

Merton Council

Standards and General Purposes Committee Agenda

Membership

Councillors:

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

Substitute Members:

Michael Bull
Sally Kenny
Oonagh Moulton

Date: Thursday 15 March 2018

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 or telephone 0208 545 3357.

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

Standards and General Purposes Committee Agenda

15 March 2018

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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 9 NOVEMBER 2017

(7.15 pm - 8.40 pm)

PRESENT Councillors Councillor Peter McCabe (in the Chair),
Councillor Janice Howard, Councillor Agatha Mary Akyigyina,
Councillor Adam Bush, Councillor John Dehaney,
Councillor Mary-Jane Jeanes, Councillor Ian Munn,
Councillor Gregory Udeh, Councillor David Williams,
Councillor John Bowcott and Councillor Mary Curtin

Independent Person – Pam Donovan

ALSO PRESENT: Caroline Holland – Director of Corporate Services
Paul Evans – Assistant Director of Corporate Governance
Suresh Patel – External Auditor – Ernst Young
Roger Kershaw – Interim Assistant Director of Resources
Margaret Cullerton – Head of Internal Audit
Kevin Holland – Head of Shared Fraud Partnership
Paul Foster – Head of the Regulatory Services Partnership
John Hill – Assistant Director - Public Protection
Kim Brown – HR Lead
Amy Dumitrescu – Democratic Services Officer

1 APOLOGIES FOR ABSENCE (Agenda Item 1)

There were no apologies for absence.

2 DECLARATIONS OF PECUNIARY INTEREST (Agenda Item 2)

There were no declarations of pecuniary interest.

3 MINUTES OF THE PREVIOUS MEETING (Agenda Item 3)

The minutes of the meeting held on 7 September were agreed subject to the following amendment:

Item 4: Audited Final Accounts 2016/17

“They explained that although the introduction of the new financial system had caused delays to this year’s accounts, they were now content that the issues would be solved before next year’s accounts.”

To be amended to read:

They explained that although the introduction of the new financial system had caused delays to this year's accounts, they were **now content that officers were taking action to resolve the issues for next years accounts.**

4 EXTERNAL AUDIT ANNUAL LETTER (Agenda Item 4)

Suresh Patel from Ernst and Young LLP presented the Annual Audit Letter and invited questions and comments.

5 AUDITED FINAL ACCOUNTS 2016/17 (Agenda Item 5)

The Director of Corporate Services presented the report which was brought at the request of the Committee to update on the progress on the accounts. The Director of Corporate Services gave an overview as detailed in the report of the action plan to meet the tighter deadlines to give assurance that this would be met on time.

In response to questions officers advised that they had committed to bring another update to the next meeting of Standards and General Purposes and that a large amount of preliminary work had been undertaken including a scheduled meeting with External Audit in the week following the meeting and regular detailed conversations were progressing and detailed plans were in place.

RESOLVED:

1. That the Committee approved the audited Statement of Accounts, including the Pension Fund accounts.

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

The Head of Internal Audit presented the report and invited questions and comments.

RESOLVED:

That members noted the report and commented upon matters arising from the Internal Audit Progress Report.

7 FRAUD UPDATE (Agenda Item 7)

The Head of the Shared Fraud Partnership presented the report and invited comments and questions.

Members praised the positive progress on the areas of blue badge fraud and right to buy fraud.

RESOLVED:

- A. That members noted the Fraud Progress report and commented on the matters arising from it.

8 CHANGES TO THE JOINT REGULATORY SERVICE COMMITTEE (Agenda Item 8)

The Head of the Regulatory Services Partnership presented the report advising that following agreement of the Merton and Richmond Council Cabinets to admit the London Borough of Wandsworth to the partnership, a review of the terms of reference was required.

RESOLVED:

- A. That the Standards and General Purposes committee recommends that Council approves the amended Terms of Reference for the Joint Regulatory Services Committee (JRSC) as set out in Appendix 3
- B. That the Standards and General Purposes Committee recommends that Council agrees that the Chair of the JRSC rotates on an annual basis between Merton, Richmond and Wandsworth.

9 ANNUAL COMPLAINTS REPORT (Agenda Item 9)

The Assistant Director of Corporate Governance presented the report.

In response to member questions the Assistant Director of Corporate Governance clarified the process for members receiving complaints and gave an overview of the way complaints are logged and recorded.

The Assistant Director of Corporate Governance confirmed that the statistics included those issues reported online through the website.

RESOLVED:

That the Committee noted the contents of the report.

10 ANNUAL GIFTS AND HOSPITALITY REPORT (MEMBERS) (Agenda Item 10)

The Assistant Director for Corporate Governance presented the report and the Committee noted the extract from the register.

11 ANNUAL GIFTS AND HOSPITALITY REPORT (OFFICERS) (Agenda Item 11)

The Assistant Director for Corporate Governance presented the report, advising that managers had been reminded to advise officers to complete the required declarations.

The Committee noted the extract from the register.

12 RISK MANAGEMENT (Agenda Item 12)

The Director of Corporate Services presented the report advising the Committee of the points which had been updated. In response to a member question on the approach to agreeing the key risks, the Director of Corporate Services responded that our insurance advisors were lined up to do a sense check of these.

RESOLVED:

- A. That the Standards and General Purposes Committee reviewed the adequacy of the risk management framework and the associated control environment.
- B. To consider the Key Strategic Risks and Issues faced by the Council and determine whether these are being actively managed.

13 REVIEW OF POLLING PLACES (Agenda Item 13)

The Assistant Director of Corporate Governance presented the report, advising that the group offices had been consulted on the proposals.

RESOLVED:

- A. That the Standards and General Purposes Committee recommends that the full council agrees the designation of the Acacia Adventure Playground building as the polling place for polling district HD in Figges Marsh Ward and retains the use of the Acacia Centre for polling district IE in Longthornton Ward.
- B. That the Standards and General Purposes Committee recommends that the full council agrees that Dundonald Recreation Ground Pavilion replaces Dundonald Primary School as a polling place for polling district PA in Dundonald Ward.
- C. That the Standards and General Purposes Committee recommends that the full council agrees that Joseph Hood Primary School replaces Merton Adult College as a polling place for polling district SA in Cannon Hill Ward.

14 MEMBER INDUCTION (Agenda Item 14)

The HR Lead presented the report and gave an overview of the training which had taken place since May 2014 and the proposed training from 2018. The HR Lead advised that these dates were currently tentative and sought feedback from members on the proposals.

Members discussed the proposals noting that training for members on Planning Committee would require further in depth training and discussed the options for a buddy/mentoring system for new Councillors.

The committee requested specific training for members who would become mentors to new members. The HR Lead undertook to include this in the plan.

Members resolved to discuss the proposals further and feedback to the HR Lead.

RESOLVED:

1. That the Committee agreed the draft learning and development plan for 2018/19 subject to the addition of mentoring
2. That the Committee agreed the priority development activities for members as outlined in 2.10 of the report.
3. That the Committee agreed that there will be elements of mandatory training for members.
4. That Committee considered ways to encourage increased member take-up for development activities.

15 TEMPORARY AND CONTRACT STAFF UPDATE (Agenda Item 15)

The HR Lead presented the report advising that the use of temporary and agency staff was being monitored and checked regularly and that the new temporary to permanent guidance had now been implemented. The HR Lead was optimistic that numbers of staff would fall within the next quarter as there were a number of temporary projects nearing conclusion.

Members asked questions and discussed the methods which were being used to ensure that current staff were being upskilled and retained.

RESOLVED:

That members noted the progress made to monitor and control the use of temporary workers and consultants.

16 COMPLAINTS AGAINST MEMBERS (Agenda Item 16)


The Committee received a verbal update from the Assistant Director of Corporate Governance on recent complaints against members.

The Assistant Director of Corporate Governance advised the Committee that there was currently one complaint under investigation, for which the independent investigator had provided a draft report. The Independent Person and Deputy Monitoring Officer would be considering the response to the report.

The Committee noted that there had been no further complaints received since the last meeting.

17 WORK PROGRAMME (Agenda Item 17)

Members requested that the update on the Final Accounts for 2016/17 be added to the March 2018 work programme. This was agreed by the Committee.



London Borough of
Merton
Audit planning report
Year ended 31 March 2018

2 March 2018

2 March 2018



London Borough of Merton
Civic Centre,
London Road,
Morden,
SM4 5DQ

Dear Standards and General Purposes Committee Members

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 2017/18 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.

