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# Merton Council

## Standards and General Purposes Committee Agenda

### Membership

#### Councillors:

Peter McCabe (Chair)  
Adam Bush (Vice-Chair)  
Agatha Mary Akyigyina OBE  
Ben Butler  
John Dehaney  
Brenda Fraser  
Dickie Wilkinson  
David Williams MBE JP  
Hina Bokhari  
Mary Curtin  
Thomas Barlow  
Pauline Cowper

#### Substitute Members:

Peter Southgate  
Omar Bush  
Stan Anderson  
Sally Kenny  
Nick McLean  
Jenifer Gould

**Date: Thursday 12 March 2020**

**Time: 7.15 pm**

**Venue: Committee Rooms CDE, Merton Civic Centre, London Road, SM4 5DX**

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All Press contacts: [communications@merton.gov.uk](mailto:communications@merton.gov.uk), 020 8545 3181

# Standards and General Purposes Committee Agenda

## 12 March 2020

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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 Managing Director, South London Legal Partnership.

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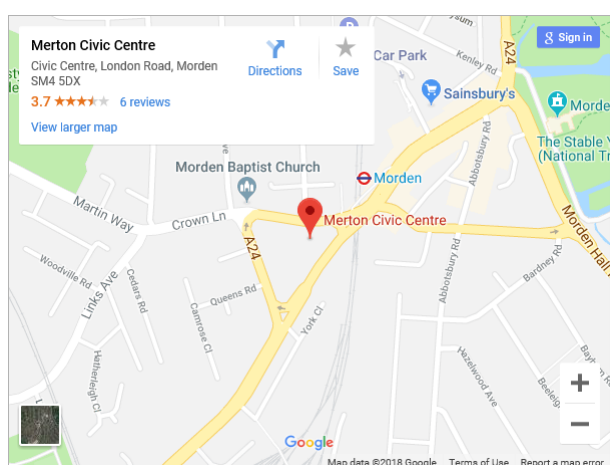
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# Agenda Item 3

## STANDARDS AND GENERAL PURPOSES COMMITTEE 7 NOVEMBER 2019

(7.15 pm - 9.27 pm)

PRESENT Councillors Councillor Peter McCabe (in the Chair),  
Councillor Agatha Mary Akyigyina, Councillor John Dehaney,  
Councillor Brenda Fraser, Councillor Dickie Wilkinson,  
Councillor David Williams, Councillor Mary Curtin and  
Councillor Thomas Barlow

ALSO PRESENT Suresh Patel – EY  
Pam Donovan – Independent Person  
Clive Douglas – Independent Person

Caroline Holland (Director - Corporate Services), Roger Kershaw (Assistant Director - Resources), John Bosley (Assistant Director Public Space Contracts and Commissioning), Karin Lane (Head of information governance), Andrew Robertson (Head of Electoral Services), Liz Hammond (Interim Head of HR), Fiona Thomsen (Interim Assistant Director of Corporate Governance and Monitoring Officer), Kevin Holland (Head of South West London Fraud Partnership), Margaret Culleton (Head of Internal Audit) and Amy Dumitrescu (Democratic Services Officer)

### 1 APOLOGIES FOR ABSENCE (Agenda Item 1)

Apologies for absence were received from Councillors Pauline Cowper, Hina Bokhari, Ben Butler and Adam Bush. Councillors Stan Anderson, Jenifer Gould and Omar Bush attended as substitutes.

### Order of Agenda

The Chair announced that the agenda order would be amended so that Items 17 and 18 were taken after Item 9. The Committee agreed to this amendment.

### 2 DECLARATIONS OF PECUNIARY INTEREST (Agenda Item 2)

There were no declarations of pecuniary interest.

### 3 MINUTES OF THE PREVIOUS MEETING (Agenda Item 3)

RESOLVED: That the minutes of the meeting held on 9 September 2019 were agreed as a correct record.

### 4 EXTERNAL AUDIT ANNUAL LETTER (Agenda Item 4)

The External Auditor presented the report and advised that the accounts had been signed on 31 July 2019 as planned, noting that over 200 Local Authorities had been unable to meet this deadline.

The Committee expressed their thanks to all those involved in completing the accounts.

#### 5 INTERNAL AUDIT PROGRESS REPORT (Agenda Item 5)

The Head of Internal Audit presented the report and gave an update on the current progress being made.

RESOLVED: That Members noted the report and commented upon matters arising from the Internal Audit Progress Report.

#### 6 FRAUD UPDATE (Agenda Item 6)

The Head of South West London Fraud Partnership presented the report.

Members welcomed the increased focus on investigations into misuse of blue badges and the Head of SWLFP undertook to assess how the sanctions and referrals could be further publicised.

In response to further questions, the Head of SWLFP advised that the team worked with the police to refer cases to them where appropriate.

RESOLVED: That Members noted the Fraud Progress Report and commented on the matters arising from it.

#### 7 ANNUAL COMPLAINTS REPORT (Agenda Item 7)

The Head of Information Governance presented the report, advising that complaints levels had been exceptionally high during 2018/19 and that Members Enquires had doubled during this period. This had been due in part to the changes within the Waste Collection Service and the introduction of wheeled bins. However it was noted that the number of complaints and member enquiries had now reduced to expected levels.

In response to questions, the Head of Information Governance advised that there was not currently a method to determine when complaints were chasing progress on previous complaints or when multiple councillors from the same ward had logged the same issue. It was currently being assessed whether a case management system could be used to manage these issues.

RESOLVED: That Members noted and commented on the report.

#### 8 REVIEW OF POLLING PLACES (Agenda Item 8)

The Head of Electoral Services presented the report which followed a public consultation on polling places within the Borough. It was recognised that the use of schools causes disruption and alternative locations had been sought where possible. Having previously used 12 schools as polling stations, the changes proposed would lead to this number reducing to 4.

It was noted that the changes would be in place for the General Election in December 2019 and following this election the changes would be reviewed and brought back to the Committee if there were any issues.

Some members expressed concern regarding changing the location of polling stations during winter when there was less light. Officers assured members that a map and explanatory message would be put on polling cards and fluorescent signage would be placed at the new polling stations, all of which had disabled access.

RESOLVED:

That the Standards and General Purposes Committee agreed the polling districts and polling places set out in the Acting Returning Officers Submission.

## 9 ENVIRONMENTAL ENFORCEMENTS UPDATE (Agenda Item 9)

The Assistant Director of Public Space presented the report and gave an overview of the recent work undertaken including a draft fly-tipping strategy and a fly-tipping action plan. The Assistant Director noted that fly-tipping was on the increase nationally however there was now less addressed post and therefore often less evidence has been available within fly-tips. Recent success was outlined including monitoring of a site at which 46 vehicles had been witnessed fly-tipping waste. Following this, 12 Fixed Penalty Notices (FPNs) for £400 each had been issued, and one company which had been observed fly-tipping hazardous waste was due to be interviewed shortly.

The Committee encouraged officers to assess a number of suggestions, including:

- Publicising the number of FPNs issued in a particular ward
- Producing more effective signage
- Noting that 80% of fly-tips are from end of tenancies, it was suggested that it might be beneficial to write to estate agents to give them information to pass on to tenants about how to appropriately and legally dispose of any waste arising from moving properties. It was noted this could be done via emailing a PDF to utilise technology available and reduce costs.

In response, the Assistant Director informed members of several initiatives currently also being investigated:

- Refreshing the information on FPNs provided online to bring these more up-to-date
- Investing with the Help Keep Britain Tidy group
- Further use of social media to publicise work being undertaken to clear and combat fly-tipping
- Investigating an information hotline and improved reporting facilities

RESOLVED: That Members reviewed and commented on the current status of environmental prosecutions as outlined in the report.

## 10 RISK MANAGEMENT (Agenda Item 10)

The Director of Corporate Services presented the report and gave an overview of the key risks, noting there was one red risk relating to Children's Schools and Families funding. One additional risk had been added relating to Bishopsford Road Bridge. It was noted that some risks had been removed from the register once they had been green for an extended period of time.

Internal Audit were currently undertaking a review of risk management across the 5 Boroughs and would report back with lessons learned. This would include looking at the methodology of the way assumptions were devised.

Members discussed the Bishopsford Road Bridge and were advised that a further report was due shortly.

### RESOLVED:

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

## 11 AMENDMENTS TO THE CONSTITUTION (Agenda Item 11)

The Monitoring Officer presented the report.

### RESOLVED:

That it was recommended to Council that the following amendments to the Council's constitution be authorised:

1. Part 5F (Planning Protocol) as described at Paragraph 2.2 in the report and set out in Appendix 1, in response to advice received from the Local Government Ombudsman; and
2. Part 2, Article 4 Paragraph 4.2a (Policy Framework) as set out in paragraph 2.7 in the report.

## 12 ANNUAL GIFTS AND HOSPITALITY REPORT (MEMBERS) (Agenda Item 12)

The Monitoring Officer presented the report and advised that their review of gifts & hospitality had shown no issues of concern.

### RESOLVED:

- A. That the Committee noted the report



- B. That members were reminded of their responsibility to complete declarations of gifts and hospitality including reasons for acceptance.

13 ANNUAL GIFTS AND HOSPITALITY REPORT (OFFICERS) (Agenda Item 13)

The Monitoring Officer presented the report, noting that numbers of gifts and hospitality were low. All staff would be reminded about their responsibilities.

RESOLVED:

- A. That the Committee noted the report.

14 COMPLAINTS AGAINST MEMBERS (Agenda Item 14)

The Monitoring Officer advised the Committee that there had been no complaints against members received since the last meeting.

15 MEMBER TRAINING SESSION UPDATE (Agenda Item 15)

Members were reminded about an upcoming training session for members of the Committee on Audit Reports.

16 WORK PROGRAMME (Agenda Item 16)

The Work Programme was noted and agreed.

17 EXCLUSION OF THE PRESS AND PUBLIC (Agenda Item 17)

RESOLVED: That the public were excluded from the meeting during consideration of item 18 on the grounds that it is exempt from disclosure for the reasons stated in the report.

18 TEMPORARY AND CONTRACT STAFF UPDATE (Agenda Item 18)

The Interim Head of HR presented the report and gave an overview of recent progress to date of conversions of temporary contract staff to permanent. Members encouraged officers to continue to develop ways to grow our own and develop existing staff as well as recruiting young people from the local community.

RESOLVED:

- A. That the Committee noted progress made to monitor and control the use of temporary workers and consultants.

At the conclusion of the meeting, the Chair expressed thanks on behalf of the Committee to Pam Donovan, Independent Person for her contribution over her three year term which completed at the end of November.

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# London Borough of Merton

## Audit planning report

Year ending 31 March 2020

27 February 2020

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27 February 2020



Dear Committee Members

**London Borough of Merton, 2019/20 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 2019-20 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 the London Borough of Merton. 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 12 March 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

A handwritten signature in black ink, appearing to read 'S Patel'.

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). 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 and further guidance (updated April 2018)" 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.



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# Overview of our 2019-20 audit strategy



# Overview of our 2019-20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit 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.
Inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	Linking to our fraud risk identified above, we have determined that the way in which management could override controls is through the inappropriate capitalisation of revenue expenditure to understate revenue expenditure reported in the financial statements.
Valuation of Land and Buildings	Significant Risk	No change in risk or focus.	<p>The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and is 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.</p> <p>In 2017-18 we identified significant weaknesses in the approach taken by management to the valuation of assets carried at depreciated replacement cost (DRC). Our findings led to the carrying value of PPE being increased by approximately £163 million. We considered the weaknesses in arrangements for the valuation of land and buildings assets to be a significant deficiency in internal control at the Council.</p> <p>In 2018-19 we did not identified any material misstatements. We did, however identify some further improvements required to the Council's methodology for valuing assets carried at Existing Use Value (EUV). We have therefore continued to deem the valuation of land &amp; buildings to be a significant risk as part of our 2019/20 audit.</p>
Data Migration of PPE Fixed Asset Register (FAR)	Significant Risk	New risk identified this year	During 2019/20 the Council is changing it's fixed asset register (FAR) to use the CIPFA accounting module. Given output from the system is material and the risk we outline above we have concluded this represents a significant audit risk for the 2019-20 audit.

## Overview of our 2019-20 audit strategy

### Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Incorrect classification of Dedicated Schools Grant (DSG) deficit	Significant Risk	<b>New risk identified this year</b>	At the end of 2018/19 the Council had incurred a cumulative deficit of £2.9 million against DSG funded activities. This was accounted for as a negative, or debit balance, earmarked reserve. We concluded it was not permissible under extant accounting rules to have a negative earmarked reserve, and therefore considered this to be an uncorrected misstatement in the 2018/19 statements. The forecast level of cumulative DSG overspend in 2019/20 is £13m and is therefore material to the financial statements.
Pension Liability and Asset Valuation	Inherent Risk	No change in risk or focus.	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme which it administers. 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.
Private Finance Initiative (PFI)	Inherent Risk	No change in risk or focus.	The Council has a material PFI arrangement. PFI accounting is a complex area, and a detailed review of these arrangements was undertaken by our internal expert in 2016-17 and followed-up in 2017-18 and 2018-19. We will review the accounting entries and disclosures in relation to PFI in detail in 2019-20, with a focus on any significant changes since the previous year.
New Accounting Standard - IFRS 16 Leases	Inherent risk	<b>New risk identified this year</b>	IFRS 16 (leases) applies from 1 April 2020. The Council needs to put in place arrangements to implement the new standard for the 2020-21 financial year, and to make necessary disclosures for forthcoming changes in accounting standards in its 2019-20 Statement of Accounts. Given the extent of operating leases and contracts potentially containing embedded lease held by the Council, this represents an inherent risk.



# Overview of our 2019-20 audit strategy

## Materiality

Planning  
materiality

£9.9m

We have set materiality at £9.9 million for the group financial statements which represents 1.8% of the prior years gross revenue expenditure of the Council, and the 2019-20 forecast GRE of CHAS 2013 Ltd and Merantun Development Ltd. Materiality for the single entity Council financial statements is £9.7 million. This is in line with the prior year where we have reduced the maximum threshold for local authorities to 1.8%, reflecting the higher profile of local government financial resilience and financial reporting.

Performance  
materiality

£7.4m

We have set performance materiality at £7.4 million for the group financial statements and £7.3m for the single entity Council financial statements. This represents 75% of materiality reflecting the lower level of errors we detected in the 2018-19 financial statements. 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 £1.5 million. We do not consider the financial activity for Merantun Development Limited in the period will be material to the Group.

Audit  
differences

£494k

We will report all uncorrected misstatements relating to the group financial statements over £494,000. We will communicate other misstatements identified to the extent that they merit the attention of the Standards and General Purposes Committee.

## Overview of our 2019-20 audit strategy

### 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 to give a true and fair view of the financial position as at 31 March 2020 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 National Audit Office (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.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9, 15 and 16 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these are relevant in the context of London Borough of Merton's audit, we will discuss these with management as to the impact on the scale fee. To increase the transparency of our fees we have included in the fees table in Appendix 8 a range of fees for the additional work we are planning to carry out to address the risks we have identified.



