2.12 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

In all but a few exceptions, the CSF agency workers and consultants are covering social work posts including frontline social workers and other regulatory posts such as Independent Reviewing Officers (IROs) and our Adoption Manager. The others are for specialist posts such as speech and language therapy which are also statutorily required as part of children's Education, Health and Care Plans. 17% of our agency SW are covering maternity leave or other long-term absence. Social workers have to have professionally manageable caseloads and the authority is funding 8-10 additional frontline posts currently to be able to deliver a caseload of c15 children per social worker. This is in line with the London average.

Recruitment has continued strongly with 27 new starters during October-December 2016. Our vacancy rates and turnover rates have reduced from our 2015 peaks and as at December we had a rolling annual vacancy rate of 23% and turnover of 26% compared to 26% and 32% in September 2015. We now have a good flow of newly qualified social workers. 6 started in October, but have to carefully manage the balance of experienced and inexperienced workers given the nature of our work.

Community and Housing

Within Community and Housing, use of agency staff is predominantly within adult social care and in specialist, hard to recruit to posts. For adult social care, in anticipation of a restructure involving the loss of many posts, the service ceased recruiting substantively in order to minimise redundancies. With the restructure now complete and with few redundancies, active recruitment is underway to appoint to vacant posts and therefore reduce our usage of agency staff. A new recruitment webpage is in development to better target the recruitment of social workers for adults and mental health, including interviews with current staff promoting the benefits of working at Merton.

Corporate Services

For Corporate Services, we have subsequently gone live with one of our major new systems, which should result in the reduction in interims to support the project over the next few months and more should subsequently follow. As explained at the last meeting, there has been an increase in the number of interims in legal due to Wandsworth joining the South London Legal Partnership, who are being fully reimbursed by them. There will be a restructure taking place and it is hoped that there will be a number of positions recruited to on a permanent basis. However, we are still experiencing difficulties in areas where there is also demand for services in the private sector.

Environment and Regeneration

Usage is relatively low in E&R. A number of workers are covering positions, which are subject to a service review, and others are providing specialist skills or are covering externally funded roles. 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 has changed employment patterns.

As we are now concluding Phase C procurement, our agency staff usage will reduce significantly.

E&R DMT reviews this matter on a regular basis in order to manage risk including the financial impact.

3.0 The impact of IR35 on interim workers

Special tax rules (IR 35) will apply where a worker provides services through an 'intermediary' typically a UK Personal Service Company (PSC). Where IR35 applies, PSCs are currently liable for PAYE and NIC (not the engager). The HRMC considers that there is 90% non-compliance and the liability will shift to the public sector body, agency or other third party paying the worker's company. The new legislation will apply to Public Authorities only from 6 April 2017.

Some of the interims engaged through Comensura listed in Appendix A will become liable for PAYE. A number of lawyers and social workers are set up as limited companies - although under new HRMC rules they should not be and should be PAYE. Where interims are engaged via LGRP or 'off contract', usually as limited companies unless they become employed by an umbrella company, the Council will be required to make PAYE deductions as though they are employees (this does not make them an Employee from an employment law perspective).

IR35 should not result in an increase in charge rates as this matter is a tax issue and the interim workers should have been paying taxes at the correct/appropriate rate.

There is a benefit to the Council if some agency staff are converted from temp to perm on Merton's Terms and Conditions as outlined in para 2.8. This will establish a more resilient workforce in areas where it has been hard to recruit to these positions.

4. Consultation undertaken or proposed

- 4.1 CMT receives monthly updates on agency usage and activity. Detailed below is a synopsis of the current themes on which CMT have requested assurance:

- The need for hiring manager compliance to complete agency placement extension arrangements and to seek proper authorisation. HR has put in place measures to improve such compliance with tighter authorisation controls.
- The trend for overall decreased usage of agency staff but rising costs due to the type of worker that we need to source e.g. specialist technical or niche professional skills such as children's social workers, project managers, IT specialists and business analysts. The marketplace for such posts is competitive and supply and demand dictate increased charge rates.
- An increasing trend of agency workers working for longer periods of time - in particular covering essential services. This reflects service demands and the need to cover statutory functions, and remains under regular review.

5. Timetable

- 5.1 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.

6. Financial, resource and property implications

- 6.1 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.

7. Legal and statutory implications

- 7.1 There are no specific legal implications arising from the report

8. Human rights, equalities and community cohesion implications

- 8.1 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.

9.0 Crime and Disorder implications

- 9.1 None

10.0 Risk management and health and safety implications

- 10.1 These are detailed in the Ernst and Young report of 12 March 2014.

11.0 Appendices – the following documents are to be published with this report and form part of the report

11.1 Appendix 1 - Summary data of the Council's current interim positions

12.0 Background papers

12.1 None

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Standards and General Purposes Committee Forward work plan 17/18

29 June 2017

- Annual Governance Statement 16/17
- Internal Audit Annual Report
- Expansion of the Shared Audit Partnership
- External Audit – Fee Letters for the Council and Pension Fund Accounts
- Draft Accounts
- Review of Contract Standing Orders
- Complaints against Members
- Temporary and Contract Staff update
- Work Programme

7 September 2017

- External Audit of the Council and Pension Fund Accounts
- Internal Audit progress report on annual audit plan
- Final Accounts
- Update on RIPA Authorisations (March and September)
- Review of Contract Standing Orders
- Complaints against Members
- Temporary and Contract Staff update
- Work programme

9 November 2017

- 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
- Complaints against Members
- Temporary and Contract Staff update
- 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.*