This report is intended solely for the information and use of the Standards and General Purposes Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 15 March 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Suresh Patel

For and on behalf of Ernst & Young LLP
Enc

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01 Overview of our 2017/18 audit strategy	02 Audit risks	03 Value for Money Risks	04 Audit materiality	05 Scope of our audit
				
				
06 Audit team	07 Audit timeline	08 Independence	09 Appendices	

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the 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 (updated February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Standards and General Purposes Committee and management of the London Borough of Merton in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Standards and General Purposes Committee and management of the London Borough of Merton those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Standards and General Purposes Committee and management of the London Borough of Merton for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2017/18 audit strategy



Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Standards and General Purposes Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 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 would otherwise appear to be operating effectively.
Recognition of revenue by CHAS 2013 Ltd	Fraud risk	New risk	2017/18 will be the first year that the Council consolidates CHAS Ltd and prepares group accounts. The revenue of CHAS Ltd is material to the group accounts and its recognition represents a significant risk.
Valuation of Property, Plant and Equipment	Inherent risk	No change in risk or focus	These represent significant balances in the Council's accounts and will be subject to valuation changes. Management is required to provide material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Valuation of Pension Liability	Inherent risk	No change in risk or focus	The Council operates a defined benefits pension scheme. The valuation of this liability is based on an actuarial report and on work that involves significant estimation uncertainty.
PFI Accounting	Inherent risk	No change in risk	The Council has a material PFI arrangement. PFI accounting is a complex area, and we carried out a detailed review of arrangements in 2016/17. We will review the accounting entries and disclosures in relation to PFI in detail in 2017/18, with a focus on any significant changes.

Overview of our 2017/18 audit strategy (continued)

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Earlier accounts deadline and preparation of group accounts	Inherent risk	Increase in risk	<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.</p> <p>For 2017/18 group accounts will be produced at year end due to growth in revenue of the Council's wholly owned subsidiary CHAS 2013 Ltd. This is the first time the Council will produce group accounts.</p>

Materiality

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Planning materiality
£10.6mn

Materiality has been set at £10.6mn, which represents 2% of the prior years gross Council and CHAS 2013 Limited revenue expenditure. This comprises of gross expenditure on the provision of services, levies expenditure and interest payable. We have not changed the basis for calculation of materiality from the previous period.

Performance materiality
£7.98mn

We have set performance materiality at £7.98mn, which represents 75% of materiality. We determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group. We consider the wholly owned subsidiary, CHAS 2013 Limited, to be a significant component with a performance materiality level of £1.59mn.

Audit differences
£0.5mn

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement and cash flow statement) greater than £0.5mn. Other misstatements identified will be communicated to the extent that they merit the attention of the Standards and General Purposes Committee.

Overview of our 2017/18 audit strategy (continued)

Audit scope

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

- § Our audit opinion on whether the financial statements of the London Borough of Merton give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and
- § Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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 Council.

Audit team changes

There are no significant changes to our team.



02 Audit risks

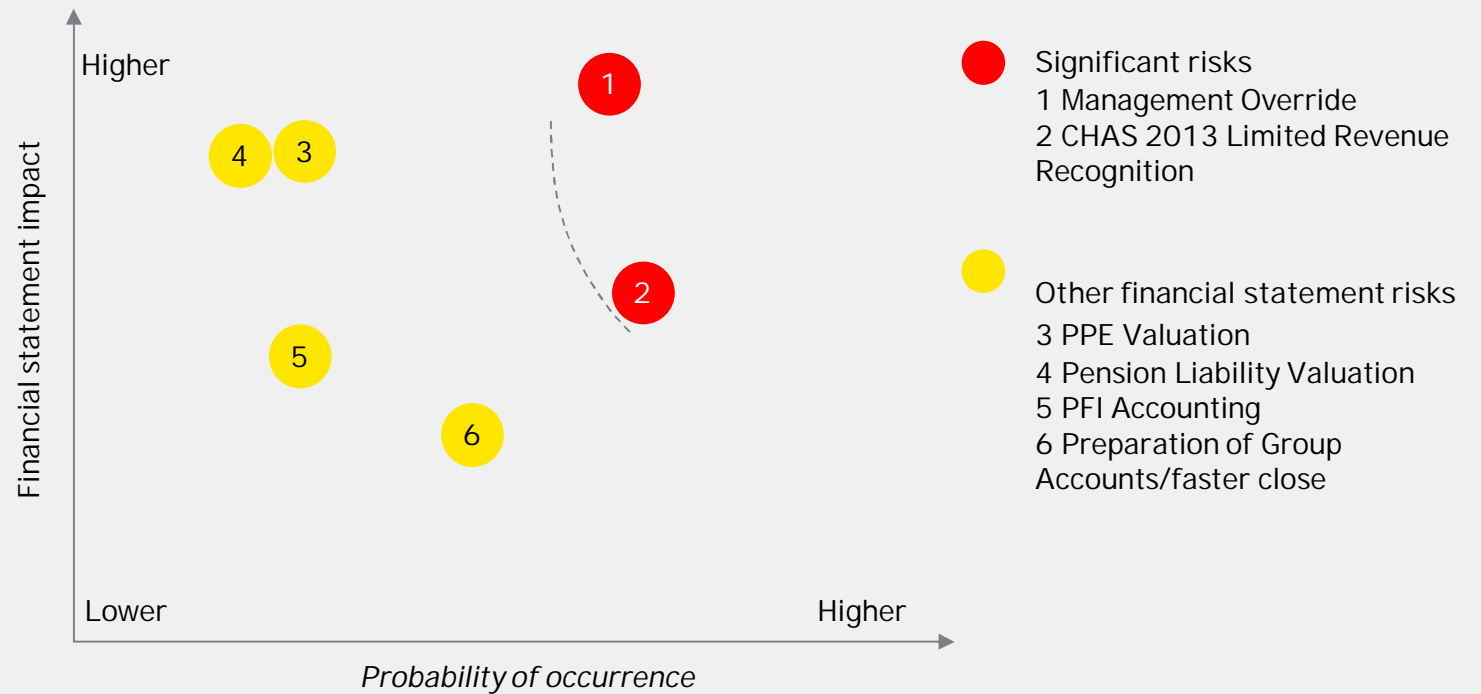


Risk assessment

Risk assessment

We have obtained an understanding of your strategy, reviewed your principal risks as identified in your 2017 Statement of Accounts and combined it with our understanding of the sector to identify key risks that impact our audit.

The following 'dashboard' summarises the significant matters that are relevant for planning our year-end audit:



Our response to significant risks

Management override of control

Financial statement impact

Misstatements that occur in relation to the risk of fraud by management override could affect the income and expenditure accounts, alongside significant balance sheet accounts where key estimates are processed.

What is the risk?

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.

Minimum Revenue Provision (MRP)

The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require the Council to make a prudent annual provision for the repayment of borrowing. This is known as the Minimum Revenue Provision (MRP). MRP is a real charge that impacts on the general fund and therefore the council tax financing requirement. From 2017/18 the Council has decided to make changes to its future approach to calculating MRP. Given the real impact of the charge on the reported financial position and performance of the Council we consider this change in approach to be relevant to the risk of management override.

What will we do?

- Review any changes made to accounting policies and consider the impact of changes to the general fund.
- Test the completeness and valuation of provisions, being areas that are most susceptible to manipulation to achieve desired expenditure levels.
- Test expenditure has been correctly capitalised. There is the incentive for the Council to inappropriately capitalize revenue expenditure to allow utilization of the healthy reserves over the general fund.
- Review accounting estimates for evidence of management bias specifically those with a higher level of inherent risk - PPE, pension liability and PFI.
- Test the appropriateness of journal entries recorded in the ledger and other adjustments made in the preparation of the financial statements.
- Evaluate the business rationale for significant unusual transactions.

Minimum Revenue Provision (MRP)

We have commissioned an EY expert to review the changes made by the Council in this area. Our approach will focus on:

- Considering the prudence of the revised policy and approach.
- Assessing the accuracy of the calculation of the revised charge.
- Ensuring transparent disclosures are included in the financial statements to explain the change in policy.

We will utilise our data analytics capabilities to assist with our work, including carrying out testing on the Income and Expenditure accounts, and journal entry testing. We will assess journal entries for evidence of management bias and evaluate for business rationale.

Our response to significant risks (continued)

Risk of fraud in revenue and recognition for CHAS 2013 Limited

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue recognition could affect the income accounts for CHAS 2013 Limited. The 2016/17 audited accounts show a turnover of £5.8mn.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the FRC, to also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

As per prior years we have been able to rebut the presumption of fraud in revenue and expenditure recognition for the main council, however, we are not able to rebut the risk for CHAS 2013 Limited.