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# 02 Audit risks



## Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) 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.

### Misstatements due to fraud or error \*

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#### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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.

#### What will we do?

- ▶ Inquire of management about risks of fraud and the controls put in place to address those risks.
  - ▶ Understand the oversight given by those charged with governance of management's processes over fraud.
  - ▶ Consider of the effectiveness of management's controls designed to address the risk of fraud.
- Perform mandatory procedures regardless of specifically identified fraud risks, including:
- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
  - ▶ Assessing accounting estimates for evidence of management bias, and
  - ▶ Evaluating the business rationale for significant unusual transactions.

We will utilise our data analytics capabilities to assist with our work.

Having evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We concluded that only those procedures included under 'Inappropriate capitalisation of revenue expenditure' are required.

## Our response to significant risks

### Inappropriate capitalisation of revenue expenditure\*

#### Financial statement impact

We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through:

▶ Revenue expenditure being inappropriately recognised as capital expenditure at the point is posted to the general ledger.

▶ Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year.

If this were to happen it would have the impact of understating revenue expenditure and overstating PPE additions and/or Revenue Expenditure Financed as Capital Under Statute (REFCUS) in the financial statements.

#### 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 Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. In arriving at this conclusion we have considered the continuing pressure on the revenue budget and the financial value of its annual capital programme which is many times out materiality level.

This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

#### What will we do?

We will:

- ▶ Test PPE additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.
- ▶ Seek to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

We will utilise our data analytics capabilities to assist with our work, including journal entry testing. We will assess journal entries more generally for evidence of management bias and evaluate for business rationale.

## Our response to significant risks

### Valuation of land and buildings

#### Financial statement impact

The net book value of other land and buildings in the 2018-19 audited accounts was £561.5 million.

#### What is the risk?

The fair value of land and buildings represents a significant balance in the Council's accounts and is 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.

In 2017-18 we identified significant weaknesses in the approach taken by management to the valuation of assets carried at depreciated replacement cost (DRC) and issues with assets valued using the Existing Use Valuation (EUV) approach.

Our findings led to the carrying value of PPE being increased by approximately £163 million. We considered the weaknesses in arrangements for the valuation of land and buildings assets to be a significant deficiency in internal control at the Council.

In 2018-19 we did not identify any material misstatements. However our EY Real Estates team (EYRE) identified some areas for improvement in the Council's approach to valuing assets carried at Existing Use Value (EUV). We have therefore continued to associate a significant risk to the valuation of land & buildings in the 2019-20 audit.

#### What will we do?

We will disaggregate the Council's other land and buildings and adopt different testing strategies for specialised assets the Council values using DRC and non-specialist assets valued using EUV.

► For DRC we will confirm that the Council has used the methodology it revised in the prior year following our audit which include the work of our expert. We will also test a sample of valuations, challenging the Council on key assumptions and base data such as agreeing floor areas back to original documentation.

► For EUV, due to the extent of subjectivity and professional judgement that management's expert applies we will engage our own expert (EYRE) to enable us to audit a sample of valuations, challenging management on key assumptions and judgements.

## Audit risks

# Our response to significant risks

### Data Migration of PPE Fixed Asset Register (FAR)

#### Financial statement impact

The net book value of plant, property & equipment in the 2018-19 audited accounts was £701.3 million.

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#### What is the risk?

We are aware of a planned change to the Council's fixed asset register (FAR) from the current system to the CIPFA accounting module during the year. Given output from the system is material and there have been significant issues relating to PPE in prior years we have concluded this should be treated as a significant risk in our 2019-20 audit.

#### What will we do?

We will:

- ▶ review the Council's reconciliation of the prior year 2018-19 closing balance to the 2019-20 opening balance in the old FAR on Excel.
- ▶ review the Council's reconciliation between the old FAR on Excel to the new CIPFA accounting system to confirm that data transfer is complete and accurate.
- ▶ consider the Council's investigation into any variances between the two systems.
- ▶ assess the accuracy of data held on the new FAR through substantive testing of a sample of PPE.

## Our response to significant risks

### Incorrect classification of Dedicated Schools Grant (DSG) deficit

#### Financial statement impact

The forecast level of cumulative DSG overspend is £13 million for 2019-20. If the DSG deficit were to create a debit balance on the DSG reserve as opposed to debited into usable reserves, this will lead to an overstatement of usable reserves based on current accounting guidance.

#### What is the risk?

At the end of 2018/19 the Council had incurred a cumulative deficit of £2.9 million against DSG funded activities, This was accounted for as a negative, or debit balance, earmarked reserve. We concluded it was not permissible under extant accounting rules to have a negative earmarked reserve, and therefore considered this to be an uncorrected misstatement in the 2018/19 audit. The forecast level of cumulative DSG overspend in 2019/20 at £13m million is material and therefore potentially impacts the material accuracy of the 2019/20 financial statements.

The Department for Education (DfE) released some further guidance on DSG funding at the end of January 2020. We are liaising with the Council as to the impact that this guidance has on the accounting treatment of the DSG deficit.

#### What will we do?

**DSG income:** we will reconcile DSG income reported to the DSG funding schedule for the Council on the DfE website.

**DSG expenditure:** we will perform a year on year analytical review and substantive testing of relevant expenditure.

We will continue to consider the accounting decisions taken by the Council and relevant regulation and guidance, which are currently subject to change, to determine the acceptability of the accounting approach taken and any impact on the financial statements.



## Audit 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.

#### What is the risk/area of focus?

##### Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £342.7 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund.

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.

##### Private Finance Initiative (PFI)

The Council has a material PFI arrangement in relation to schools. PFI accounting is a complex area, and a detailed review of these arrangements was undertaken by our internal expert in 2016-17 and followed-up in 2017-18 and 2018-19.

#### What will we do?

We will:

- ▶ Liaise with the auditors of Merton Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the London Borough of Merton.
- ▶ 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 the National Audit Office for all Local Government sector 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.

We will consider outturn information available at the time we undertake our work after production of the Council's draft financial statements, for example the year-end actual valuation of pension fund assets. We will use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required.

We will review the accounting entries and disclosures in relation to PFI in detail in 2019-20, with a focus on any significant changes since the expert's follow-up review in the previous year. At the planning stage we not aware of any contractual changes to the Council's PFI arrangements and therefore do not anticipate any significant changes.

We will also undertake testing of in-year inputs to the accounting models and agree relevant entries in the financial statements to year-end output from the accounting model.

## Other areas of audit focus (Continued)

What is the risk/area of focus?	What will we do?
<p><u>IFRS 16 Leases</u></p> <p>This new accounting standard is applicable for local authority accounts from the 2020-21 financial year and will change:</p> <ul style="list-style-type: none"> <li>▶ How operating leases are recognised (as lessee); and</li> <li>▶ The disclosure requirements for operating leases (as lessee).</li> </ul> <p>The 2020-21 CIPFA Code of Practice on Local Authority accounting has not yet been issued. However, the Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new accounting standard, but one which has not yet been implemented.</p> <p>The Council currently recognises operating leases as a lessee with future minimum lease payments of £10.4 million and £45 million as a lessor. The Council also incurs a significant value of expenditure under contracts which may contain embedded leases.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>▶ Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2019-20; and</li> <li>▶ Review additional disclosure requirements.</li> </ul>



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 2019-20 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. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2019-20 this has included consideration of the steps taken by London Borough of Merton to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Councils will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

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 risks noted on the following page which we view as relevant to our value for money conclusion.



## Value for Money Risks

### What is the significant value for money risk?

Like other local government bodies, the Council continues to have a challenging financial outlook. To balance the budget over the next four years it is planning to deliver cumulative agreed savings of approximately £7.0 million with further savings of approximately £3.3 million needing to be found to fully balance the budget and avoid further dependence on its reserves.

As at January 2020, the current draft business plan 2020-24 shows a cumulative budget gap, including the use of reserves, and assuming no Adult Social Care grant but that Council Tax hypothecation can be used, as follows over the next four years:

- No budget gap in 2020-21.
- £4,239,000 in 2021-22.
- £8,052,000 in 2022-23.
- £10,541,000 in 2023-24.

These financial pressures are compounded by other activities. Firstly the Ofsted inspection of the Council's services for special educational needs and/or disabilities (SEND) in September 2019, which identified some significant weaknesses, particularly in leadership and partnership working with CCGs, and opportunities for improvement. Secondly the Council continues to overspend against its Dedicated Schools Grant (DSG) budget and forecasts a year-end cumulative overspend of approximately £13 million.

We consider all of the above to be relevant to the sustainable resource deployment VFM criterion and constitute a significant risk given the increasing financial pressures faced by the Council.

### What arrangements does the risk affect?

Sustainable resource deployment

### What will we do?

Our approach will focus on reviewing the robustness of the Council's plans and arrangements to:

1. Address budget pressures in Children, Schools and Families, and
2. 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 prior year 2018-19 programme of value for money work.

In doing this we will explicitly consider:

- Financial pressures created by the need to address the findings of the SEND inspection and whether these have been adequately considered in the Council's medium-term financial plans.
- The Council's financial recovery plan in respect of the cumulative DSG deficit and whether the pressure on the DSG budget has been adequately reflected in the Council's medium term financial planning.



04

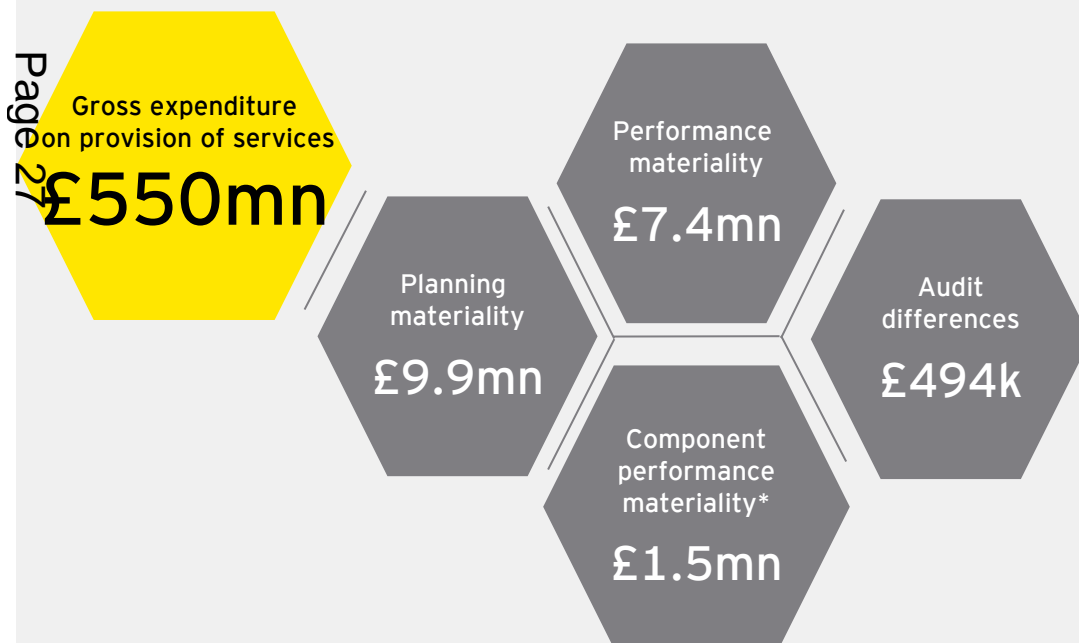
# Audit materiality



# Materiality

## Materiality

For planning purposes, planning materiality for 2019-20 has been set at £9.9 million for the group financial statements. This represents 1.8% of the Council's prior year gross revenue expenditure (GRE) on provision of services, plus the 2019-20 forecast GRE of CHAS 2013 Limited and Merantun Development 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 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 £7.4mn for the group financial statements which represents 75% of planning materiality. This reflects the relatively lower level of error detected in our 2018-19 financial statements audit.

**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.

\* Component performance materiality relates to CHAS 2013 Ltd only; Merantun Development Ltd is out of group scope.

**Audit difference threshold** - we propose that misstatements identified below this threshold of £494,000 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





## Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

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).

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 Statement; 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.

## Our Audit Process and Strategy (continued)

### 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 2019-20 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 Audit Committee.

### Internal audit:

We will review internal audit plans and the results of their work and meet with the Head of Internal Audit as necessary. 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, the Narrative Statement and the Annual Governance Statement.

# Scope of our audit

## Group scoping

For 2019-20 the Council has determined that it should consolidate CHAS 2013 Ltd and Merantun Development Ltd to 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 risk. 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. We have also considered the Council's other wholly owned subsidiary, Merantun Development Limited, as part of our group scoping assessment but based on information available at the planning stage of the audit do not consider its financial activity in the period will be material to the Group.

## 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	<b>A</b>	Full scope audits
1	<b>B</b>	Specific scope audits
0	<b>C</b>	Review scope audits
0	<b>D</b>	Specified procedures
0	<b>E</b>	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:

Suresh Patel  
Associate Partner

Simon Mathers  
Senior Manager

Simon Luk  
Senior

Sejal Patel  
Senior

## Working together with the Council

We are working together with officers to identify continuing improvements in communication and processes for the 2019-20 audit.

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

EY Real  
Estates (EYRE)

PwC (consulting  
actuary) and EY  
Actuaries

# 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
Pensions disclosure	EY Actuaries Barnett Waddingham - Actuary to Merton Pension Fund
PPE	The Council's own internal valuer is engaged by the Council for valuation of its PPE. EY Real Estates

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 planned deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the planned deliverables we have agreed to provide to you through the audit cycle in 2019-20. Please note that we will communicate any changes to this plan to officers and members as soon as we can. 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
Initial Planning: Risk assessment and setting of scopes and walkthrough of key systems and processes	November		
Completion of initial planning	December		
	January		
	February		
Interim audit testing and completion of walkthroughs	March	Standards and General Purposes Committee Meeting	Audit Planning Report and verbal update on interim work.
Interim audit testing and completion of walkthroughs	April		
	May		
	June		
Year end audit Audit Completion procedures	July	Standards and General Purposes Committee Meeting	Audit Results Report Audit opinions and completion certificates
	August		Annual Audit Letter





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# 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

### Required communications

Planning stage	Final stage
<p>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; 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 [note: additional wording should be included in the communication reflecting the client specific situation]</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 the safeguards that have been adopted appropriately mitigate the principal threats identified and we confirm that EY is independent and that Suresh Patel, your audit engagement partner, and the audit engagement team have not compromised their objectivity and independence

### 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. At the time of producing this plan EY advisory are responding to the Council's invitation to tender for a review of Air Quality Behavioural Insights. We do not believe there to be any perceived or actual independence matters that this engagement would create for the external audit, including consideration of the NAO's list of prohibited non-audit services. The proposed fee is also well below the NAOs fee cap for non-audit services of 70% of the scale audit fee. We will continue to keep you updated on whether this work proceeds.

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%.

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 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 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.

## 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 2019

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 end 30 June 2019:

[https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/\\$FILE/ey-uk-2019-transparency-report.pdf](https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/$FILE/ey-uk-2019-transparency-report.pdf)

## New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

### Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
  - A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
  - A narrow list of permitted services where closely related to the audit and/or required by law or regulation
  - Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
  - A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
  - A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

### Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31<sup>st</sup> March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 01<sup>st</sup> April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.



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Appendices



## Appendix A

### 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 requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2019/20 (£)	Final Fee 2018/19 (£)
Scale Fee - Code work	110,493	110,493
Additional fees		
- Additional work on PPE	5,000-15,000*	14,560**
- Additional work arising from change in materiality and clearance of audit queries	-	23,500**
- Additional work arising from McCloud query	-	850
- VFMC significant risk	2,000-7,000	-
- Data migration for the new FAR	1,500-7,500	-
<b>Total audit</b>	<b>118,993-139,993</b>	<b>149,403</b>
Non-audit services:		
Housing Benefits 1819	TBC	TBC
Housing Benefits 1718 Module X (further work on the 1718 claim)	n/a	39,600
Teachers' Pensions limited assurance	TBC	9,000
Contract for Air Quality Behavioural Insights project	TBC	-
<b>Total other non-audit services</b>	<b>TBC</b>	<b>TBC</b>
<b>Total fees</b>	<b>TBC</b>	<b>TBC</b>

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 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 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.

All fees exclude VAT

#### Notes:





\* We include a range of additional fees to reflect the additional work we will need to undertake in respect of the risks we have reported in this plan. We will confirm the exact additional fees as the audit progresses and seek agreement with management and PSAA.

\*\* This remains subject to approval by PSAA.

## Appendix B



# Required communications with the Standards and General Purposes Committee

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

		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	  <b>When and where</b>
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, 12 March 2020 meeting of the Standards and General Purposes Committee.
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report, 23 July 2020 meeting of the Standards and General Purposes Committee.







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

Required communications	 What is reported?	 When and where
Public Interest Entities	<p>For the audits of financial statements of public interest entities our written communications to the Audit Committee include:</p> <ul style="list-style-type: none"> <li>▶ A declaration of independence</li> <li>▶ The identity of each key audit partner</li> <li>▶ The use of non-member firms or external specialists and confirmation of their independence</li> <li>▶ The nature and frequency of communications</li> <li>▶ A description of the scope and timing of the audit</li> <li>▶ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits</li> <li>▶ Materiality</li> <li>▶ Any going concern issues identified</li> <li>▶ Any significant deficiencies in internal control identified and whether they have been resolved by management</li> <li>▶ Actual or suspected non-compliance with laws and regulations identified relevant to the Audit Committee</li> <li>▶ The valuation methods used and any changes to these including first year audits</li> <li>▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework</li> <li>▶ The identification of any non-EY component teams used in the group audit</li> <li>▶ The completeness of documentation and explanations received</li> <li>▶ Any significant difficulties encountered in the course of the audit</li> <li>▶ Any significant matters discussed with management</li> <li>▶ Any other matters considered significant</li> </ul>	<p>Audit Planning Report, 12 March 2020 meeting of the Standards and General Purposes Committee.</p> <p>and</p> <p>Audit Results Report, 23 July 2020 meeting of the Standards and General Purposes Committee.</p>



## Appendix B

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

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Page 46	Going concern	Audit Results Report, 23 July 2020 meeting of the Standards and General Purposes Committee.
	Misstatements	Audit Results Report, 23 July 2020 meeting of the Standards and General Purposes Committee.
Fraud	Audit Results Report, 23 July 2020 meeting of the Standards and General Purposes Committee.	
Related parties	Audit Results Report, 23 July 2020 meeting of the Standards and General Purposes Committee.	

# Required communications with the General Purposes and Standards 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"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:</p> <ul style="list-style-type: none"> <li>▶ Relationships between EY, the Council and senior management, its affiliates and its connected parties</li> <li>▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence and related safeguards</li> <li>▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> <li>▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>▶ Details of any contingent fee arrangements for non-audit services</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▶ The Audit Committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	<p>Audit planning report, March 2020 and Audit results report, July 2020</p>

## Appendix B

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



Our Reporting to you

Required communications	 What is reported?	 When and where
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit Results Report, 23 July 2020 meeting of the Standards and General Purposes Committee.
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ Enquiry of the Audit 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</li> </ul>	Audit Results Report, 23 July 2020 meeting of the Standards and General Purposes Committee.
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit Results Report, 23 July 2020 meeting of the Standards and General Purposes Committee.
Representations	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	Assurance Letter to be received shortly after year-end.
Material inconsistencies and misstatements	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit Results Report, 23 July 2020 meeting of the Standards and General Purposes Committee.
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters that we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report, 23 July 2020 meeting of the Standards and General Purposes Committee.

## 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 Council’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 Council 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 Audit 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.

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### 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.

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# Merton Pension Fund

## Audit planning report

Year ended 31 March 2020

27 February 2020



Standards and General Purposes Committee

27 February 2020

Dear Committee Members

**Merton Pension Fund - Audit planning report**

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor of the Merton Pension Fund (the 'Fund'). Its purpose is to provide the Standards and General Purposes (S&GP) Committee with a basis to review our proposed audit approach and scope for the 2019/20 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 an effective audit for the Pension Fund, and outlines our planned audit strategy in response to them. We will update the Committee if we identify any further risks during the year. This report is intended solely for the information and use of the S&GP 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 12 March 2020 and to 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 LLP



# Contents



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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](http://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 April 2018)" issued by the PSAA sets out additional requirements with which auditors must comply, 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 S&GP Committee and management of Merton Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we can state to the Standards and General Purposes (S&GP) 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 S&GP 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.



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01

# Overview of our 2019/20 audit strategy



## Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the S&GP 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

Risk	Risk identified	Change from PY	Details
Misstatement due to Fraud or Error - Posting of investment journals	Fraud risk	No change in risk or focus	There is a risk that, due to fraud or error, investment journals posted into the general ledger are incorrect.
Risk of incorrect valuation and related accounting treatment in relation to the Fund's new currency hedge instrument	Significant risk	New risk	In December 2019 the Fund signed an agreement to enter into a US& Euro currency hedge. Based on our discussions with officers there is uncertainty over the valuation and accounting treatment of this new, unusual (relative to the fund's previous investment portfolios) and high value financial instrument which will require the involvement of a third party to support management's valuation assertion and its accounting treatment in the 1920 pension fund accounts.

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In addition to the risks and areas of focus, we will also take into consideration the steps taken by the Fund to consider the impact of EU Exit on its preparation of the accounts, including any significant changes in the valuation of assets post EU Exit. We anticipate that pension funds will be carrying out scenario planning to assess the funding strategy and to manage the Fund during the transition period and thereafter.

### Materiality

Planning materiality	Performance materiality	Audit differences
Our planning materiality represents 1% of the prior year's net assets, consistent year on year.	Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year.	We will report all uncorrected misstatements relating to the primary statements (net asset statement and fund account) greater than £0.360m. We will communicate other misstatements to the extent that they merit the attention of the S&GP Committee
£7.2m	£5.4m	£0.360m

# Overview of our 2019/20 audit strategy

## Audit scope

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

- Our audit opinion on whether the financial statements of Hillingdon Pension Fund give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended.

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

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

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

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

In addition to the above, we also perform procedures in relation to the IAS 19 report for London Borough of Merton. Our work specifically focuses on gaining assurance that the data submitted to the actuary agrees to the Pension Fund's systems. For 2019/20 this work will carry out specific procedures relating the data submitted to inform the triennial valuation of the fund.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks of providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with Public Sector Audit Appointments (PSAA) allow them to vary the fee dependent on 'the auditors assessment of risk and the work needed to meet their professional responsibilities'. PSAA are aware that the setting of scale fees has not kept up to date with the changing requirements of external audit with increased focused on, for example, pension obligations and management judgements. Therefore to the extent any of these are relevant in the context of Merton Pension Fund's audit we will discuss with management as to the impact on the scale fee.



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# 02 Audit risks



## Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) 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.

Misstatement due to Fraud or Error - Posting of investment journals\*

### What is the risk?

As identified in ISA (UK) 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.

There is a specific risk that, due to fraud or error, investment journals posted into the general ledger are incorrect, which could result in a misstatement of year-end investment value and/or investment income.

### What will we do?

Our approach will focus on testing the appropriateness of manual journal entries recorded in the general ledger related to investments and ensuring that:

- ▶ The amount is consistent with the fund manager/custodian report;
- ▶ Correct authorisations have been obtained;
- ▶ The transactions are in the normal course of business or, if they are outside of the normal course, the business rationale will be requested and assessed for reasonableness.

## Our response to significant risks (continued)

Risk of incorrect valuation and accounting in relation to the US currency hedge

### Financial statement impact

We have assessed that the risk of incorrectly valuing this investment is high as a level 3 investment held by the pension fund.

In addition, at the date of drafting this plan officers were unclear of the associated year end accounting treatment.

### What is the risk?

The Fund's investments for 1920 include a US & Euro currency hedge with an initial value of approximately £100m. The Fund has appointed an asset manager to manage the investment.

A hedge is a derivative and is likely to be classified as a level 3 investment. Whilst there are other LPGS funds using currency hedges they are not common and for Merton Pension Fund represent a new form of investment. The Fund will use judgements made by the asset manager to value the investment at the year end. The material nature of the investment means that any error in judgement could result in a material valuation error.

At the date of drafting this plan officers were unclear of the associated year end accounting treatment. There is therefore a risk that the Fund accounts could be materially misstated.

### What will we do?

We will:

- ▶ Assess the competence of management's asset manager;
- ▶ Engage our EY specialist derivative valuation team to review the Fund's year end valuation of the investment
- ▶ Review the Fund's year end accounting treatment with the requirements of the CIPFA Accounting Code



03

## Audit materiality



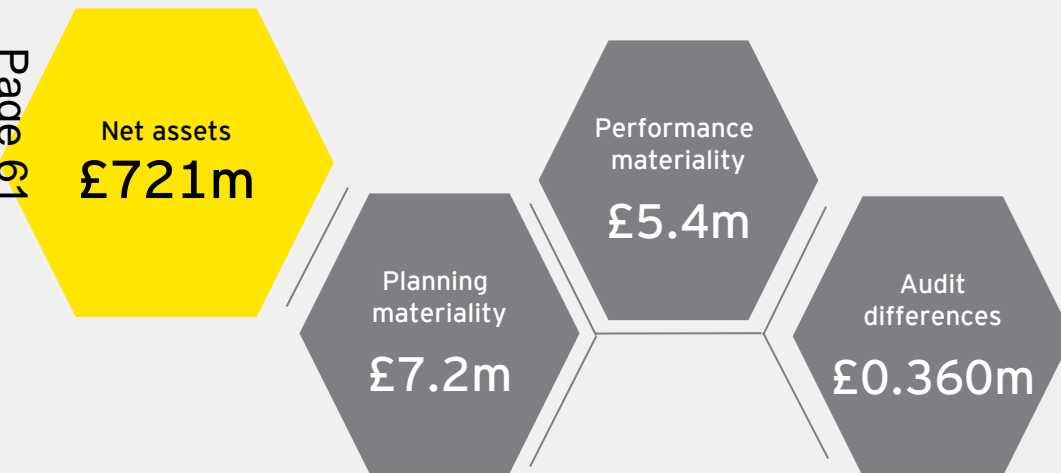


## Materiality

### Materiality

For planning purposes, we have set planning materiality for 2019/20 at £7.2m. This represents 1% of the Pension Fund's prior year net assets. We will reassess this throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.

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We request that the S&GP Committee confirm their 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 75% of planning materiality, consistent year on year.

**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 net asset statement. This was calculated as 5% of planning materiality, which is consistent year on year.

Other uncorrected misstatements, such as reclassifications and misstatements in the disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the S&GP 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's financial statements to the extent required by the relevant legislation and the requirements of the Code. We issue an audit report that covers:

### 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.

## 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 2019/20 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 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 S&GP Committee.

### Internal audit:

We will meet regularly with the Head of Internal Audit, and review internal audit plans and the results of the team's work. We will reflect any findings in our audit plan, where they raise issues that could have an impact on the financial statements.



**05** Audit timeline 



# Audit timeline

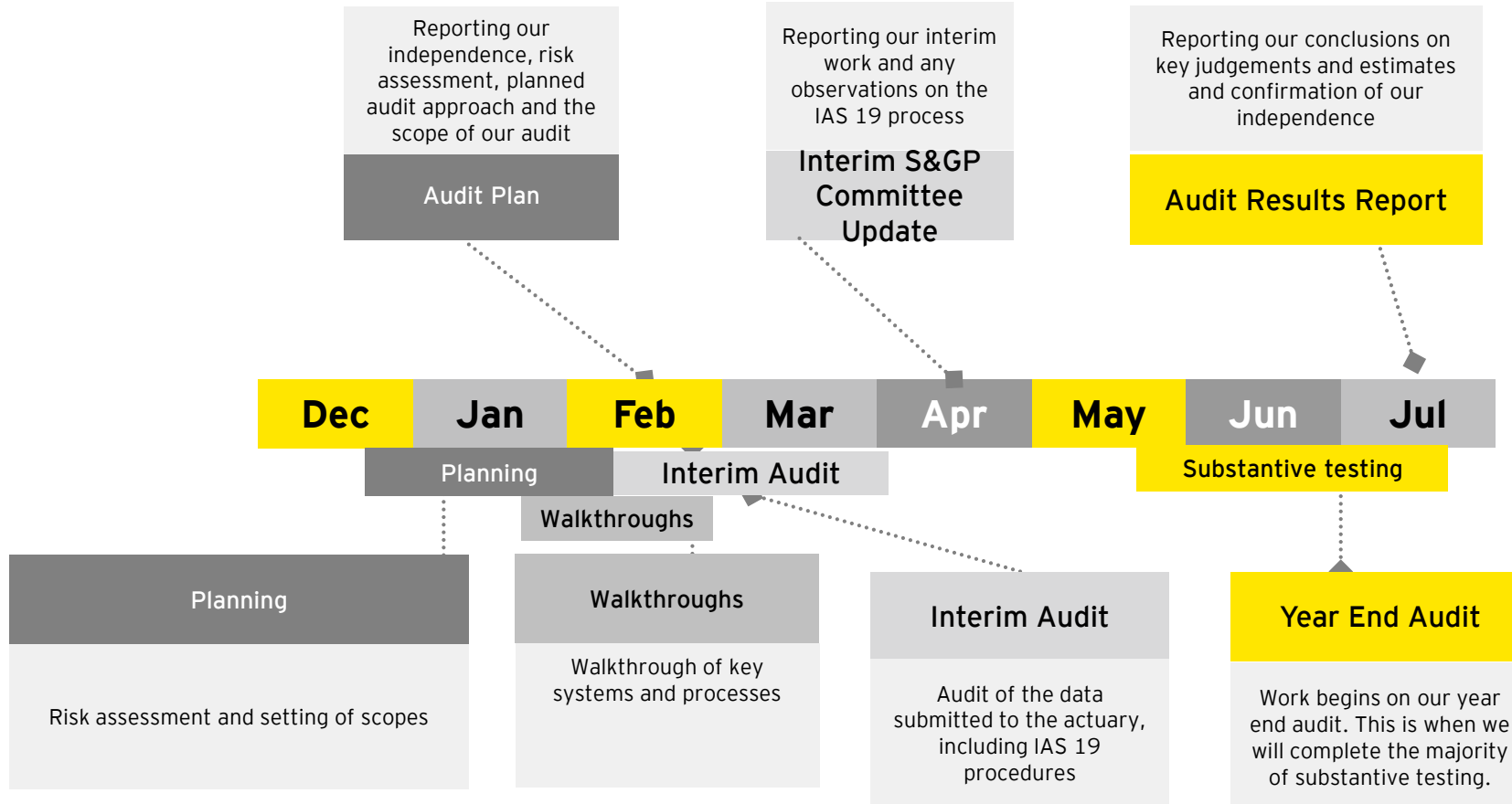
## Timetable of communication and deliverables

### Timeline

Below is an indicative timetable showing the key stages of the audit and the deliverables to provide to you through the audit cycle in 2019/20. The timeline will be agreed with the officers at the earliest convenience. If things change significantly we will inform officers and the Committee promptly.