What will we do?

We will:

- Perform substantive testing over CHAS 2013 Limited turnover using data analytics.
- Inquiry of management about risk of revenue recognition fraud and the controls put in place to address those risks.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

Earlier accounts deadline and preparation of group accounts

For 2017/18 the Council needs to prepare draft accounts by 31 May and the publish audited accounts by 31 July a challenge and risk for both preparers and auditors.

Following prior year issues, there are risks to the Council including the late preparation of working papers and the impact of changes to the finance team. In addition, this will be the first time the Council prepares group accounts.

As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within the same compressed timetable. Slippage at one client could put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft accounts and supporting working papers by the agreed deadline;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

If the Council is unable to meet key dates within our agreed timetable, we will notify the Director of Corporate Services of the impact on the timing of your audit, which may be that we postpone the audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Where we require additional work to complete your audit, due to new risks, scope changes, or poor audit evidence, we will notify the Director of Corporate Services of the impact on the timing of the audit and fees. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

What will we do?

We will:

- Gain assurance over group accounting and related disclosures in the Council's group financial statements.
- Work with the Council to engage early to facilitate early substantive testing where appropriate.
- Provide an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- Facilitate faster close workshops to provide a forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for 2017/18.
- Work with the Council to implement EY Client Portal, this will:
 - Streamline audit requests through a reduction of emails and improve communication;
 - Provide on-demand visibility into the status of audit requests and the overall audit status;
 - Reduce risk of duplicate requests; and
 - Provide better security of sensitive data.
- Agree the team and timing of each element of our work with you.
- Agree the supporting working papers that we require to complete our audit and provide coaching to your team on what constitutes good quality working papers.

Other areas of audit focus (continued)

What is the risk/area of focus?

Valuation of Land and Buildings

The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

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What will we do?

We will:

- Consider and challenge the work performed by the Council's in-house valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers;
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Review assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test accounting entries have been correctly processed in the financial statements.

Pension Liability Valuation

The Council makes extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. The pension fund deficit is a material estimated balance and disclosed on the balance sheet. At 31 March 2017 this totalled £368 mn.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

We will:

- Liaise with the auditors of Merton Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council;
- Assess the work of the Pension Fund actuary (Barnett Waddingham) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government auditors, and considering any relevant reviews by the EY actuarial team; and
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
<p>PFI accounting</p> <p>The Council has a material PFI arrangement. PFI accounting is a complex area. We undertook a detailed review of the arrangements in 2016/17 and concluded that the accounting disclosures were materially correct. We did also identify and report to management some non-material issues.</p>	<p>We will:</p> <ul style="list-style-type: none">• Review assurances brought forward from the prior year regarding the appropriateness of the PFI financial model;• Review the PFI financial model for any significant changes, and if identified consider engaging relevant experts to review the model to ensure they are still working as expected;• Ensure the PFI accounting models have been updated for any service or other agreed variations and confirm consistency of current year model with prior year brought forward assurances; and• Agree outputs of the model to the accounts, including balances and disclosures for Assets, Liabilities, and Expenditure, and review the completeness and accuracy of disclosures.



03

Value for Money Risks





Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2017/18 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.

When 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 identification of the significant risk noted on the following page which we view as relevant to our value for money conclusion. In our planning work we have also considered the weaknesses identified by the Council in contract standing orders and related processes, notably in respect of the maintenance of a comprehensive contract register, and compliance with its own contract procedure rules. Although we do not consider the risk to be significant we will continue to consider how the Council develops its arrangements to address the weaknesses identified.



Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
<p>The Council continues to have a challenging financial outlook. To balance the budget over the medium term it will need to deliver significant savings to not be dependent on its reserves. As at January 2018, the current draft of the Council's Business Plan for 2018 to 2022 shows a cumulative budget gap including the use of reserves of £37.7mn. As at the end of November 2017, there was a forecast shortfall of £2.6mn or 31% in delivery of the Council's current year savings target.</p>	<p>Deploy resources in a sustainable manner</p>	<p>Our approach will focus on reviewing the robustness of the Council's plans and arrangements to address budget pressures in Community and Housing, which includes adult social care, and Children, Schools and Families, and to achieve its savings targets and address budget gaps to deliver sustainable financial balance over the medium term. This will include follow-up of the issues we highlighted as part of our 2016-17 programme of VFM work. We will also consider the causes of the shortfall against current savings programme targets and any related impact on the Council's future financial plans.</p>



04

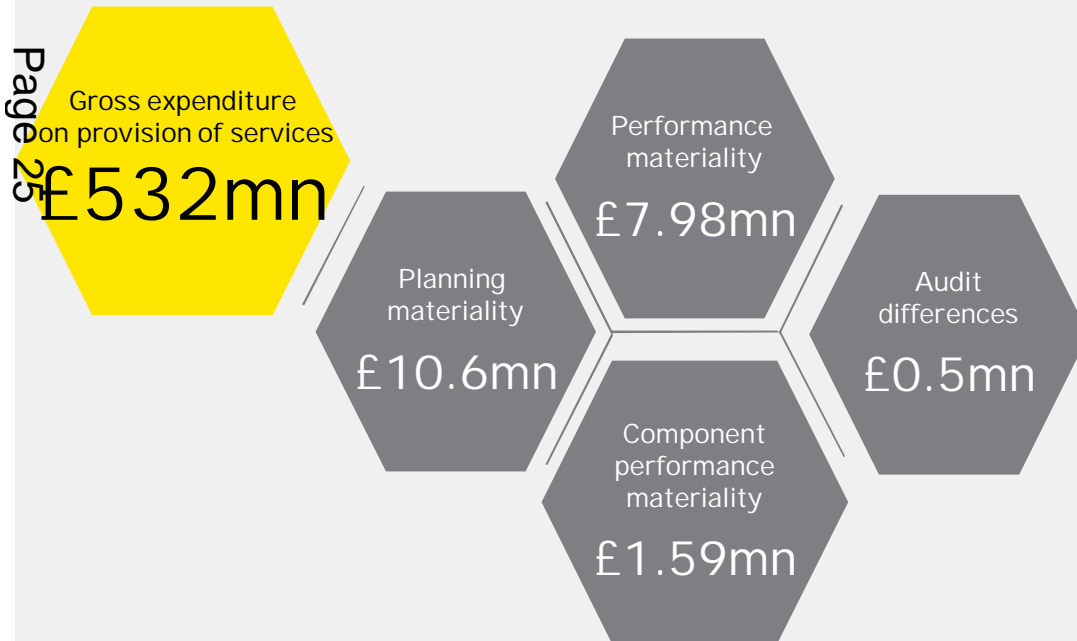
Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £10.6mn. This represents 2% of the Council's prior year gross expenditure on provision of services plus the expenditure of CHAS 2013 Limited. It will be reassessed throughout the audit process. We consider that gross expenditure on the provision of services is the area of biggest interest to the users of the Council's accounts. We have provided supplemental information about audit materiality in Appendix C.



We request that the Standards and General Purposes Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £7.98mn which represents 75% of planning materiality. This reflects our experience that draft accounts have in previous years been of a reasonable quality.

Component performance materiality range – we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Standards and General Purposes committee, or are important from a qualitative perspective.



05

Scope of our audit



Scope of our audit

Objective and Scope of our Audit

Under the Code of Audit Practice 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 an audit report that covers:

1. Financial statement audit

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

We also 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; and Auditor independence.

Procedures required by the Code

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

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

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

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Audit Process Overview

Our audit involves identifying and understanding the key processes and internal controls and substantive tests of detail of transactions and amounts. For 2017/18 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

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 - We will regularly 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 they raise issues that could have an impact on the financial statements.

Scope of our audit

Group scoping

For 2017/18 the Council has determined that it should consolidate CHAS 2013 Ltd and prepare group accounts. Our audit strategy for performing an audit of an entity components is risk based. We identify components as:

1. Significant components: A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. Not significant components: The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

We have determined that CHAS 2013 Ltd is a significant component due to its risks and financial size. We have also determined our approach will be to apply a specific scope to our work on CHAS 2013 Ltd based on the nature of the transactions between the Council and the company. We are the auditors of CHAS 2013 Ltd but will not undertake the audit until later in the year.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below. We provide scope details for the component within Appendix D.

0	A	Full scope audits
1	B	Specific scope audits
0	C	Review scope audits
0	D	Specified procedures
0	E	Other procedures

Scope definitions

Full scope: where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit.

Specific scope: where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

Specified Procedures: where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: Where we do not consider it material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.



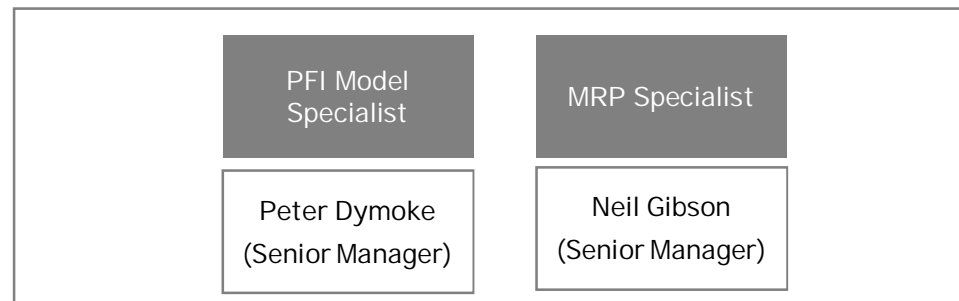
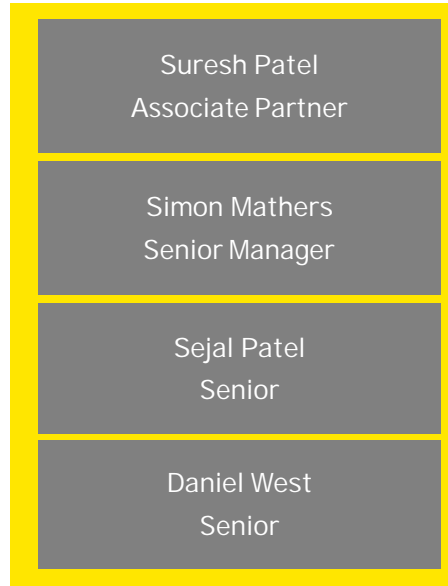
06

Audit team



Audit team

Audit team structure:



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
Valuation of Land and Buildings	EY Valuations Team
Pensions disclosure	EY Actuaries
PFI	EY Internal PFI Specialist
MRP	EY Internal MRP Specialist

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 business 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 specialist 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.



07 Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18. 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 Standards and General Purposes Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning:	October		
Risk assessment and setting of scopes	November	Standards and General Purposes Committee	
Walkthrough of key systems and processes	December		
	January	Standards and General Purposes Committee	
Interim audit testing	February		
	March	Standards and General Purposes Committee	Audit Planning Report and interim audit update
Year end audit	April		
Quality Report/Account testing	May		
	June		
Year end audit Audit completion procedures	July	Standards and General Purposes Committee	Audit Results Report Audit opinions and completion certificates Annual Audit Letter



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08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 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 upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of 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
<p>▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</p> <p>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>▶ The overall assessment of threats and safeguards;</p> <p>▶ Information about the general policies and process within EY to maintain objectivity and independence.</p> <p>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard</p>	<p>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose 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;</p> <p>▶ Details of non-audit services provided and the fees charged in relation thereto;</p> <p>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</p> <p>▶ Written confirmation that all covered persons are independent;</p> <p>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</p> <p>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p>

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, 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 services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

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, analysed in appropriate categories, are disclosed.

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 the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

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

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include 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 you. 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 you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non-audit fees to audit fees is not permitted to exceed 70%.

At the time of writing, no non-audit services are planned. 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 you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

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 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 the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision 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.

Other communications

EY Transparency Report 2017

Ernst & Young (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 in place 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 1 July 2017 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017>



09

Appendices



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.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
Total Fee – Code work	143,498	143,498	143,498
Additional code work	4,500**	-	12,000*
Total audit	147,598	143,498	155,498
Non-audit services - Housing Benefits claim certification	41,242	41,242	30,555
Non-audit services – Teachers’ Pensions limited assurance	8,500***	N/A	8,500
Total other non-audit services	49,742	41,242	39,055
Total fees	197,240	184,740	194,553

- Includes £5,000 for work undertaken on ledger migration and £7,000 for extra work in respect of controls issues arising from ledger migration, all agreed with the Council. The additional fee remains subject to final agreement by PSAA.

** For additional work on the Council’s MRP revision – agreed with the Director of Corporate Services and subject to approval by PSAA

***To be confirmed with the Director of Corporate Services

All fees exclude VAT

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being 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.



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



Required communications with the Committee

We have detailed the communications that we must provide to the Standards and General Purposes Committee.




Our Reporting to you

Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Standards and General Purposes Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Audit planning report
Significant findings from the audit	<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 	Audit results report

Required communications with the Committee (continued)

Required communications	 What is reported?	 When and where
Going concern	<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 	Audit results report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management 	Audit results report
Fraud	<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 	Audit results report
Related parties	<ul style="list-style-type: none"> • Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • 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 	Audit results report



Required communications with the Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner'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 	Audit Planning Report and Audit Results Report	
External confirmations	<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 	Audit results report	
Consideration of laws and regulations	<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 	Audit results report	
Internal controls	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit 	Management letter/audit results report	

Required communications with the Committee (continued)



Our Reporting to you

Required communications	 What is reported?	 When and where
Group audits	<ul style="list-style-type: none"> • An overview of the type of work to be performed on the financial information of the components • An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components • Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	Audit planning report Audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	<ul style="list-style-type: none"> • Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report 	Audit results report
Fee Reporting	<ul style="list-style-type: none"> • Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work 	Audit planning report Audit results report
Certification work	Summary of certification work undertaken	Certification report

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Standards and General Purposes Committee reporting appropriately addresses matters communicated by us to the Standards and General Purposes Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Group financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

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 of the circumstances that may ultimately influence our judgement about materiality. 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 accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Scoping the group audit

The below table sets out the scoping details. We set audit scopes for each reporting unit which, when taken together, enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment, and other factors when assessing the level of work to be performed at each reporting unit.

Detailed scoping

In scope components	Scope	Statutory audit performed by EY	Coverage			Current year rationale for scoping	
			Gross Revenue Expenditure	Profit before tax	Total assets	Size	Risk
CHAS 2013 Limited	Specific	a	£4.52m	£1.27m	£2.63m	No	Yes

The expenditure of CHAS 2013 Limited represents 1% of the group Gross Revenue Expenditure. Therefore we consider CHAS 2013 Limited to be an in-scope significant component based on risk and will require a specific scope audit. We would usually assign either full scope or a specific scope to components that are based on risk. As the wholly owned subsidiary is forecast to have a turnover of £7.8mn in 2017/18, this has a specific impact on the income account. We note that the presumed risk of fraud in respect of revenue recognition for CHAS cannot be rebutted in respect of income. Testing of CHAS Income will therefore address this significant risk in respect of the component account.

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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Merton
Pension Fund
Audit planning report
Year ended 31 March 2018

2 March 2018

2 March 2018



Merton Pension Fund,
Civic Centre,
London Road,
Morden,
SM4 5DQ

Dear Committee Members

Audit planning report

We are pleased to attach our audit planning report for the forthcoming meeting of the Standards and General Purposes Committee. The purpose of this report is provide the Committee with a basis to review our proposed audit approach and scope for the 2017-18 audit, in accordance with the requirements of the auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key issues which drive the development of an effective audit for Merton Pension Fund. We have aligned our audit approach and scope with these.

This report is intended solely for the information and use of the Standards and General Purposes Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 15 March 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young

Contents

01 Overview of our 2017-18 audit strategy



02 Audit risks



03 Audit materiality



04 Scope of our audit



05 Audit team



06 Audit timeline



07 Independence



08 Appendices



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the 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 (updated February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Standards and General Purposes Committee and management of Merton Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Standards and General Purposes Committee, and management of Merton Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Committee and management of Merton Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2017-18 audit strategy



Overview of our 2017-18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Standards and General Purposes Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of management override	Fraud risk	No change	As identified in ISA 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 would otherwise appear to be operating effectively.

Materiality

Page 53

Planning
materiality
£13.0mn

We have set materiality at £13mn, which represents 2% of 2016-17 net assets. This is consistent with the basis we used to determine materiality in the prior year.

Performance
materiality
£9.75mn

We have set performance materiality at £9,75mn, which represents 75% of materiality.

Audit
differences
£0.65mn

We will report all uncorrected misstatements relating to the Net Assets Statement and Pension Fund Account over £0.65mn. We will communicate other misstatements identified to the extent that they merit the attention of the Standards and General Purposes Committee.