From time to time matters may arise that require immediate communication with the S&GP Committee and we will discuss them with the Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

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06

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>▶ Any principal threats to objectivity and independence identified by Ernst &amp; 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>▶ In order for you to assess the integrity, objectivity and independence of the firm and your audit team, we must 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 consider relationships with the Council, its directors and senior management, its affiliates, and its connected parties and any threats to integrity or objectivity, including those that could compromise independence. We are also required to disclose any safeguards that we have, 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 for them;</p> <p>▶ Written confirmation that all team members 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>

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

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

We ensure that the total amount of fees that EY and our network firms have charged for the provision of services during the reporting period 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 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, there are no non-audit services provided by us to Pension Fund.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to 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 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.

### 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 2019

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 2019 and can be found here:

[https://www.ey.com/en\\_uk/who-we-are/transparency-report-2019](https://www.ey.com/en_uk/who-we-are/transparency-report-2019)



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07

## Appendices



## Appendix A

### Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code, the financial reporting requirements set out in the Code of Practice on Local Fund Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2019/20	Final Fee 2018/19
	£	£
Scale Fee - Code work (1)	16,170	16,170
Additional fee relating to new LCIV arrangements	-	2,000
Additional fee new significant risk relating to US currency hedge (2)	1,000-5,000	-
Additional fee for work on the 2019 triennial valuation of the Fund that has yet to be determined and agreed by PSAA (3)	TBC	-
Total indicative Pension Fund fee	TBC	18,170

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 with the Pension Fund in advance.





#### *All fees exclude VAT*

1. For 2019/20 the scale fee may be impacted by a range of factors (see page 7), which we will update the Committee on, as the audit progresses
2. The extent of our additional audit procedures will depend on the information that the Fund provides in support of its year end valuation and accounting treatment. We include an indicative range.
3. For 2019/20 we will need to undertake some further work to gain assurance over the 2019 triennial valuation of the Fund. The triennial valuation informs both the assessment of the IAS19 liabilities in the Council's financial statements and the actuarial present value of promised retirement benefits in the Pension Fund financial statements. We will update the Committee with further details of the additional fee in due course.





## Appendix B

# Required communications with the S&GP Committee





We have detailed the communications that we must provide to the Audit Committee.

		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	  <b>When and where</b>
Terms of engagement	Confirmation by the S&GP 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	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. 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	Audit planning report - February 2020
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Any significant difficulties encountered during the audit</li> <li>▶ Any significant matters arising from the audit which were discussed with management</li> <li>▶ Written representations we have requested</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Any other matters significant to the oversight of the financial reporting process</li> </ul>	Audit results report - July 2020


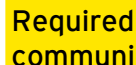


## Required communications with the S&GP Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Page 73	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"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report - July 2020
	misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit results report - July 2020
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the S&amp;GP Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Audit results report - July 2020	
Related parties	<ul style="list-style-type: none"> <li>▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures, Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit results report - July 2020	

## Required communications with the S&GP Committee (continued)





		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	  <b>When and where</b>
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"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:</p> <ul style="list-style-type: none"> <li>▶ Relationships between EY, the Council and senior management, its affiliates and its connected parties</li> <li>▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence and related safeguards</li> <li>▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> <li>▶ Details of any inconsistencies between the Ethical Standard and the Council's policy for the provision of non-audit services, and any apparent breach</li> <li>▶ Details of any contingent fee arrangements for non-audit services</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▶ The S&amp;GP Committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	<p>Audit planning report - February 2020</p> <p>Audit results report - July 2020</p>

## Required communications with the S&GP Committee (continued)

		 Our Reporting to you
 Required communications	 What is reported?	 When and where
Public Interest Entities	<p>For the audits of financial statements of public interest entities our written communications to the S&amp;GP Committee include:</p> <ul style="list-style-type: none"> <li>▶ A declaration of independence</li> <li>▶ The identity of each key audit partner</li> <li>▶ The use of non-member firms or external specialists and confirmation of their independence</li> <li>▶ The nature and frequency of communications</li> <li>▶ A description of the scope and timing of the audit</li> <li>▶ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits</li> <li>▶ Materiality</li> <li>▶ Any going concern issues identified</li> <li>▶ Any significant deficiencies in internal control identified and whether they have been resolved by management</li> <li>▶ Actual or suspected non-compliance with laws and regulations identified relevant to the S&amp;GP Committee</li> <li>▶ The valuation methods used and any changes to these including first year audits</li> <li>▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework</li> <li>▶ The completeness of documentation and explanations received</li> <li>▶ Any significant difficulties encountered in the course of the audit</li> <li>▶ Any significant matters discussed with management</li> <li>▶ Any other matters considered significant</li> </ul>	<p>Audit planning report - February 2020                      Audit results report - July 2020</p>

## Appendix B

# Required communications with the S&GP Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report to be presented at the July 2020 S&GP Committee.	
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Asking the S&amp;GP Committee about possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that they may know about</li> </ul>	Audit results report to be presented at the July 2020 S&GP Committee.	
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit results report to be presented at the July 2020 S&GP Committee	
Representations	Written representations from management and/or those charged with governance	Audit results report to be presented at the July 2020 S&GP Committee.	
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report to be presented at the July 2020 S&GP Committee.	
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters which we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report to be presented at the July 2020 S&GP Committee.	
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit planning report to be presented at the February 2020 S&GP Committee; and Audit results report to be presented at the July 2020 S&GP Committee.	



## 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 Pension 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 Pension Fund to express an opinion on the 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 S&GP Committee reporting appropriately addresses matters communicated by us to the S&GP 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 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.

## EY | Assurance | Tax | Transactions | Advisory

### About EY

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ED None

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## **Committee: Standards and General Purposes**

**Date: 12 March 2020**

Wards:

**Subject: Internal Audit Plan, Strategy and Charter 2020/21**

Lead officer: Caroline Holland – Director of Corporate Services

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

Forward Plan reference number: N/A

Contact officer: Margaret Culleton – Head of Internal Audit

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### **Recommendation:**

- A. That members review and comment upon the 2020/21 Draft Internal Audit Plan, Strategy and Charter.**
- 

## **1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1. The Draft Internal Audit Plan, Strategy and Charter 2020/21 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 across the Partnership and Whistleblowing concerns.
- Departmental requests
- Best Practice
- The Contracts Register
- The Capital Programme
- Service Plans
- Annual Governance Statement
- 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, for 2020/21 proactive fraud reviews cover
- 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 Where IT audits are of a specialist nature, they require the detailed technical knowledge and expertise of a skilled IT practitioner; the framework contract with Mazars is used.

### **3 ALTERNATIVE OPTIONS**

- 3.1. None for the purpose of this report.

### **4 CONSULTATION UNDERTAKEN OR PROPOSED**

- 4.1. The draft Audit Plan has been sent to all Chief Officers who have consulted with their management teams. The Head of Audit has met with the members of each departmental management team to discuss the audit coverage.

### **5 TIMETABLE**

- 5.1. The Internal Audit Plan will be the basis of Internal Audit's programme of work throughout the 2020/21 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**

- Appendix 1 - Merton's Draft Internal Audit Plan, Strategy and Charter 2020/21

## **12 BACKGROUND PAPERS**

12.1. Papers held within the Internal Audit Service.



**INTERNAL AUDIT PLAN, STRATEGY AND CHARTER  
2020/21**



This document sets out the council's Internal Audit Plan, Strategy and Charter for the year 2020/21

The purpose of the Internal Audit Plan, Strategy and Charter 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 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 and 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 Internal 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 Charter attached.

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 priority 1 (high), 2 (medium) or 3 (low). All recommendations are followed up by Internal Audit to ensure that they have been implemented.

### **Anti-Fraud and Corruption**

The Internal Audit service 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.

## **Audit Resources and Skills**

The staffing structure of the partnership (SWLAP) comprises a mix of qualified, experienced, technician, trainee auditors and apprentices, 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.

### **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 2020/21**

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 (priority 1, 2 and 3) 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 Standard and 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 2020/21**

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. The Head of Internal Audit will also attend Management Team meetings as required, to discuss audit coverage and outcomes.

# Internal Audit Plan 2020/21

Summary of days per department	2020/21
Cross cutting	72
Corporate Services	153
Children's Schools and Families	135
Community and Housing	90
Environment and Regeneration	57
Support	258
<b>Total</b>	<b>765</b>

## Cross cutting

Corporate Procurement	Gain assurance on corporate procurement strategy, contract register, exemptions, to ensure adhere to public contract regulations 2015 and Contract Standing Orders	15
Business Continuity	To review the councils arrangements.	15
Declaration of interest and gifts and hospitality	To review the arrangements in place in the council.	12
Annual Governance	Advice and guidance on corporate governance issues including attendance at risk management group and preparing the AGS.	15
Grant to voluntary groups	Review of grant process and monitoring arrangements	15
	<b>Total cross cutting</b>	<b>72</b>

## Corporate Services

Itrent	Joint review of the controls on Itrent (Sutton, Merton and Kingston)	8
Duplicate payment check	Duplicate payment testing on the councils payments to suppliers	6
Business Rates	Key financial review	15
General Ledger	Review of E5 controls	15
Capital Programme	Review of key financial system, review of budgeting and accounting arrangements	15
Cash and Bank	To review the controls on cash and bank, including reconciliations (to include new Civica)	15
Creditors (Accounts Payable)	Key financial review	15
Cyber Security and disaster recovery	To review the councils cyber security and disaster recovery arrangements.	15

Pension service	Joint review with pension service, SSA	8
Corporate Review of DBS	To review the councils process for carrying out Disclosure & Barring Service checks	8
Bailiff Service	To review the arrangements in place to monitor the allocation and collection of debts.	15
Mayors Account	Annual review of mayors accounts	10
Merton & Sutton Joint Cemetery Board	To audit annual accounts	8
	<b>Total Corporate Services</b>	<b>153</b>

### **Community and Housing**

Adult debt management and deferred payments- joint review with CS	To review and test the arrangements in place for deferred payments in respect of adult care-collection of client contributions including charges against properties	15
Joint Funded Arrangements	To review the joint arrangements with the CCG- to review invoicing and charging for joint funded clients	15
Mascot	To review the arrangement in the service	15
Temporary accommodation Homelessness	To review the councils arrangements for allocating temporary accommodation and the commissioning arrangements.	15
DFG grants	To review the application process and commissioning	15
Spots contracts	To review the commissioning arrangements for spot contracts	15
	<b>Total Community and Housing</b>	<b>90</b>

### **Children, Schools and Families**

Transition from children to adult services	To review the process in place for ensuring timely transition of services to ensure continuity and economy	15
Troubled families grant	To review a sample of submissions for the TFG to ensure that that claims are clearly supported by evidence.	12
Leaving care	This review will examine policy and procedures for commissioning living accommodation for Care Leavers, procedures for monitoring of commissioned contracts and for making payments to the providers	15
Contract Management of schools expansion	To review contract and monitoring arrangements	15
Safeguarding concerns	To review arrangements for when safeguarding concerns come in.	15



Special guardianship payments	Review of assessments and process for payments of special guardianship payments.	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.	48
<b>Total Children, Schools and Families</b>		<b>135</b>

### Environment and Regeneration

M3 (Planning Application system)	To review the IT system controls for planning applications.	15
3Sixty FPN application system	To review the IT system controls for littering	12
Highway Maintenance contract	To review the monitoring arrangements for this contract	15
SLWP	Review of waste disposal contract	15
<b>Total Environment and Regeneration</b>		<b>57</b>

### 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	20
Audit Planning / Monitoring	allocation of time for audit planning and monitoring	20
Follow up audits	follow up of reviews carried out in 18/19 to ensure implementation of recommendations	15
Carry over of 19/20 audit plan	To finalise all draft reports from 2019/20	60
Contingency	To cover additional request for audit work	98
Fraud Management and reactive work	Allocation of time for managing the fraud partnership. Updating whistleblowing and referring cases.	20
<b>Total support</b>		<b>258</b>

**INTERNAL AUDIT CHARTER and STRATEGY  
2020-21**

**This Charter and Strategy sets out the purpose, authority and responsibility of the Council’s Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards. It also sets out how the South West London Audit Partnership (SWLAP) will be developed and delivered in accordance with these standards.**

**The Charter and Strategy will be reviewed annually and presented to the Audit Governance and Standards Committee<sup>1</sup> 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 and Risk Committee.

In addition, the Accounts and Audit Regulations 2015, Regulation 6 (1), requires that:

*“A relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector Internal audit standards and guidance”.* Internal Audit proper practices is defined as compliance with the Public Sector Internal Audit Standards and the CIPFA application note.

Within an organisation, there are 3 lines of defence in place to effect controls. The first line of defence is the day to day operational controls, the second is the management controls (budget & performance monitoring, trend analysis) and the third is independent inspection, both internal & external.

Internal audit forms part of the third line of defence and provides assurance on the effectiveness of governance arrangements, risk management and internal controls, and this includes an assessment of the effectiveness of the first two lines of defence. Internal audit can place reliance on assurances provided by third parties, although depending on the source, this may require some independent validation.

## **MISSION**

The Mission of the SWLAP is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight across the 5 Borough partnership.

## **AUTHORITY and ACCESS TO RECORDS**

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<sup>1</sup> References to ‘Audit Committee’ throughout the Charter and Strategy document includes Standards/General Purposes Committee at LB Merton, the Audit and Governance Committee at LB Sutton, the Audit, Governance and Standards Committee at RB Kingston and Audit Committees at LB Richmond and AfC.

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 <sup>2</sup>is required to provide the Council, via the S151 officer 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 Heads 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 Heads of Internal Audit.

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<sup>2</sup> 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.

These audit responsibilities are exercised with the aim of assisting the Council to deliver services in the most efficient and effective manner possible.

There are inherent limitations in any system of internal control and thus errors or irregularities may occur and not be detected by internal audit's work. When carrying out its work, internal audit will provide management with comments and report on breakdowns, failures or weaknesses of internal control systems together with recommendations for remedial action. However, internal audit cannot absolve line management of responsibility for internal controls.