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02 Audit risks



Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

	What is the risk?	What will we do?
<p>Management Override</p> <p>Financial statement impact</p> <p>We have assessed that the risk of management override is most likely to affect investment income and assets in the year, specifically through journal postings.</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>We will:</p> <ul style="list-style-type: none"> ▶ Test journals at year-end to ensure there are no unexpected or unusual postings; ▶ Test the existence and valuation of investments provided in fund manager reports to the custodian reports and independent bid prices; and ▶ Test the occurrence and measurement of investment income notified in fund manager reports to confirmations from custodians.



03

Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2017-18 has been set at £13mn. This represents 2% of the net assets for 2016-17. This is consistent with the basis we used to determine materiality in the prior year. We will reassess it throughout the audit process. For Merton Pension Fund, the Net Asset Statement, which discloses the value of the investments held by the scheme, is the most appropriate measure rather than the Fund Account. Assets are key, as they cover the liabilities of the fund and generate significant income. Use of net assets as the measure of materiality is EY standard practice for pension funds.



We request that the Standards and General Purposes Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £9.75mn which represents 75% of planning materiality. We apply 75% when it is not an initial audit and we have a sound understanding of the entity and past experience with the engagement indicates that a higher risk of misstatement is unlikely.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the fund account and the net assets statement that have an effect on returns or that relate to expenditure.

We will communicate other uncorrected misstatements, such as reclassifications and misstatements in the statements or disclosures and corrected misstatements to the extent that they merit the attention of the Standards and General Purposes Committee, or are important from a qualitative perspective.



04

Scope of our audit



Scope of our audit

Objective and Scope of our Audit scoping

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

Financial statement audit

Our objective is:

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

We also 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; and Auditor independence.

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and substantive tests of detail of transactions and amounts.

For 2017-18 we plan to follow a substantive approach to the audit, as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

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 - We will regularly meet with the Head of Internal Audit, and 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 they raise issues that could have an impact on the financial statements.



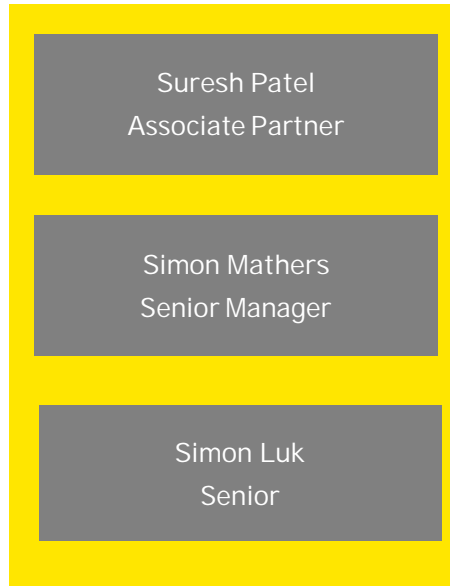
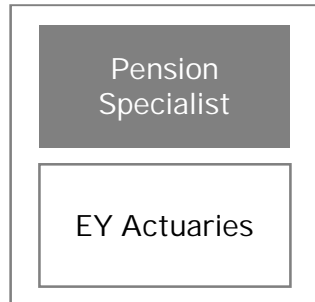
05

Audit team



Audit team

Audit team structure:



Working together with the Pension Fund

We are working together with officers to identify continuing improvements in communication and processes for the 2017-18 audit.

We will continue to keep our audit approach under review to streamline it where possible.

Audit team changes

Key changes to our team.



Suresh Patel, Associate Partner

- Ø Suresh takes over from Melissa Hargreaves as the Engagement Lead.
- Ø Suresh has significant public sector audit experience, with a portfolio of Local Authorities and Local Government Pension Funds
- Ø He is a member of the Chartered Institute of Public Finance and Accountancy (CIPFA).

Use of specialists

When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where specialists are expected to provide input for the current year audit are:

Area	Specialists
Pension Valuation	Management Specialist - Barnett Waddingham EY Specialist - EY actuaries

- P** 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.
- W**e also consider the work performed by the specialist in light of our knowledge of the Pension Fund's business 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 specialist 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.



06 Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017-18. 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. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Standards and General Purposes Committee Meeting timetable	Deliverables
Planning: Risk assessment and setting of scopes Walkthrough of key systems and processes	December		
Risk assessment and setting of scopes	January		
Interim audit testing	February		
Interim audit testing	March	Standards and General Purposes Meeting	Audit Planning Report Interim audit update
	April		
	May		
Year end audit Audit Completion procedures	June		
	July	Standards and General Purposes Committee Meeting	Audit Results Report Audit opinions and completion certificates



Audit timeline

Faster Close – Key Messages

What is the issue

Earlier accounts deadline

For 2017/18 the Council needs to prepare PF draft accounts by 31 May and the publish audited accounts by 31 July a challenge and risk for both preparers and auditors.

There are risks to the Council including the late preparation of working papers and the impact of staffing changes.

As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within the same compressed timetable. Slippage at one client could put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft accounts and supporting working papers by the agreed deadline;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

If the Council is unable to meet key dates within our agreed timetable, we will notify the Director of Corporate Services of the impact on the timing of your audit, which may be that we postpone the audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Where we require additional work to complete your audit, due to new risks, scope changes, or poor audit evidence, we will notify the Director of Corporate Services of the impact on the timing of the audit and fees. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

What will we do?

To support the Pension Fund we will:

- Work with the Pension Fund to engage early to facilitate early substantive testing where appropriate, specially our IAS19 protocol testing needed to support the audit of Merton Council.
- Provide an early review on the Pension Fund's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
- Work with the Pension Fund to implement EY Client Portal, this will:
- Streamline our audit requests through a reduction of emails and improved means of communication;
- Provide on-demand visibility into the status of audit requests and the overall audit status;
- Reduce risk of duplicate requests; and
- Provide better security of sensitive data.
- Agree the team and timing of each element of our work with you.
- Agree the supporting working papers that we require to complete our audit.



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07

Independence



Independence

The FRC Ethical Standard and ISA (UK) 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 upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of 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
<p>▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</p> <p>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>▶ The overall assessment of threats and safeguards;</p> <p>▶ Information about the general policies and process within EY to maintain objectivity and independence.</p> <p>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard</p>	<p>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose 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;</p> <p>▶ Details of non-audit services provided and the fees charged in relation thereto;</p> <p>▶ Written confirmation that the firm is independent;</p> <p>▶ Written confirmation that all covered persons are independent;</p> <p>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</p> <p>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p>

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, 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 services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

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, analysed in appropriate categories, are disclosed.

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 the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

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

Self interest threats

A self interest threat arises when EY has financial or other interests in the Fund. Examples include 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 you. At the time of writing, there are 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 you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, there are no non-audit fees associated with Merton Pension Fund. 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 you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 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 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 the Pension Fund. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

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

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.
There are no other threats at the date of this report.

Other communications

EY Transparency Report 2017

EY Ernst & Young (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 in place 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 1 July 2017 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017>



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Appendices



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.

	Planned fee 2017-18	Final Fee 2016-17
	£	£
Total Fee	21,000	21,000
Total audit	21,000	21,000

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All fees exclude VAT

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ 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 in advance.

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

Required communications with the Standards and General Purposes Committee

We include the communications that we must provide to the Standards and General Purposes Committee.






Our Reporting to you



Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Standards and General Purposes Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Audit Planning Report
Significant findings from the audit	<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 	Audit Results Report

Appendix B

Required communications with the Standards and General Purposes Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<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 	Audit Results Report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management 	Audit Results Report
Fraud	<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 	Audit Results Report
Related parties	<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 	Audit Results Report

Required communications with the Standards and General Purposes Committee (continued)

Required communications	 What is reported?	 When and where
Independence	<ul style="list-style-type: none"> • Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence • Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <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 	Audit planning report Audit Results Report
External confirmations	<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 	Audit Results Report
Consideration of laws and regulations	<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 	Audit Results Report
Internal controls	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit 	Audit Results Report
Representations	<ul style="list-style-type: none"> • Written representations we are requesting from management and/or those charged with governance 	Assurance Letter
Material inconsistencies and misstatements	<ul style="list-style-type: none"> • Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report
Auditors report	<ul style="list-style-type: none"> • Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Standards and General Purposes Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

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 of the circumstances that may ultimately influence our judgement about materiality. 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 accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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ED None

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Committee: Standards and General Purposes Committee

Date: 15 March 2018

Wards:

Subject: Internal Audit Strategy, Plan and Charter 2018/19

Lead officer: Caroline Holland – Director of Corporate Services

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

Contact officer: Margaret Culleton – Head of Internal Audit

Tel. 0208 545 3149 [Email: margaret.culleton@merton.gov.uk](mailto:margaret.culleton@merton.gov.uk)

Recommendations:

-
- 1. That members review and comment upon the 2018/19 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 2018/19 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, departmental finance advisors.
- 2.3 Final Audit reports are sent to Directors and Heads of service 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.

Information Technology audits

- 2.6 The Internal Audit service will cover non specialist IT work, such as reviewing the controls in place on the main financial systems. 2018/19
- 2.7 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.
- 2.8 Additional work will be undertaken this year to review compliance on the new General Data Protection Regulations, which come into effect from May 2018

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 meets with the members of departmental management team to discuss the audit coverage

5 TIMETABLE

- 5.1.1 The Internal Audit Plan will be the basis of Internal Audit's programme of work throughout the 2018/19 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** 3 (a) relevant authority must ensure that it has a sound system of internal control which—
 - (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives; (b) ensures that the financial and operational management of the authority is effective; and(c) includes effective arrangements for the management of risk.5 (1) 'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or 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

11.1 Appendix A - Merton's Draft Internal Audit Strategy, Plan

11.2 Appendix B South West London Audit Partnership Charter 2018/19

12 BACKGROUND PAPERS

12.1. Papers held within the Internal Audit Partnership

**INTERNAL AUDIT
STRATEGY, AUDIT PLAN AND CHARTER 2018/19**



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Introduction

This document sets out the council's Internal Audit Strategy and Annual Audit Plan for the year 2018/19

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 2018/19

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 2018/19.

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, 2016). 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 and 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.

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 2018/19 plan are across the partnership (marked with * below).

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 2017/18 and into 2018/19 we will be involved in providing advice on key new systems, such as the financial system E5, the social care system Corelogic and the waste and parks contracts on the South London Waste Partnerships.

Anti-Fraud and Corruption

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

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 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 2018/19

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 2018/19

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 and 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 2018/19

Summary of days per department	2018/19
Cross cutting	85
Corporate Services	194
Children's Schools and Families	138
Community and Housing	75
Environment and Regeneration	70
Support	203
Total	765

Cross cutting

Corporate Procurement	Review of the corporate procurement strategy, contract register, exemptions, to ensure adhere to public contract regulations 2015 and Contract Standing Orders *	25
Annual Governance Statement	To produce Annual report for use in the AGS and attendance at AGS meetings *	25
General Data Protection Regulations	To review the councils arrangements for compliance with GDPR *	20
Staff Declaration of Interests	To review the systems for declaration of interests by staff across Department to ensure that they are sound and secure	15
	Total cross cutting	85

Corporate Services

Monitoring of Schools returns	To review the arrangements in place for schools to submit returns in line with scheme for financing schools	15
Council Tax Systems Based	Review of key financial system	15
Cash and bank	Review of key financial system	15
Treasury Management	Review of key financial system *	15
IT asset management	To review the councils arrangements for managing its IT assets.	15
Starter/leaver process	To review the councils arrangements in place for starters and leavers in relation to IT systems and payroll *	15
Software licence audit	To review the councils arrangements in place for software licences.	15
Capital Programme	Review of key financial system	15
Budget Setting and Monitoring	To review the effectiveness of the councils arrangements to manage and forecast budgets to ensure saving forecasts are achieved.	15
Casual staff review	To review the arrangements in place for casual and zero contract staff	15

Itrent	Joint review of the controls on Itrent (Sutton, Merton and Kingston)	8
Staff recruitment	To ensure that recruitment to established posts are in compliance with the Councils recruitment policy and procedures	15
Mayors Account	Annual review of mayors accounts	10
MSJCB	To audit annual accounts	8
Petty cash imprests	To review the arrangements in place to manager the council's petty cash imprests.	8
	Total Corporate Services	194

Community and Housing

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
Block and Spot Contracts	To review the arrangement in place for awarding, monitoring and payment of block and spot contracts	15
Deprivation of liberty -L Liberty Protection Safeguards (LiPS)	To review the council's arrangements in place to meet the new requirements of the Liberty Protection safeguards (replaced DOLS in March 2017).*	15
Financial Assessments	To review the arrangements in place for carrying out financial assessments on new cases and reviews.	15
Adult Safeguarding	To review strategy, policies, training, roles and responsibilities in relation to safeguarding	15
	Total Community and Housing	75

Children, Schools and Families

Pre paid cards	The review the arrangements in place for pre paid cards, including issuing cards and monitoring usage.	15
Unaccompanied Asylum Seeking children	To review the arrangements in place for UASC and meeting the requirement of the Home Office for grant claims.	15
Placements	To review the commissioning arrangements for SEN children.	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+ to include support and placements.	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
	Total Children, Schools and Families	138

Environment and Regeneration

Housing Company	To review the councils governance arrangements in relation to the council owned housing company	15
Commercial rents	To review the arrangements in place for commercial rents, including agreements, rent collection, voids and repairs.	15
Market Street traders	Follow up review of previous limited assurance report.	15
SLWP	Review of Parks contract (joint with Sutton) and Waste contract monitoring arrangements	25
Total Environment and Regeneration		70

Support

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 17/18 to ensure implementation of recommendations	25
Carry over of 17/18 audit plan	To finalise all draft reports from 2017/18	60
Contingency	To cover additional request for audit work	18
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.	15
Total support		203

Internal Audit Charter 18/19

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 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 5 (1), requires that:

'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or 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 and 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

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.

provide management with comments and report on breakdowns, failures or weaknesses of internal 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
- Direct Payments

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 (including AfC)
- The Council's Monitoring Officer
- The Head of Corporate Governance (Kingston)
- 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) Strategic Director Resources (Sutton) Chair of Audit Committee (Sutton) and Chair of Standards and 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 Internal Audit 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/Corporate Services 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, Standards and 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 and 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 ad hoc 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 and Deputy 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 and General Purposes Committee

Date: 15th March 2018

Wards: All

Subject: Audited Final Accounts 2016/17

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Mark Allison- Cabinet Member for Finance

Contact officer: Roger Kershaw, Interim AD of Resources

Recommendations:

1. That the Committee note the work undertaken by officers to prepare for the closure of the 2017/18 Statement of Accounts.
-

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. To advise that officers have undertaken an extensive review of the closing of accounts' process in preparation for the "faster closing" deadlines required for the 2017/18 Statement of Accounts..

2 DETAILS

- 2.1. At the Standards and General Purposes Committee meeting on the 9th November 2017, the external auditors (EY) advised that they had completed the audit of the 2016/17 Statement of Accounts. These accounts have been published on the Council's website.
- 2.2. The Accounts and Audit Regulations 2015 require that the Statement of Accounts for 2017/18 and thereafter are prepared by the 31st May and audited by the 31st July. These dates are shorter than the statutory dates for 2016/17 by one month and two months respectively.
- 2.3. Members will recall that the Council experienced some challenges in closing the 2016/17 accounts, primarily due to the complex nature of a newly-implemented financial system (e5). This resulted in additional external audit effort and cost.
- 2.4. Officers have been working extensively during the year to fully "bed in" the new e5 system and resolve the reconciliation issues that created last year's delays.
- 2.5. In addition, officers have been working closely with our external auditors to run a series of analytical checks in advance of their audit to ensure as much practical work is cleared in good time to ensure a more efficient audit process. These checks have covered the following-
 - Resolving e5 issues, particularly with the bank reconciliation and making more effective use of e5 features, such as automatic generation of accruals.
 - Reviewing thoroughly the closing of accounts' timetable.
 - Ensuring that the requirements of the external auditors have been met precisely by means of a thorough review of working papers and data ("analytics") requirements,

- Reviewing “lessons learned” from 2016/17 and applying the results of this work to the timetable and accounting processes.
- 2.6. We have also appointed some temporary staff to ensure that deadlines will be met in key areas.
 - 2.7. It is worth noting that in the light of the extra work officers have expended in preparing the closure of the 2017/18 accounts, our external auditors have now redesignated their risk assessment of Merton’s ability to close the accounts by the required deadline from red to amber.
 - 2.8. The key dates in the 2017/18 Closing of Accounts’ timetable have been added to the Council’s Intranet, together with the full timetable, general guidance notes for departments and accounting guidance for finance teams. These deadlines have also been shared with the London Borough of Kingston, as the provider of our Shared HR IT and Payroll Service because payroll information has a significant effect on the Council’s accounts and its Pension Fund accounts. These key dates, covering the period to the production of the draft accounts, are set out below.