Where appropriate, internal audit will undertake audit or consulting work for the benefit of the Council and / or organisations that are wholly owned by the Council (such as Achieving for Children). Where services are provided to bodies separate from the Council, this will be subject to approval by the Shared Service Board and will be provided under the terms of a Service Level Agreement (SLA).

Internal audit may also provide assurance to the Council on third party operations where this is provided for as part of the agreement or contract.

In some instances, internal audit may rely on assurances provided by other providers of assurance but this will be dependent on the level of associated risk and some degree of independent verification may be required.

## **Counter Fraud**

Internal Audit's planned work includes evaluating controls for their effectiveness in preventing or detecting fraud. Managing the risk of fraud is the responsibility of management however Internal Audit will consider the risks and exposures which may allow fraud or corruption to occur. Fraud work is undertaken by the South West London Fraud Partnership which is a five Borough Shared Service led by the SSA. This service is overseen by the Shared Service Board which includes the Directors of Finance from each of the partners or their delegated representatives. Work will be undertaken in accordance with an agreed Fraud Plan which includes a mix of proactive and reactive fraud work in the following main areas:

- Housing tenancy
- Internal fraud
- Procurement
- Business Rates
- Council Tax Reduction
- Blue Badge
- Social Care
- Schools

## **REPORTING**

The UK Public Sector Internal Audit Standards require the Head of Internal Audit to report directly to the top of the organisation and those charged with governance. This will be done as follows:

- The Audit Charter will be agreed with the senior management team (Directors Board at the SSA, Corporate Management Teams at Sutton and Merton, and Strategic Leadership Team at Kingston)
- The Shared Service Board will agree the number of audit days to be commissioned each year, and the resource required to deliver this. The internal audit budget is agreed each year by the Shared Service Board.

- 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 reported to the Audit Committee for approval
- 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/Strategic Director Resources/Corporate and Commercial (S151 officer)
- Chief Executive
- Chair of the Audit Committee (including AfC)
- The Council's Monitoring Officer
- The Head of Law and Governance (Kingston)
- Head of Finance Operations and Resident Support (Sutton)
- The Assistant Director of Corporate Governance (Merton)
- The Managing Director and Directors 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)
- Each authority's External Auditors

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 Audit's annual appraisal. The Director of Corporate and Commercial and / or the Head of Law and Governance, Kingston; and Head of Finance Operations and Resident Support (Sutton) and Assistant Director of Corporate Governance and Head of Legal Services (Merton), 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) must give feedback.

The Deputy Head of the SWLAP who also takes on a statutory Head of Internal Audit role for Merton, Sutton and Kingston, is line managed by the Head of the SWLAP, both the Director of Corporate Services / Assistant Director of Corporate Governance and Head of Legal Services (Merton) and the Strategic Director Resources and Head of Finance Operations and Resident Support (Sutton) Chair of Audit and Governance Committee (Sutton) and Chair of Standards and General Purposes Committee (Merton) The Director of Corporate and Commercial and / or

the Head of Law and Governance, Kingston and Chair of the Audit Committee (Kingston) 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 Head of the SWLAP who will undertake the annual appraisal and the Director of Finance and Resources 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 and Pensions (these functions are overseen by the Assistant Director of Resources (Financial Services) in his role of Statutory Head of IA for Wandsworth) and for Risk Management and Insurance. Risk Management work is also undertaken across a number of the other partners. Since these roles may involve establishing and maintaining the control environment, these functions will be audited independently by Mazars. Internal auditors have no other operational responsibilities towards the systems and functions audited.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Head of Internal Audit has the freedom to report without fear or favour to all officers and Members, and particularly to those charged with governance.

Accountability for the response to the advice and recommendations of Internal Audit lies with management. Managers must either accept and implement the advice and recommendations, or formally reject them accepting responsibility and accountability for doing so.

## **EXTERNAL AUDITORS**

The external auditors fulfill a statutory duty. Effective collaboration between internal and external audit will help ensure effective and efficient audit coverage and resolution of issues of mutual concern. Internal and external audit will meet periodically to discuss respective work plans and coverage, and potential issues arising from work completed.

## **DUE PROFESSIONAL CARE**

The internal audit function will adhere to / comply with the following:

- Institute of Internal Auditor's International Code of Ethics
- Seven Principles of Public Life (Nolan Principles)
- UK Public Sector Internal Audit Standards
- All Council policies and procedures

- All legislation

All audit work is subject to in house quality control procedures whereby each audit review is subject to senior peer review. The audit service will be subject to an annual self-assessment to assess its compliance with the UK Public Sector Internal Audit Standards and an external review and assessment at least once every 5 years by a suitably qualified, independent assessor.

The Head of Internal Audit is required to hold a relevant professional qualification (CCAB or CMIIA) and be suitably experienced. All staff are required to maintain a programme of Continuous Professional development (CPD) to ensure auditors maintain and enhance their knowledge, skills and audit competencies.

## **INTERNAL AUDIT STRATEGY**

### **Internal Audit Objectives**

Internal Audit will provide independent and objective assurance to the organisation, its Members, senior management and in particular to the Directors of Finance/Resources to support them in discharging their responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

It is the Council's intention to provide a best practice, cost efficient internal audit service through the SWLAP which adds value to the partner organisation's it serves.

### **Internal Audit Remit**

The internal audit service is an assurance function that primarily provides an independent and objective opinion on the degree to which the internal control environment supports and promotes the achievement of the Council's objectives. The work undertaken by Internal Audit is a key part of the Council's Annual Governance Statement (AGS) process and the annual audit opinion forms part of the AGS.

Under the direction of a suitably qualified and experienced Heads 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. This type of work is key for our service in ensuring that it works closely with the partner organisations to provide proactive advice and guidance. The ability to bring in knowledge and experience from our other partners is an important way for the service to add value.

### **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.

One of the key objectives of the shared service is the provision of an efficient and cost-effective service to its partners. This is achieved through the review and standardization of audit methodology which takes on board best practice, ensuring staff are properly trained and developed, developing and delivering shared audits across more than one partner and reviewing and restructuring the service where needed to drive out cost savings. Key objectives and performance targets are included within the annual Service Plan.

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, Audit and Risk Committee at AfC, Audit and Governance Committee at LB Sutton, Audit and Standards Committee at LB Richmond, 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
- Deputy Head of the SWLAP will take the lead as statutory Head of Internal Audit for LB Merton, LB Sutton and RB Kingston.
- Assistant Director of Resources (Financial Services) will take the lead as the statutory Head of Internal Audit for LB Wandsworth and
- 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 Service Plan and Risk Register have also been established and are 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:

- Issues identified in the Annual Governance Statement and Action Plan
- 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. Key to ensuring that the service adds value is maintaining a dynamic audit plan which responds to changes in the organisation's risk profile. This is managed through quarterly reporting and attendance at DMT meetings during the year to discuss the audit plan and departmental risks.

The Internal Audit Plans are based on the following:

- **Governance Arrangements:** Internal Audit have a key role in assessing the effectiveness of governance arrangements by comparison with principles contained in the CIPFA/SOLACE Governance Framework. A number of audits will support this assessment and will take account of any emerging governance arrangements.
- **Transformation:** Considering the significant financial challenges facing the public sector and the all the council's ambitions, the annual audit plan will need to be flexible enough to respond to emerging issues and risks from change.
- **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 the AGS, Corporate Risk Registers, and Departments' own risk processes and will increasingly include work in areas where the Council services are delivered in partnership with other organisations.
- **Value for money:** This is an integral part of our risk-based audit approach, in particular being alert to opportunities and reporting issues and agreed management actions
- **Key Financial Systems:** The effectiveness of controls and management of risks within key financial systems remain a core part of our audit work. We continue to develop our audit approach to give greater assurance.
- **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:** Information technology is fundamental to the delivery of all the councils services and is an area of rapid change. Due to this high risk, providing assurance on the adequacy of electronic systems and controls is a key part of our Annual audit plan.
- **Contract Audit:** 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. Audits of the procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.

- **Special Projects:** 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.
- **Risk Management:** 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. This review will assess the risk management arrangements, including risk strategy, adequacy of strategic and operational risk registers and the extent to which it is embedded.
- **Partnerships:** Councils are increasingly operating and delivering services jointly through partnerships. This brings risks and opportunities to councils and the delivery of services. We will review key partnerships.
- **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. The Heads of Audit also sit on boards, such as Information governance boards and working groups; corporate governance and risk management.
- **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.
- Independent review of all audit assignments undertaken.

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**

**Date: 12 March 2020**

Agenda item:

Wards:

**Subject:** Internal Audit Progress Report

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Peter McCabe- Chair

Forward Plan reference number:

Contact officer: Margaret Culleton Head of Internal Audit

Tel. 020 8545 3149 [margaret.culleton@merton.gov.uk](mailto:margaret.culleton@merton.gov.uk)

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### **Recommendation:**

**That Members note the report and comment upon matters arising from the Internal Audit Progress Report**

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## **1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1 This report summarises the work carried out by Internal Audit up to February 2020 and the key areas of activity planned for the remainder of the year.
- 1.2 Internal Audit seeks to ensure that Merton's financial and other systems adhere to recognised standards and that public accountability can be demonstrated and is transparent.
- 1.3 Internal Audit is responsible for conducting an independent appraisal of all the Council's activities, financial and otherwise. It provides a service to the whole Council, including Members and all levels of management. It is not an extension of, nor a substitute for, good management. The Internal Audit Service is responsible for giving assurance on all control arrangements to the General Purposes Committee and the Director of Corporate Services (also known as the Section 151 Officer); it also assists management by evaluating and reporting to them the effectiveness of the controls for which they are responsible.

## **2. Details**

- 2.1 Since April 2019, we have finalised 32 audit reviews and have 3 reports at draft stage.

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

- a) Full Assurance
- b) Substantial Assurance
- c) Limited Assurance
- d) No assurance

2.3 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.

### 3 Progress against the Plan

3.1 Progress against the 2019/20 plan as at 28 February 2020 is as follows

	<b>Audits</b>	<b>Days</b>
Number of audits in the plan	48	
Audit Days delivered*		685
Number of audits finalised	32	
Number of audits at draft report stage	3	
Number of audits in progress	13	
Number of audits booked to start	0	

\* audit plan days is 765

3.2 At the time of this report, approximately 90% of the plan has been completed on the basis of number of days delivered. The plan days are expected to be delivered by year end.

#### Planned Audit Reviews

3.3 Since April, 80% of audit assurance reports issued (final and draft) have provided Substantial Assurance.

- 28 final assurance reports, 22 Substantial Assurance and 6 Limited Assurance (2 grant claims and 2 advisory).
- 3 draft assurance reports, 1 Substantial Assurance and 2 Limited Assurance. Further details of these will be provided once the reports are finalised.

3.4 Further details on the final limited assurance reports issued since the last Committee report (November 2019) are included in Appendix C. These are:-

- BACS/CHAPS
- Payment Card Industry Data Security Standard
- Perseid School
- Procurement Card expenditure

- Tree Maintenance

### **Additional audit reviews**

- 3.5 Internal audit attends Department Management Teams a number of times throughout the year to discuss progress against the plan and to review the audits which are still to be undertaken to ensure they are still relevant and timely. Additional requests for work are also received from managers and reviews are undertaken in areas where fraud has occurred to ensure that controls are sufficient.
- 3.6 Internal Audit have also been involved in providing advice and support (61 days) on corporate fraud cases, assisting with court case documentation, updating fraud policies as well as carrying out reviews in relation to procedural concerns. These have resulted in advisory reports and assistance for the following areas:-
- Planning
  - School fund review
  - Voluntary sector
  - Conflict of issue concern
  - Contract compliance
  - Court case preparation

### **Procurement/contract**

- 3.7 There are seven contract audits on the plan for this year, to date two audit have been finalised and one at draft;
- Contract Monitoring of Commissioned Services - Limited assurance (previously reported to committee in July 2019)
  - Adult learning contract, -Substantial assurance
  - Facilities contracts-Limited (draft)
- 3.8 The following contract audits are in progress;
- CM2000 follow up audit
  - Block and Extra Care contracts
  - South London Waste Partnership (Waste Collection)
  - South London Waste Partnership ( Parks)

### **IT systems**

- 3.9 There are two IT audits finalised:
- iTrent IT application controls (joint service led by Kingston and Sutton) --Substantial assurance.
  - Payment Card Industry Data Security Standard- Limited

## **Financial systems**

3.10 The following audits have been undertaken this year on the key financial systems:-

- Treasury Management -Final - Substantial assurance
- Payroll – Final - Substantial assurance
- Pension Administration (joint service) –Final Substantial assurance
- Accounts Receivable – Draft - Substantial
- Council Tax – Final - Substantial
- Budget setting and monitoring- Final Substantial

3.11 Other financial audit progress:

- Petty Cash Imprests -Final -Substantial assurance
- BACS/CHAPS – Final- Limited assurance.
- Procurement Card expenditure- Final -Limited Assurance

## **Schools**

3.12 The number of schools audited each year has reduced and is undertaken on a risk based approach. We currently have 48 schools on the audit plan and aim to complete audits in six schools each year. The schools selected for audit will be a mixture of those not audited for several years and those with potential budgetary or other concerns.

3.13 To date we have finalised six school audit reports, five with Substantial assurance, one school (Perseid) has a limited assurance.

3.14 Where schools have received a Limited Assurance report, a copy is sent to the Chair of Governors and to the finance team supporting schools so that they can offer additional support.

## **Service Specific**

3.15 Other audits undertaken have been grouped into 'service specific' type audits. To date, 9 reviews have been finalised, 7 with Substantial assurance, and 2 with a Limited Assurance; Tree Maintenance, Local Land charge income and one report is at draft stage; Direct Payments.

## **Governance**

3.16 We have 4 governance reviews on the plan, GDPR, FOI/Subject Access Requests and Risk Management have a Substantial Assurance, and an advisory report on compliance with the Transparency agenda.

## **4. Following up on the Implementation of Agreed Actions**



- 4.1. The agreed actions for audits completed have been followed up. At the time of this report there were the following P1's outstanding (see Appendix B):-
- 5 Priority 1 actions outstanding from 2018/19 with implementation dates due end of March 2020. (Total actions this year 252).
  - 6 Priority 1 audit actions are due to be implemented from the 2019/20 audit plan
- 4.2 Follow up reminders are sent out monthly to officers responsible for implementing the agreed actions when the due date is reached, to ascertain whether the actions have been implemented.
- 4.3 If the actions have not been implemented by the following month reminders are escalated to Heads of Service/ Assistant Director Level. Once they reach 3 months overdue a report is then sent to Directors for those actions.
- 4.4 As at the 24<sup>th</sup> February there were no audit actions overdue by more than 3 months.
- 4.5 Where there are overdue actions Internal Audit contacts the manager to seek explanations for the delays in implementing these recommendations. If an action remains outstanding, these audit areas are considered for a follow up audit review.

## **5. ALTERNATIVE OPTIONS**

- 5.1 None for the purposes of this report.

## **6 CONSULTATION UNDERTAKEN OR PROPOSED**

- 6.1 The Internal Audit Plan has been agreed with Chief Officers who have consulted with their Management Teams. Service Level Agreements are in place. The Head of Internal Audit has periodic meetings with the Directors to report upon progress against the Plan.
- 6.2 All audit reports are discussed with the relevant manager prior to issuing as a draft, further meetings are held if required and comments from the Manager and Head of Service/Assistant Directors are included in the final report.

## **7 TIMETABLE**

- 7.1. None for the purposes of this report.

## **8 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

- 8.1 The planned work and unplanned work is undertaken within the budget allocated.

## **9 LEGAL AND STATUTORY IMPLICATIONS**

- 9.1 This report sets out a framework for Internal Audit to provide a summary of internal audit work for 2019/20. Section 151 of the Local Government Act 1972 (and subsequent legislation) requires the proper administration of all financial affairs within the Council. The provision of an Internal Audit service is integral to the financial management at Merton and assists in the discharge of these statutory duties.

## **10. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

- 10.1 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, 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.

## **11 CRIME AND DISORDER IMPLICATIONS**

- 11.1 There are no specific crime and disorder implications arising from this report.
- 11.2 The report does however include brief details of potential fraud investigations in progress.

## **12 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

- 12.1. The Audit Plan has a risk assessment formula built into the process. This takes such aspects as expenditure, income, and previous audit findings into account and calculates priorities and the frequency of the audit.
- 12.2. In addition to the audit risk assessment formula the Corporate Risk Register is consulted during the production of the Internal Audit Plan.
- 12.3. The audit brief at the beginning of the audit, and the internal audit reports at the end of the audit also identify risks. Audit Recommendations are categorised high, medium or low priority in relation to the level of risk involved.

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

- Appendix A – Audit reports issued since April 2019.
- Appendix B -- Summary of Priority One Recommendations

### **BACKGROUND PAPERS**

- i. Documents held in Internal Audit Files

## Audits since April 2019

Appendix A

Audit Title	type of audit	Dept	Final Report Date	Assurance
Pensions Administration Shared services	Financial	CS	18/04/19	Substantial
Reviews of Care Plans	Service specific	CH	24/04/19	Substantial
Contract Monitoring of Commissioned Services	Contract	CH	29/04/19	Limited
Monitoring of School Returns	Service specific	CS	09/07/19	Substantial
Treasury Management	Financial	CS	06/06/19	Substantial
Petty Cash Imprests	Financial	CS	25/04/19	Substantial
GDPR	Governance	CS	22/08/19	Substantial
Interim staff	Service specific	CS	11/06/19	Substantial
Abbotsbury Primary School	School	CSF	13/05/19	Substantial
Voluntary organisation review	Service specific	CH	23/04/19	advisory
Singlegate Primary School	School	CSF	11/04/19	Substantial
Garfield Primary School	School	CSF	04/04/19	Substantial
Unaccompanied Asylum Seeking Children	Service specific	CSF	03/10/19	Substantial
Merton & Sutton Joint Cemetery Board 2019-20	Accounts	CS	11/06/19	n/a
Mayors Office (Charitable Trust) 2019-20	Accounts	CS	09/10/19	n/a
Perseid School	School	CSF	29/01/20	Limited
Deprivation of liberty safeguards assessments	Service specific	CH	31/10/19	substantial
Transparency agenda	Governance	All	25/11/19	advisory
Bond Primary School	School	CSF	06/11/19	Substantial
Malmesbury Primary School	School	CSF	19/12/19	Substantial
Payroll	Financial	CS	06/11/19	Substantial

iTrent System Review	IT	CS	28/10/19	Substantial
BACS-CHAPS	Financial	CS	12/12/19	Limited
Budget setting and monitoring	Financial	CS	29/04/19	Substantial
Foi's and Subject Access Requests	Governance	CS	20/12/19	Substantial
Payment Card Industry Data Security Standard compliance	IT	CS	20/12/19	Limited
Risk Management 2019-20	Governance	CS	final	Substantial
Valuations	Service specific	ER	09/01/20	Substantial
Council Tax	Financial	CS	05/12/19	Substantial
Adult Learning Contract	Contract	CH	22/01/20	Substantial
Procurement Card - Transfer System (Pay Pal)	Financial	CS	13/12/19	Limited
Tree Maintenance	Service specific	ER	14/02/20	Limited
Accounts Receivable	Financial	CS	Draft	Substantial
Direct Payments	Service specific	CH	Draft	Limited
Local Land Charges Income review	Service specific	CS	Draft	Limited
Recruitment - Employees 2019-20	Service specific	CS		review
Pre Paid Cards	Financial	CSF		review
CM2000 Home Care Monitoring - Follow Up 2019-20	Contract	CH		review
Troubled Families Grant	grant	CSF		in progress
Duplicate Payment check	Financial	CS		in progress
Planning Application	Service specific	ER		in progress
Penalty Charge Notices (PNC)	Service specific	ER		in progress
Corelogic Mosaic	Financial	CH/CSF		in progress

SLWP - refuse contract	Contract	ER		in progress
SLWP - parks contract	Contract	ER		in progress
Block and Extra care Contracts	Contract	CH		in progress
No Recourse to Public Funds 2019-20	Service specific	CH		in progress
LBM Safeguarding Adults 2019- 20	Service specific	CH		in progress

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## Appendix B – Summary of Priority One Recommendations

Audit Title	Assurance Level & Number of Issues	Summary of key issues raised. Progress on actions
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### 2018/19 (outstanding)

Declaration of interests	Limited 3 P1's	1 P1 outstanding - (date move from March 2019 to March 2020. Guidance and form require updating.
Corporate Procurement	Limited- (3 P1's and 1 P2)	3 P1's outstanding - date moved from July 2019 to March 2020). Non compliance with CSO, dept forward plans and extensions.
CM2000	Limited 2 P1's	1 P1 closed and 1 in progress - contract retendered.

### 2019/20

Reviews of Care Plans	Substantial- 1 P1's 7 P2's and 1 P3)	P1 actioned.
Contract Monitoring of Commissioned Services	Limited- 1 P1	P1 actioned.
Interims Staff Review	Substantial - 3 P1'S	P1's actioned
Unaccompanied Asylum Seeking Children	Substantial 1 P1	P1 actioned.
Financial audit	Advisory- 1 P1	P1 actioned.
Singlegate Primary School	Substantial (1 P1 and 12 P2's)	P1 actioned.
Deprivation of liberty safeguards assessments	Substantial (2 P1 and 11 P2's)	1 P1 contract to be retendered, outstanding due April 2020
Purchasing Cards Expenditure 2019-20	Limited- 2 P1's, 2 P2's	2 P1's outstanding due February 2020- restriction on the use of Paypal
Perseid School 2019-20	Limited- 6 P1's, 12 P2's	P1's actioned
PCI Compliance	Limited - 3 P1's	3 outstanding-approved charter, second security review, and ASV scanning - due to be implemented May 2020.

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Service	<b>Tree Maintenance</b>		
Date of Final Audit Report	14 <sup>TH</sup> February 2020		
Audit Actions	6	Outstanding actions	4
Main issues	<p>There is currently no final Strategy, Policy and Business Plan for the management and maintenance of the Council tree stock.</p> <p>At the time of audit testing there was a significant backlog of resident's tree work requests that had not been inputted into the Highways tree system called Mayrise. Each tree inspection and job order has to be manually inputted into Mayrise which can lead to significant delays in getting the right information at the right time for Highways trees. This report supports the use of tablets or laptops in the field in order to gain efficiencies and reduce operator errors in data input.</p> <p>The Trees section of the Council website encourages residents to Report a problem with a street tree. There is no prominent display on the web page highlighting the key criteria before making a request for tree work. Time spent responding to requests that do not meet key criteria can significantly impact on staff resources and budgets.</p> <p>A thorough due diligence may not have been completed in the previous procurement for trees maintenance in terms of testing the outcomes and prices against the market. This leads to an opportunity for lessons learned in the current procurement exercise for tree services.</p> <p>There is currently no overlay map showing tree hot spot areas in the borough with subsidence/clay soils against past insurance claims as a tool to inform the inspection regime and undertake preventative tree maintenance work.</p> <p>There appears to be an increase in insurance claims and complaints relating to the maintenance of trees.</p>		

<b>Service</b>	<b>Payment Card Industry Data Security Standard</b>		
Date of Final Audit Report –	20 December 2019		
Audit actions	4	Outstanding actions	4
Main issues	<p>Annual IT PSN Health Check was completed by Prism Infosec for the Council in August 2019 producing a report with 3 critically, 6 highly and 11 moderately risky findings.</p> <p>There was no documentary evidence to demonstrate that the Council conducts quarterly PCI DSS vulnerability scanning;</p> <p>There was no documentary evidence to demonstrate how Senior Management are monitoring the compliance programme.</p>		

<b>Service</b>	<b>BACS/CHAPS</b>		
Date of Final Audit Report	12 <sup>th</sup> December 2019		
Audit Actions	8	Outstanding Audit Actions	0
Main issues	<p>Procedure notes for BACS and CHAPS were not comprehensive and were not up to date at the time of audit testing.</p> <p>There had been a significant increase in non-treasury CHAPS payments. Requests for CHAPS payments should be reviewed to ensure they can be justified and remain cost effective for the Council.</p> <p>Non Treasury CHAPS payments are checked by different teams but there is currently confusion as to the purpose of the checks and the roles and responsibilities of different teams in checking non treasury CHAPS payments.</p> <p>Audit testing found 7 out of 14 payments checked that the voucher request had not always been fully completed at the time of the payment being processed with missing details such as:</p>		

Service	BACS/CHAPS
	<ul style="list-style-type: none"> <li>• Vendor ID;</li> <li>• CHAPS Originator;</li> <li>• Date of invoice;</li> <li>• Date of request.</li> </ul> <p>The BACS Preparation/Transmission form is prepopulated with names of officers that can request and transmit a BACS payment request. A review of the names on the form found that several named officers are no longer working with the Council.</p> <p>Furthermore, two officers on the list were found to be officer that have the ability to process as well as authorise and submit BACS submissions.</p> <p>Some employees in IT Services have retained their access to the PayGate system but are no longer involved in the processing of BACS payments.</p>

Service	<b>Perseid school</b>
Date of Final Audit Report	29 January 2020
Audit actions	20 Outstanding audit actions: 4
Main issues	<p>The school did not have a three-year budget plan at the time of the audit and had no significant recovery plan for the deficit budget.</p> <p>Budget monitoring did not include commitment accounting which meant that not all expenditure was being taken into account.</p> <p>The school did not undertake IR35 checks when making payments for work done at the school.</p> <p>Access rights to the school financial system could not be verified by the school.</p>

Service	<b>Procurement Card – Transfer System (Pay Pal)</b>		
Date of Final Audit Report	13 December 2019		
Audit Actions	4	Outstanding Audit Actions	4
<p>Main issues.</p> <p>Although it is detailed in the Procurement Card user guide that PayPal is excluded from Procurement card use, PayPal was found to be used by 32 cardholders in 2018/19 and by 10 cardholders in 2019/20 ( April to June).</p> <p>The use of PayPal for procurement card expenditure is not permitted by the authority as the statement name can be defined by the account holder and therefore, potentially differ to that of the actual payee.</p> <p>Sample testing Paypal of transactions found that 2 out of 8 receipts did not state the supplier’s details.</p> <p>Although the Procurement Card transaction log requires key information to be completed, the log does not state that PayPal transactions are not allowed. This should be reviewed and the log updated.</p>			

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## **Committee: Standards and General Purposes**

**Date: 12 March 2020**

Wards:

**Subject: : Anti Money laundering policy review**

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Peter McCabe Chair

Contact officer: Margaret Culleton Head of Internal Audit

Tel. 020 8545 3149 [margaret.culleton@merton.gov.uk](mailto:margaret.culleton@merton.gov.uk)

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### **Recommendation:**

- **That Members comment and approve the revised Anti money laundering policy**

#### **1. Purpose of report and executive summary**

- 1.1 The regular review of the codes ensures that they continue to be fit for purpose and is aligned to both legislative changes and operational changes to this Council service delivery. The Anti-fraud and Anti-corruption Strategy sets out the Council's position for preventing fraud and corruption.
- 1.2 This report provides an update on a review of the arrangements in place to minimise the Council's risk of exposure to Money Laundering, as a support to the Anti-fraud and Anti-corruption Strategy. Agreement this review will also ensure that there is suitable alignment of codes and procedures in place.
- 1.3 This review confirms the Councils' arrangements for Money Laundering Prevention measures are currently proportionate to the risks associated with the prevention of money laundering, and comply with Government Guidance

#### **2 INTRODUCTION**

- 2.1 Best practice requires that all codes are subject to regular review to ensure that they remain effective. Following a 2017 amendment to the Money Laundering Regulations the procedures in place for addressing Money Laundering prevention measures have been reviewed.

#### **3. MONEY LAUNDERING PREVENTION**

- 3.1 Money laundering is defined as the process of moving illegally acquired cash through financial systems so that it appears to be from a legitimate source. It is interpreted very widely and includes possessing, or in any way dealing with, or concealing, the proceeds of any crime.

- 3.2 The recent amendment to the Money Laundering Regulations has placed an enhanced duty upon organisations to identify their potential risk to Money Laundering, to have clear documented control processes in place to help prevent exposure, and to have defined reporting mechanisms in place should Money laundering be suspected. These arrangements need to be supported by guidance and training.
- 3.3 The Councils' arrangements for addressing Money Laundering are incorporated within a code, attached at [Appendix A](#). The Code outlines the arrangements in place that will:
- Assist with ensuring that suitable policies, procedures and controls exist to mitigate the risk of money laundering and terrorist financing
  - Support the application of a risk management approach to detecting and preventing risk of money laundering and terrorist financing to help inform the level of risk associated with particular business relationships and transactions in order to enable appropriate risk based decisions about clients and retainers.
  - Ensure all necessary steps to communicate this code and train staff in relation to identification and prevention of money laundering offences.
- 3.4 The code has been reviewed and amended to take into account the enhanced organisational duties brought about by the 2017 amendment to the Money Laundering Regulations.
- 3.5 The updates are :-
- Reference to complete regular, documented, risk assessments of the organisations exposure to money laundering and terrorist financing.
  - Updating the reference to the Serious Organised Crime Agency (SOCA) to the National Crime Agency (NCA)

## **4 CONCLUSION**

- 4.1 The Council's arrangements are currently proportionate to the risks associated with bribery and the prevention of money laundering, and comply with Government Guidance. To ensure that this continues, these arrangements will be regularly monitored and improved if required, and these codes will be subject to a full review at least every three years.

## **5. ALTERNATIVE OPTIONS**

- 5.1 None for the purposes of this report.

## **6 CONSULTATION UNDERTAKEN OR PROPOSED**



6.1 None for the purposes of this report

## **7 TIMETABLE**

7.1 None for the purposes of this report.

## **8 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

8.1 None

## **9 LEGAL AND STATUTORY IMPLICATIONS**

9.1 MONEY LAUNDERING REGULATIONS

## **10. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

10.1 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, 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.