2017/18 Closing – Key Dates to production of draft accounts

Task	2017/18
E5 (financial system) year-end processes run e.g. to produce automatic accruals	3rd April
Posting of accounting entries to ensure completeness and accuracy of e5 general ledger..	4 th April to 17 th April
Review of revenue outturn (including formal meetings with DCS)	20 th April- 24 th April
Draft Statement of Accounts (SoA) ready (including Group Accounts in 2017/18)	11 th May
Draft SoA reviewed including review by DCS	14 th May - 21 st May
Draft SoA complete	25 th May
Cabinet outturn report despatch – June meeting is 25 th June	15 th June

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 2017/18 closing of accounts’ timetable provides for the accounts to be prepared and then audited within statutory deadlines. These are that the Statement of Accounts must be prepared by the 31st May 2018 and must be audited by the 31st July 2018.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1. None for the purposes of this report

- 7 LEGAL AND STATUTORY IMPLICATIONS**
- 7.1. Members are referred to the Council's constitution and in particular to the Financial Regulations which are in Part 4f.
- 8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**
- 8.1. None for the purposes of this report.
- 9 CRIME AND DISORDER IMPLICATIONS**
- 9.1. None for the purposes of this report
- 10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**
- 10.1. None for the purposes of this report
- 11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT**
- 12 BACKGROUND PAPERS**
- 12.1. The papers which were used to compile this report are held within the Corporate Services Department.
- 12.2. Statement of Accounts 2016/17
- 12.3. Guidance Notes for Closing of Accounts 2017/18
- 12.4. Closing of Accounts timetable 2017/18

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Committee: Standards and General Purposes Committee

Date: 15 March 2018

Wards: All

Subject: Appointment of Independent Person

Lead officer: Paul Evans, Assistant Director Corporate Governance

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

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

Recommendations:

-
1. That the Standards and General Purposes Committee agrees that an interview panel comprising one councillor from each political group should be appointed to interview and to recommend to Council the appointment of one Independent Person to serve for a period of three years.
-

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. The Localism Act 2011 requires the council to appoint at least one Independent Person. The now defunct Standards Committee previously put arrangements in place for the recruitment of two Independent Persons.
- 1.2. The term of office of one of the Independent Persons, Derek Prior, ends on 12 July 2018
- 1.3. This report therefore seeks approval to commence the recruitment of a new Independent Person and to appoint an interview panel, comprising one councillor from each political group to interview all candidates and recommend to Council the appointment of the successful applicant.

2 DETAILS

- 2.1. The Localism Act 2011 requires the council to appoint at least one Independent Person. The functions of the Independent Person, set out in the council's constitution, are:
 - The independent person must be consulted and views taken into account before the authority takes a decision on any allegation it has decided to investigate
 - The independent person may be consulted by the authority in circumstances where the authority is not taking a decision whether to investigate the allegation
 - The independent person may be consulted by a member of the authority against whom an allegation has been made
- 2.2. The council currently has two Independent Persons. Derek Prior was appointed in July 2015 and Pam Donovan was appointed in November 2016. Derek Prior's second term of office expires on 12 July 2018, thus creating a vacancy.

3 ALTERNATIVE OPTIONS

3.1. The Council must appoint at least one Independent Person.

3.2. The composition of the interview panel is discretionary.

4 CONSULTATION UNDERTAKEN OR PROPOSED

4.1. None

5 TIMETABLE

5.1. Officers will commence the recruitment of a new Independent Person as soon as possible, subject to the agreement of this Committee.

5.2. It is anticipated that an advert will be placed in the local press and on the council's website in early April, with a closing date towards the end of April and interviews towards the end of May. The outcome will be reported to Council at its meeting on 4 July.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

6.1. Independent Persons are invited to attend meetings of Standards and General Purposes Committee and are paid £100 per meeting. They are also paid £100 for each consultation meeting with the Council's Monitoring Officer.

6.2. The recommendations in this report will not lead to any increase in the overall budget for allowances.

7 LEGAL AND STATUTORY IMPLICATIONS

7.1. See body of report.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1. None specific to this report.

9 CRIME AND DISORDER IMPLICATIONS

9.1. None specific to this report

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1. None specific to this report

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

- None

12 BACKGROUND PAPERS

12.1. None

Committee: Standards & General Purposes Committee

Date: 15 March 2018

Wards: All

Subject: Regulation of Investigatory Powers Act
Authorisations

Lead officer: Paul Evans

Lead member: Councillor Peter McCabe

Contact officer: paul.evans@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 2017 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 2017, no covert surveillance has been authorised.

2.7. Since September 2017, there have been no requests for CCTV footage for RIPA investigations.

- 2.8. No RIPA authorisations have been rejected by the Magistrates Court.
- 2.9. Since September 2017, 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.

Committee: Standards and General Purposes Committee

Date: Wards: All

Subject: Report on the use of temporary workers and consultants

Lead officer: Kim Brown, HR Lead

Lead member: Cllr Mark Allison

Contact officer: Kim Brown Ext 3152

Recommendations:

To note progress made to monitor and control the use of temporary workers and consultants

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 the HR Contracts Manager. In recent months HR have actively challenged the completion of the ways the forms have been completed and have requested additional information.

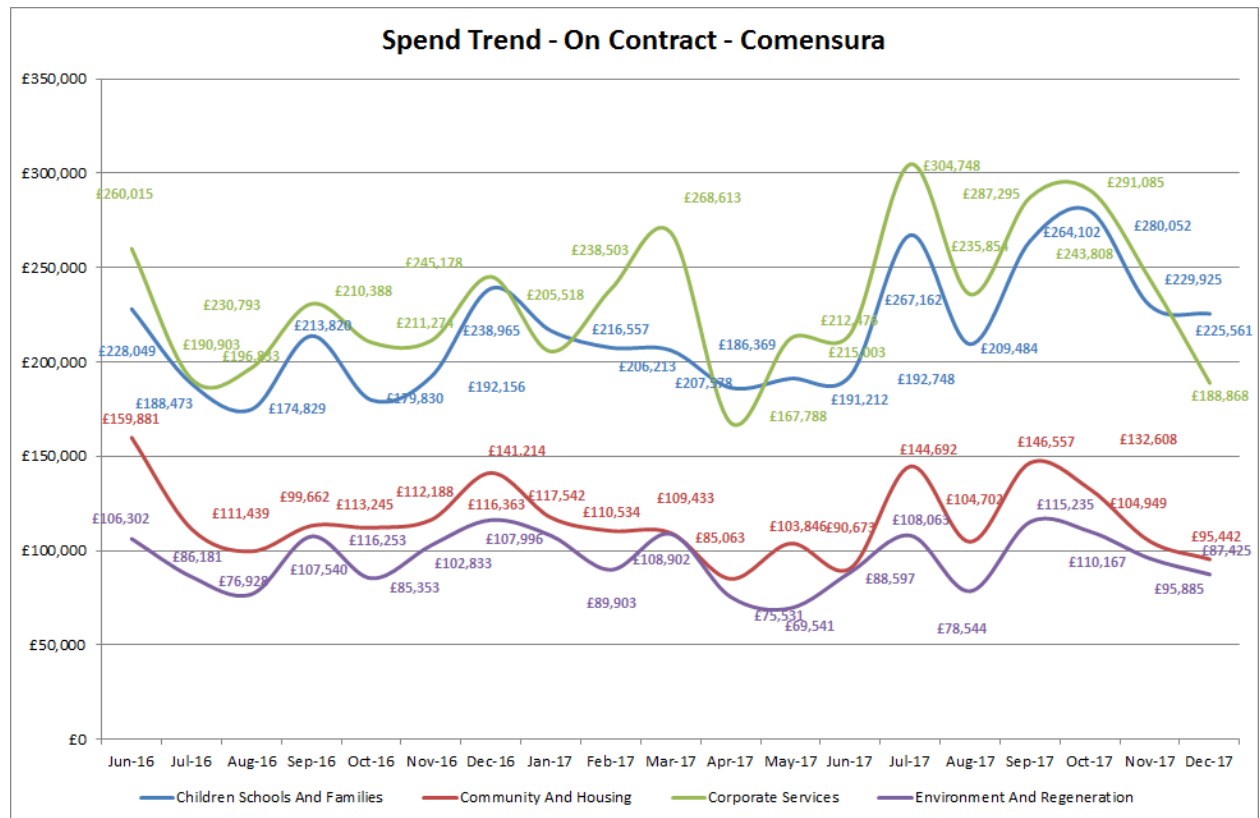
2.5 The engaging of most interim workers is via Comensura or the LGRP, which is a London wide contract for interim appointments. There have been instances

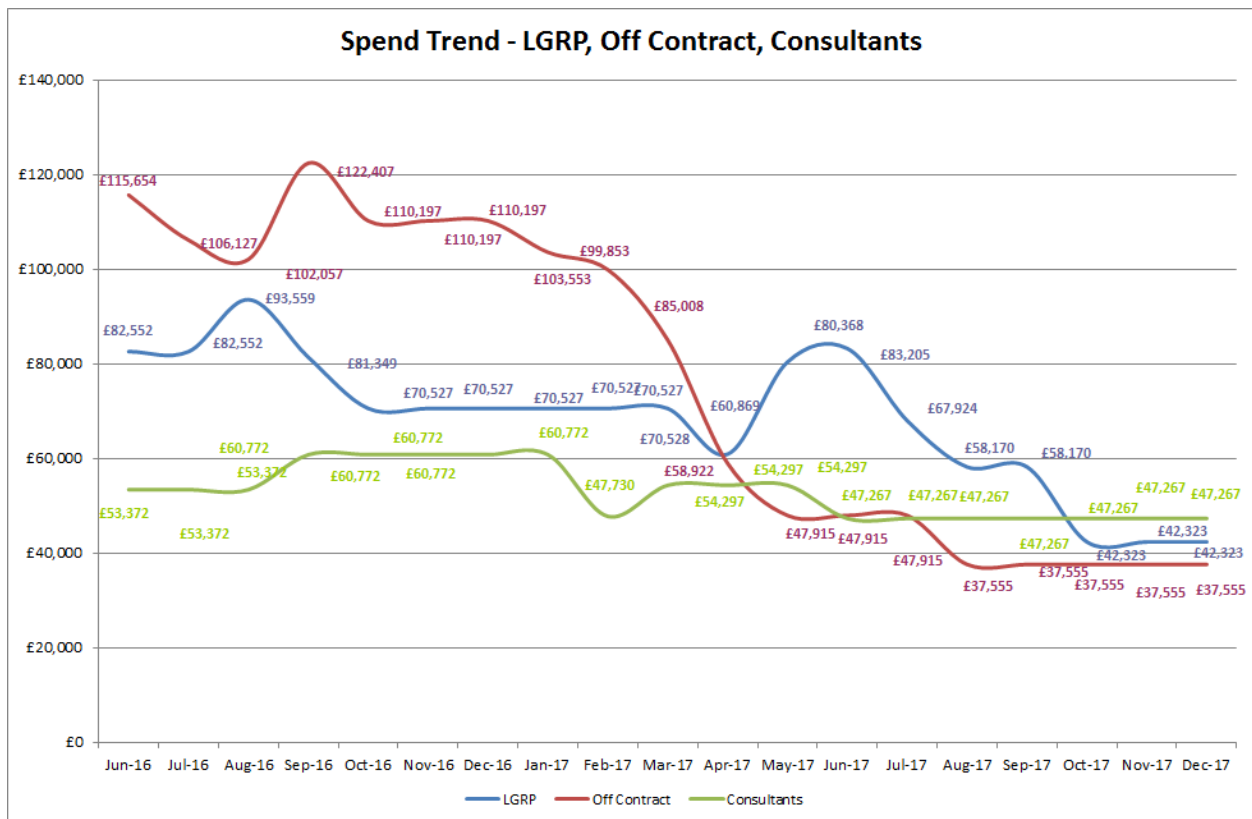
due to market supply issues, although very few, when the Council has not used either of these contracts and has had to go 'off contract'. There are robust processes in place to manage this process, which require a business case and financial checks to ensure there is a budget to pay for the assignment, as well as sign off by the Director of Corporate Services.

- 2.6 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.
- 2.7 As at the end of December 2017, the Council employed 143 interim/temporary workers at £30 per hour (or more) compared to 166 in September 2017, which is a decrease of 14% since September 2017. **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.
- 2.8 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 was reported to the Financial Monitoring Task Group which was held on 6th March..
- 2.9 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.

Agency workers, working via the Comensura are able to move to perm contracts after 12 weeks free of charge and we are proactively trying to convert the longer working candidates onto perm contracts.
- 2.10 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.
- 2.11 The committee requested that the interim monitoring data be provided on a quarterly basis. The period considered for this report is October 2017 to December 2017 and details of the spend both on and off contract year on year is detailed below:

Oct 2017 – Dec 2017





2.12 HR has been monitoring the off contracts closely and there has been a fall in the use of these contracts. The council will seek to permanently recruit, however there are instances where agency/temporary/interim workers if managed appropriately can assist in delivering key projects and covering vacant posts.

2.13 Directors have been invited:

- to provide short overall summary comments on agency/consultant usage and action being taken in their area
- in addition to the above the committee specifically ask for an update on each interim/agency/temporary worker that have been used for 24 months or more. There are 35 such assignments across the Council: 25 Comensura, 0 – LGRP, 4 – Off Contract and 6 – Consultants.

Children, Schools and Families

Over 24 months: 12 workers, which consist of 7 Comensura and 5 Consultants

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 safe and manageable caseloads, which will vary due to the differing nature of their work across different teams and due to the experience of the case managing social workers. The department has maintained 8 frontline social workers above establishment for 4 years to enable safe caseloads and appropriate duty rotations. Current volumes continue to require these posts and currently some teams are operation above our aspiration to be at the London average of c14-15 cases.

We continue to recruit permanent staff wherever possible and have a steady flow of new arrivals over the next 2 months.

Community and Housing

Over 24 months - 3 workers which are through Comensura

Within Community and Housing, use of agency staff is predominantly within adult social care and in specialist, hard to recruit to posts. Targeted recruitment is in progress. The Council has signed the Memorandum of Understanding for Adult Social Care Workers so that Councils do not compete with each other and in doing so stabilises the market.

Corporate Services

Over 24 months – 10 workers which consist of 8 Comensura and 2 off contract

Of the ten workers over 24 months, five are lawyers. We have been out to recruitment many times, for which the last procurement recruitment attracted no candidates. As these posts had a large Market Factor Supplement, we are following up to see what the issue is. The accountant is no longer with us and we are waiting on the finalisation of a reorganisation in Facilities to determine the outcome of the project manager. There are three IT posts, which are linked to two projects, one of which should end by the end of the year and the other is linked to issues we have had on the contract which have been reported to the O&S Commission.

Environment and Regeneration

Over 24 months – 11 workers which consist of 9 Comensura and 2 consultants

Usage is relatively low in E&R and reducing. A number of workers are covering positions, which are subject to a service review in particular the Regulatory Service Partnership where the tri-borough service with Wandsworth is established and where a staffing review and restructure is underway. Others are providing specialist skills or are covering [often short term] 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 as well as private sector competition [in building control particularly] has changed employment patterns and our ability to recruit and retain staff.

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

This is an on-going process, we are actively going out to speak to Managers to assist with any questions or queries and we are also providing assistance when Managers are completing the IR35 Employment Status Test.

We have provided a payroll only service via Comensura so we are able to payroll any worker where an outcome is classed as PAYE or In Scope. This payroll will be monitored on a quarterly basis to ensure that regular payments are not made, as they will not be registered for Pensions deductions as per automatic enrolment – the criteria is set out below:

If all the following criteria apply, the employer must automatically enrol the worker into a pension scheme and make contributions to their pension:

- they are classed as a 'worker'
- they are aged between 22 and State Pension age
- they earn at least £10,000 per year
- they usually ('ordinarily') work in the UK

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.
- Use of the Apprenticeship Levy for current staff to achieve higher level/professional qualifications for these hard to recruit areas.

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 18/19

26 July 2018

- Annual Governance Statement
- Internal Audit Annual Report
- External Audit – Fee Letters for the Council and Pension Fund Accounts
- Draft Accounts
- Complaints against Members
- Temporary and Contract Staff update
- Work Programme

6 September 2018

- External Audit of the Council and Pension Fund Accounts
- Internal Audit progress report on annual audit plan
- Final Accounts
- Update on RIPA authorisations
- Complaints against Members
- Temporary and Contract Staff update
- Work programme

8 November 2018

- 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

14 March 2019

- External Audit Certification of Claims report
- External Audit progress report
- External Audit Plans for Council and Pension Fund accounts
- Internal Audit Plan
- Internal Audit progress report
- Update on RIPA authorisations (March and September)
- 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.