## **11 CRIME AND DISORDER IMPLICATIONS**

11.1 There are no specific crime and disorder implications arising from this report.

## **12 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

12.1. To comply with the new requirement under the Money Laundering Regulations, for a documented risk assessment (regulation 18) to identify and assess the Councils risk of money laundering and terrorist financing, an audit will be completed in the first part of 2020.

12.2 The audit will seek to identify the Councils' risk exposure to money laundering and to highlight any additional training requirements or guidance required.

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

- APPENDIX A – ANTI MONEY LAUNDERING POLICY

### **BACKGROUND PAPERS**

- i. Documents held in Internal Audit Files

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# LONDON BOROUGH OF MERTON

## ANTI-MONEY LAUNDERING POLICY

2020



## London Borough of Merton

### Anti – Money Laundering Policy

#### 1 Policy Statement

- 1.1. The London Borough of Merton is committed to achieving the highest possible standards of service, including honesty, openness and accountability, and recognises that employees have an important role to play in achieving this goal.
- 1.2. The Council will take all reasonable steps to prevent its systems and processes being used for money laundering. Money Laundering is a criminal offence and it is the responsibility of the Council and Council officers to take reasonable precautions to prevent its involvement in money laundering, either knowingly or as a result of inaction.
- 1.3. Criminals could launder illicitly obtained funds through the council in a number of ways. For example: by making large payments in cash, such as for business rates, council tax or when purchasing assets.
- 1.4. This policy draws on the Anti-Money Laundering Practical Guidance for Public Service Organisations published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

#### 2 Scope

- 2.1. This Code applies to all of the council's activities, its personnel, including those permanently employed, temporary staff, agency staff, contractors, Members (including independent members), volunteers and consultants.
- 2.2. It is important that all employees are familiar with their responsibilities as serious criminal sanctions may be imposed for breaches of anti-money laundering legislation. Failure by any member of staff to comply with this Code may lead to prosecution and disciplinary action being taken against them. Any disciplinary action will be dealt with in accordance with the councils Disciplinary Procedures.
- 2.3. Whilst it is stressed that the risk to the Authority is low, it is extremely important that all staff are familiar with their legal responsibilities as serious criminal sanctions may be imposed for breaches of the legislation. The key requirement for staff is to:

- ***Promptly report any suspected money laundering activity to the Money Laundering Reporting Officer.***

#### 3. Background

- 3.1. Money laundering is the term used for a number of offences involving the proceeds of crime or terrorist funds. The following acts constitute the act of money laundering:
  - concealing, disguising, converting, transferring or removing

criminal property from the United Kingdom

- becoming concerned in an arrangement which facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person, either knowingly or merely by way of suspicion.
- Acquiring, using or possessing criminal property

3.2. Although the term 'money laundering' is generally used when describing the activities of organised crime – for which the legislation and regulations were first and foremost introduced – to most people who are likely to come across it or be affected by it, it involves a suspicion that someone they know, or know of, is benefiting financially from dishonest activities.

3.3. 'Criminal property' is defined very widely in the law relating to money laundering. It includes not only the proceeds of crime committed by somebody else, but also possession of the proceeds of an individual's own crime – for example, the retention of monies from non-payment of income tax. It does not matter how small the amount of money involved is. It also includes the proceeds of crime that take place abroad.

3.4. The Consultative Committee of Accounting Bodies (CCAB) advice is that internal procedures should be in place regarding money laundering even if the employee's work is outside regulated business. It should be noted that local authorities are outside regulated business.

3.5. In recent years, new laws have been passed which significantly shift the burden of identifying acts of money laundering away from government agencies and more towards organisations and their employees. They prescribe potentially very heavy penalties, including imprisonment, for those who are convicted of breaking the law.

3.6. It is vital to recognise that the regime under which money laundering is monitored operates on an 'all crimes' basis, and that there is no de minimus provision in the money laundering legislation. In other words, every crime, however small, is subject to the money-laundering regime.

#### **4 Existing Laws to Control Money Laundering**

4.1 The legislation and regulations which embody the UK anti-money laundering regime is contained in the following: The Proceeds of Crime Act 2002 (POCA), as amended by the Serious Organised Crime and Police Act 2005 (SOCPA) and relevant statutory instruments

- The Terrorism Act 2000 (TA 2000), as amended by the Anti-Terrorism Crime and Security Act 2001 (ATCSA) and the Terrorism Act 2006 (TA 2006) and relevant statutory instruments
- The Money Laundering Regulations 2007 (2007 Regulations) as amended by the Money Laundering Regulations 2012.

4.2. Money laundering is an act falling within section 340 (11) of the Proceeds of Crime Act 2002 (the POCA) (as amended by the Anti-Terrorism and Security Act

2001 and the Terrorism Act 2006)

- consolidated, updated and reformed criminal law in regard to money laundering
- it defines money laundering and the offences relating to it
- it creates mechanisms for investigating and recovering the proceeds of crime
- it sets out some of the obligations placed on organisations and individuals to report known or suspected money laundering activities.

4.3. The Money Laundering Regulations 2007 became effective on 15<sup>th</sup> December 2007 repealing and replacing the Money Laundering Regulations 2003. They set administrative requirements for the anti-money laundering regime within the regulated sector and outline the scope of customer due diligence.

4.4. It is concerned with measures to restrict the opportunities for money laundering in certain types of business – known as relevant business - by ensuring that money laundering reporting systems and staff training etc., identification, record keeping and internal reporting procedures are employed.

4.5 There is a requirement to maintain ongoing scrutiny of transactions, to confirm the identity of existing clients at appropriate times and to put in place a training regime to ensure staff know how to deal with suspect transactions.

4.6 The new regulations have been extended to include new supervisory bodies, with responsibility for ensuring compliance with anti-money laundering legislation. These include the Office of Fair Trading together with Local Authority Trading Standards.

## **5 What are the Main Money Laundering Offences?**

5.1 Money laundering is defined as the process of moving illegally acquired cash through financial systems so that it appears to be from a legitimate source. It is interpreted very widely and includes possessing, or in any way dealing with, or concealing, the proceeds of any crime.

5.2 The main offences relating to money laundering established by Part 7 (sections 327-329) of Proceeds of Crime Act 2002 (the POCA) are:

- Concealing, disguising, converting, transferring or removing criminal property from the UK (S.327 POCA). Concealing is where someone knows or suspects a case of money laundering, but conceals or disguises its existence
- Being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property (S.328 POCA)
- Acquiring, using or possessing criminal property (S.329 POCA).

5.2 Other offences under POCA are:

- Failure to disclose money laundering offences (s.330-332)
- Tipping off a suspect, either directly or indirectly (s.333)
- Doing something that might prejudice an investigation (s.342)

5.3 All of the above money laundering offences may be committed by an organisation or by the individuals working for it if they suspect money laundering and either become involved with it in some way and/or do nothing about it. The key requirement on employees is to promptly report any suspected money laundering activity to the Money Laundering Reporting Officer (MLRO).

## **6 High Risk Areas**

6.1 In order to minimise the risk of money laundering when dealing in high risk areas, or where customers or clients meet any of the following criteria, see below, an Identification Procedure must be followed before any business is undertaken with that organisation or person

- Undertake a one-off transaction involving payment by or to the client of 15,000 Euro (approximately £13,500) or more
- Undertake a series of linked one-off transactions involving total payment by or to the client of 15,000 Euro (approximately £13,500) or more
- It is known or suspected that a one-off transaction (or a series of them) involves money laundering

6.2 The Council is committed to raising awareness and where necessary specific guidance and training will be provided to services assessed at high risk of money laundering and terrorist financing.

## **7. Identification Procedures and Customer Due Diligence**

7.1 For any new business relationship or any business involving a considerable one-off transaction the officer concerned should set up and maintain identification procedures regarding the parties involved, in particular if the new party is not present or acting on behalf of a third party. Satisfactory evidence must be obtained as soon as practicable after instructions are received and should be capable of establishing, to the satisfaction of the person receiving it, that the client is who they claim to be. Documentary evidence i.e. birth certificate, drivers licence, a power of attorney, signed written instructions on headed paper is an example of what can be obtained for this procedure.

7.2. Where the Council is carrying out certain regulated business (accountancy, audit and tax services and legal services re financial, company or property transactions) and:

7.3 This should be done as soon as practicable after instructions are received (unless evidence has already been obtained) and no dealings should take place until this has been completed.

7.4 Satisfactory evidence is evidence which establishes that the client (company and/or person) is who they claim to be. This can include, but is not limited to, some of the following:

- Signed, written instructions on official letterhead at the outset of the dealings, which confirms the company name and location
- Verification of company registration and VAT numbers, website details and registered office address
- checking with the customer's/suppliers website to confirm their business address;
- conducting an on-line search via Companies House to confirm the nature and business of the customer and confirm the identities of any directors;
- Proof of personal identification, if dealing with an individual, through meeting the client in person and verifying their identity against the passport or photo-card driving licence.
- Copies of the identity evidence obtained must be retained on file for at least five years. This retention can be in an electronic format (e.g. scanned documentation) as long as it is available for inspection with sufficient notice.

## **8 Recognising Money laundering**

8.1 Any employee who knows of or suspects a money laundering activity, must immediately report it to the MLRO. Please note that a failure to immediately report to MLRO may result in a criminal offence. At all times employees should:

- Be wary of unusually large cash transactions
- Be wary of the absence of an obvious legitimate source of funds
- Be alert to the possibility of money laundering by a client or a prospective client

8.2 The National Crime Agency (NCA) has produced a list of possible "indicators of suspicion" for money laundering activity:

- Is the person's behaviour unusual in the circumstances?
- Has the person refused to supply any form of identification, and if so, why?
- Is the activity unusual in itself?
- Is the activity unusual for the customer?
- Do I have other knowledge which leads me to believe the customer or activity is criminal?
- Do I think the property may be criminal?

8.3 The following examples may indicate money laundering activity:

- Payment of a substantial sum in cash (over £5000) by a single client in a single transaction or over a short period of time. Overpayments or duplicate payments made by a client followed by



a refund, or a request for a refund

- Right to Buy property sold before expiry of discount period
- Purchase of land and buildings re-sold within 3 -12 months
- Purchase of council assets re-sold within 3 months

8.4 As a general rule, staff who collect cash payments, should forward details of any cash transactions of over £5000 to the MLRO so that precautionary checks can be performed.

## **9 When Money Laundering is suspected**

9.1 Any knowledge or suspicion must be reported to the MLRO, even if the employee believes that the same money laundering activity has already been reported. Disclosure should be within hours, not weeks or months. If this is not the case, then the employee may be liable to prosecution.

9.2 After reporting:

- The employee must follow any subsequent directions of the MLRO, and must not themselves make any further enquiries into the matter. They must not take further steps in any related transaction without authorisation from the MLRO.
- The employee must not disclose or otherwise indicate their suspicions to the person suspected of the money laundering. They must also not discuss the matter with others as this can result in “tipping off” the suspect
- The employee should not record on the file that a report has been made to the MLRO in case this results in the suspect becoming aware of the situation and could constitute a tip off.

9.3 Employees should be aware that:

- Ignoring the obvious can be considered a criminal offence.
- A reasonable cause for knowledge or suspicion of money laundering offence will be required. Speculation or gossip is unlikely to be sufficient to allow an investigation.
- The size or significance of the money laundering offence is irrelevant as money laundering covers the proceeds of any crime, no matter how minor and irrespective of the size of the benefit gained.

## **10. MLRO Reporting Responsibilities**

10.1 Upon receipt of reporting form, the MLRO will:

- Advise the reporting officer of the timescale within which he expects to respond

- Consider the referral and any other available internal information he thinks relevant
- Undertake such other reasonable inquiries as he thinks appropriate
- Seek specialist legal and financial advice (if necessary)
- Promptly evaluate any disclosure report, to determine whether it should be reported to the National Crime Agency (NCA) by way of a Suspicious Activity Report (SAR) (on line [form can be located on the NCA website](#))

10.2 The MLRO will commit a criminal offence if they know or suspect, or have reasonable grounds to do so, through a disclosure being made, that another person is engaged in money laundering and they do not disclose this as soon as practicable to the NCA.

## 11. Money Laundering Reporting Officer (MLRO)

11.1 The officer nominated to receive disclosures about money laundering activity within Merton Council is **Margaret Culleton**, the Head of Internal Audit. Contact details are as follows:

Head of Internal Audit, Corporate Services  
 London Borough of Merton  
 Civic Centre  
 Morden  
 SM4 5DX  
 Email: [Margaret.culleton@merton.gov.uk](mailto:Margaret.culleton@merton.gov.uk)

11.2 The MLRO is responsible for ensuring; to ensure that sufficient guidance is available to officers identified as working in areas of higher risk of money laundering or terrorist financing; and for maintaining a central register of reportable incidents which are promptly assessed and where disclosure is deemed necessary reported to National Crime Agency.

## **Committee: Standards and General Purpose Committee**

**Date: 12 March 2020**

Agenda items:

Wards:

### **Subject: Changes to the Merton Pension Board- Terms of Reference**

Lead officer: Caroline Holland , Director of Corporate Resources.

Lead member: Cllr Mark Allison , Cabinet Member for Finance.

Contact officer: Roger Kershaw Assistant Director, Corporate Resources.

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#### **Recommendations:**

- A. That the Standards and General Purpose Committee recommends that Council approves the amended Terms of Reference for the Merton Pension Board as set out in Appendix 2;
- B. That the Standards and General Purpose Committee recommends that Council approves the appointment of the Independent chair to manage and lead the Pension board

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## **1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1. This report presents proposed changes to the Merton Pension Board Terms of Reference in light of the following;
  - the increase in the board's responsibilities as a result of the TPR overseeing the LGPS Pension funds.
  - the LGPS good governance guidance expects the Board to deliver its responsibilities more effectively and to have the relevant training required.
- 1.2. This report seeks Committee's approval to the amended Terms of Reference for the Merton Pension Board as set out in Appendix 2

## **2**

- 2.1. The Merton Pension board was established by Full Council to commence April 2015 together with the existing terms of reference and membership following the Local Government Pension Act 2013. It is not a decision- making body and therefore not subject to proportionality rules. No key decisions are taken by the Merton Pension board but its role is to scrutinize the Pension Fund Advisory Panel (PFAP) together with the management and administration of the Merton Pension Fund.
- 2.2. The current pension board meets every quarter to carry out its function. The new terms of reference will cover how the recommendations of the board get communicated to the PFAP.

### **Current governance arrangements**

- 2.3. The current Terms of Reference, as set out in Merton's Constitution, are provided in Appendix 1. The purpose of the Merton Pension Board is to review and scrutinize the pension fund advisory panel, advisors, pension administration activities and ensure the correct process in following in all decision making.
- 2.4 It is also there to ensure the pension administration, delegated to Wandsworth Pension shared services, delivers the service to the council and the Pension fund members as agreed on the delegation agreement.
- 2.5. **The current members of the body are:**
- Two employer Representatives –Head of Human Resources- Merton Council and Chief Executive of Wimbledon Putney Common.
  - Two member representatives- One pensioner representative and one staff (active member) representative.
- 2.6. The responsibilities of the Merton Pension Board are;
- to note reports presented to the Pension Fund Advisory Panel
  - review the pension administration services (delivered by Wandsworth Pension shared services) performance against benchmarks and policies.

### **3. PROPOSAL FOR AN INDEPENDENT CHAIR**

- 3.1 Effective Pension Boards are seen as a sign of good governance by the pension regulator and our external auditors. Since the Merton Pension Board was formed we have experienced difficulties in attracting suitable volunteers despite numerous attempts to recruit (including the chair). These challenges were raised by our external auditors in the pension Fund audit opinion for 2017/18, by KPMG in their governance review carried out in summer 2019, and by the Scheme Advisory Board and Hymans Robertson in the Good Governance Review carried out in summer 2019.
- 3.2 Following a review we found that many Pension Boards have an independent chair and that this has significantly improved the performance of the Board in carrying out its many functions as required by the Pension Act and the Pensions Regulator.
- 3.3 Given our experience we have concluded that the Merton Pension Fund also needs to appoint an independent chair, preferably one with good Local Government Pension scheme experience elsewhere. This will help us comply with best practice.

## **4 ALTERNATIVE OPTIONS**

4.1. n/a

## **5 CONSULTATION UNDERTAKEN OR PROPOSED**

5.1. The fund carried out a governance review in summer 2019 and it was identified the local pension board's responsibilities need to be more clearly defined.

5.2. Also there is a need for training and knowledge development. In addition to this the LGPS good governance review out come and the pension regulator expectation from the pension board made the fund to review the Pension Board's current terms and conditions and to update it to meet the above meets.

## **6 TIMETABLE**

6.1. The current Pension board was created in April 2015 in accordance with Section 5 of the 2013 Pension. Since then its responsibilities were not review in accordance with the current demand. Following the approval of this report the new independent chair will work with the current board and the officers to ensure we have a fully functioning board going forward. .

## **7 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

7.1. The appointment of independent chair will have cost and the total cost will be re changed to the Pension Fund. It is expected to cost the fund will be between £15-20K per annum. This is still in negotiation.

## **8 LEGAL AND STATUTORY IMPLICATIONS**

8.1. The proposed amendments in respect of the Terms of Reference contained in this report are compliant with legal and statutory requirements.

## **9 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

9.1. None for the purposes of this report.

## **10 CRIME AND DISORDER IMPLICATIONS**

10.1. None for the purposes of this report.

## **11 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

11.1. None for the purposes of this report.

## **12 APPENDICES**

12.1. Appendix 1: Current Terms of Reference for the Merton Pension Fund

12.2. Appendix 2: Proposed Terms of Reference for the Merton Pension Board.

## **13 BACKGROUND PAPERS**

None

## Appendix 1 - Current Terms and Condition

### LONDON BOROUGH OF MERTON PENSIONS BOARD

#### TERMS OF REFERENCE

The Local Pension Board (hereafter referred to as 'the Board') is established in accordance with Section 5 of the Public Service Pensions Act 2013 and under regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended). The Board is not a committee constituted under Section 101 of the Local Government Act 1972.

#### Functions of the Local Pension Board

The purpose of the Board is to assist the Council in its role as a scheme manager of the Scheme. Such assistance is to:

1. *(a) To secure compliance with:*
  - *Regulations made under the Public Service Pensions Act 2013 that apply to the matters referred to in sections 5 and 6 of that Act.*
  - *Any other legislation relating to the governance and administration of the Scheme and any connected scheme.*
  - *Any requirements imposed by the Pensions Regulator in relation to the Scheme. These areas include but are not restricted to:*
2. *Review regular compliance monitoring reports which shall include reports to and decisions made under the Regulations.*
3. *Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code.*
4. *Assist with the development of and continually review such documentation as is required by the Regulations including Governance Compliance Statement, Funding Strategy Investment strategy statement.*
5. *Assist with the development of and continually review scheme member and employer communications as required by the Regulations and relevant legislation.*
6. *Review the implementation of revised policies and procedures following changes to the Scheme.*
  - *Review the compliance of particular cases, projects or process on request of the Committee.*
  - *Any other area within the statement of purpose (i.e. assisting the Administering Authority) the Board deems appropriate.**(b) To ensure the effective and efficient and effective governance and administration of the Scheme. Including but not restricted to:*
  - *Assist with the development of improved customer services.*
  - *Assist with the development of improved management, administration and governance structures and policies.*
  - *Assist in the development and monitoring of process improvements on request of Committee.*
  - *Assist in the development of asset valuing and engagement processes and compliance with the UK Stewardship Code.*

- *Any other area within the statement of purpose (i.e. ensuring effective and efficient governance of the scheme) the Board deems appropriate.*

In support of its functions the Board may make recommendations to the General Purpose Committee and a response made to the Board on the outcome within a reasonable period of time.

### **Membership**

The Board shall consist of 4 voting members made of:

- 2 Member Representatives,
- 2 Employer Representatives; and
- 1 Further representative without voting rights to be appointed at the discretion of the Council

A chair to be appointed by the employer and member representatives of the Board on a rotating basis with the term of office shared between an employer and a member representative on an equal basis. In the event of a tied vote, the Chair will have the casting vote.

The Director of Corporate Services will determine an appropriate selection and appointment process for Board Members

### **Termination of Membership**

Non-attendance at 2 consecutive meetings would result in a replacement representative being sought. The ability of members to seek re-appointment for further term will be considered to ensure continuity.

### **Voting Rights**

Voting rights only apply to members of a Board who are either an employer or a member representative. In the even to of a tied vote, the Chair will have the casting vote.

### **Terms of Office**

The term of office for Board members shall be co-terminus with Council's term of office. i.e. to the date of the next Council election. Extensions may be made by the Council with the agreement of the Board.

### **Conflicts of interest**

The Administering Authority must be satisfied that any person appointed to the Board and from time to time that, any member of the Board does not have a conflict of interest, as defined under Section 5(5) of the Public Service Pensions Act 2013. All members of the Board must declare to the Administering Authority on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Board.

### **Knowledge and understanding (including Training)**

Board members shall attend and participate in training arranged in order to meet and maintain the requirements set out in the Board's knowledge and understanding policy and framework.

## **Meetings**

The Board shall four times a year (at a minimum meet twice each year) and will be set in conjunction with Democratic Services.

Substitutes will not be allowed where members are unable to attend meetings. Meetings will be services by Democratic Services and subject to the same publication rules as with a Scrutiny Committee.

## **Attendance requirements**

Non-attendance at 2 consecutive meetings would result in a replacement representative being sought

## **Quorum**

The quorum for any meeting shall be 2 members comprising at least one employer and one member representative.

A meeting that becomes inquorate may continue but any decisions will be nonbinding.

## **Reporting**

- The Board in the first instance report its requests, recommendations or concerns to PFAC.
- On receipt of a report PFAC should, within a reasonable period, consider and respond to the Board.
- The appropriate internal route for escalation is to the Section 151 Officer.
- The Board may report concerns to the LGPS Scheme Advisory Board for consideration subsequent to, but not instead of, using the appropriate internal route for escalation.
- Board members are also subject to the requirements to report breaches of law
- under the Act and the Code [and the whistleblowing provisions set out in the
- Council's whistle blowing policy].
- The Board will produce an annual report of its work, findings and recommendations.

## **Payment of Board Members**

An allowance will be paid to the non London Borough of Merton employees. The Council will set an allowance for these members based upon a sum of £100 per meeting, multiplied by the total number of meetings expected in each year.

## **Code of Conduct**

Members of the Board will be subject to the same Code of Conduct as members of the Council's Scrutiny Committee



## **LONDON BOROUGH OF MERTON PENSIONS BOARD –**

### **TERMS OF REFERENCE**

#### **1. Introduction**

- 1.1 This document sets out the terms of reference of the Local Pension Board of London Borough of Merton (the 'Administering Authority') as Scheme Manager, as defined under Section 4 of the Public Service Act 2013.
- 1.2 The Local Pension Board is established in accordance with Section 5 of that Act and under Regulation 106 of the Local Government Pension Scheme (LGPS) regulations 2013 (as amended).

#### **2. Role of the Local Pension Board**

- 2.1 The role of the local Pension Board, as defined by Regulation 106 of the Local Government Pension Scheme Regulations 2013 is to assist the County Council as Administering Authority:
- (a) to secure compliance with:
- (i) the scheme regulations;
  - (ii) any other legislation relating to the governance and administration of the LGPS Scheme.
  - (iii) any requirements imposed by the Pensions Regulator in relation to the LGPS Scheme.
- (b) to ensure the effective and efficient governance and administration of the LGPS Scheme
- 2.2 The Local Pension Board will ensure it effectively and efficiently complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pension Regulator.
- 2.3 The Local Pension Board will also help ensure that the Merton Pension Fund is managed and administered effectively and efficiently and complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pension Regulator.
- 2.4 The Local Pension Board has power to do anything that is calculated to facilitate or is conducive or incidental to the discharge of any of its functions.
- 2.5 The Local Pension Board should always act within its terms of reference.
- 2.6 In support of its core functions the Local Pension Board may request information from the Merton Pension Fund Advisory Panel with regard to any aspect of the Scheme Manager function. Any such request should be reasonably complied with.
- 2.7 The Local Pension Board may make recommendations to the Merton Pension Fund advisory Panel Committee. This recommendations should be given due consideration.

- 2.8 In support of its functions the Board may make recommendations to the General Purpose Committee and a response made to the Board on the outcome within a reasonable period of time.
3. **Membership**
- 3.1 The Board shall consist of 5 members w made of:  
1 Independent chair  
2 Member Representatives,  
2 Employer Representatives; and  
1 Further representative without voting rights to be appointed at the discretion of the Council
- 3.2 The independent chair will have the same terms as the other board members. Normally the chair will not vote on any decision. In the event of a tied vote, the Chair will have the casting vote.
- 3.3 The Director of Corporate Services will determine an appropriate selection and appointment process for Board Members
4. **Termination of Membership**
- 4.1 Non-attendance at 2 consecutive meetings would result in a replacement representative being sought. The ability of members to seek re-appointment for further term will be considered to ensure continuity.
5. **Voting Rights**
- 5.1 Voting rights only apply to members of a Board who are either an employer or a member representative. In the event of a tied vote, the Chair will have the casting vote.
6. **Terms of Office**
- 6.1 The term of office for Board members shall be co-terminus with Council's term of office. i.e. to the date of the next Council election. Extensions may be made by the Council with the agreement of the Board.
7. **Conflicts of interest**
- 7.1 The Administering Authority must be satisfied that any person appointed to the Board and from time to time that any member of the Board does not have a conflict of interest, as defined under Section 5(5) of the Public Service Pensions Act 2013.
- 7.2 All members of the Board must declare to the Administering Authority on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Board.
8. **Knowledge and understanding (including Training)**
- 8.1 Board members shall attend and participate in training arranged in order to meet and maintain the requirements set out in the Board's knowledge and understanding policy and framework.

The Local Pension Board shall address the knowledge and skill requirements that apply to Local Pension Board members under the 2004 Act.

8.2 It is for individual Local Pension Board members to ensure they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Local Pension Board.

8.3 In line with this requirement, Local Pension Board members are required to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date.

## **9. Meetings**

9.1 The Board shall four times a year (at a minimum meet twice each year) and will be set in conjunction with Democratic Services.

9.2 Substitutes will not be allowed where members are unable to attend meetings. Meetings will be services by Democratic Services and subject to the same publication rules as with a Scrutiny Committee.

## **10. Attendance requirements**

10.1 Non-attendance at 2 consecutive meetings would result in a replacement representative being sought.

## **11. Quorum**

11.1 The quorum for any meeting shall be 3 members comprising at least one employer and one member representative. A meeting that becomes inquorate may continue but any decisions will be non binding.

## **12. Reporting**

- The Board in the first instance report its requests, recommendations or concerns to PFAP.
- On receipt of a report PFAP should, within a reasonable period, consider and respond to the Board.
- The appropriate internal route for escalation is to the Section 151 Officer.
- The Board may report concerns to the LGPS Scheme Advisory Board for consideration subsequent to, but not instead of, using the appropriate internal route for escalation.
- Board members are also subject to the requirements to report breaches of law under the Act and the Code [and the whistleblowing provisions set out in the Council's whistle blowing policy].
- The Board will produce an annual report of its work, findings and recommendations.

## **13. Code of Conduct**

Members of the Board will be subject to the same Code of Conduct as members of the Council's Scrutiny Committee

## **14 Data Protection and Freedom of Information**

The Local Pension Board and its members will need to comply with the Scheme Manager's Data Protection and Freedom of Information Policy.

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## Committee: Standards and General Purposes Committee

**Date: 12 March 2020**

Wards: All

**Subject:** Environmental Enforcements update

Lead officer: John Bosley, Assistant Director of Public Space

Lead member: Councillor Tobin Byers

Contact officer: Charles Baker, Waste Strategy and Commissioning Manager

[charles.baker@merton.gov.uk](mailto:charles.baker@merton.gov.uk)

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### Recommendations:

1. To review and comment on the further update of environmental prosecutions as outlined in the report.
- 

## 1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. The Committee, at the meeting on the 7 November 2019, received a report on the outcomes of environmental enforcements being made by the Public Space enforcement team and service provider, Kingdom.
- 1.2. The Committee has requested that regular updates are presented regarding environmental enforcement actions being undertaken by the Division. The following detail outlines the actions that have been achieved during the course of this year.
- 1.3. The management and delivery of enforcement investigations within the Division is currently being reviewed which has been stimulated by the preparation and implementation of the *Fly-tipping Strategy* and a staffing restructure.

## 2 ENFORCEMENT OUTCOMES

- 2.1. Local Authorities are required to report fly tipping & environmental enforcement actions and incidents to the Department for Environment, Food and Rural Affairs (DEFRA) on an annual basis, which aids in providing a regional and national overview of the key indicators and actions being taken to combat these incidents.
- 2.2. The Public Space divisional outturn to with respect to enforcement outcomes has been positive. In the latest full year data (2018/19), we rank very highly within the London region for the robust actions we take regarding the issuing of Fixed Penalty Notices (FPNs) and the subsequent actions for non-payment through the single justice procedure.
- 2.3. However, we will be reviewing our business processes within 2020/21 to determine if we can further improve our performance in the preventative enforcement measures associated with reviewing Duty of Care provision by businesses, pursuant to Section 34(9) of the Environmental Protection Act

1990, to determine and be assured that businesses have safe and sufficient systems in place to manage their waste.

- 2.4. The service will also be reviewing the process of recording and issuing warning letters to potential offenders where evidence has been gathered from incidents but further formal procedures or the issuing of FPNs is prohibited. This will also include reviewing data capture methods with our service provider, Veolia.
- 2.5. As previously noted in the last report, the success of issuing more warning letters to improve education and deter environmental crimes is dependent on the quality of available data. The recently reviewed success rate of identifiable data that would enable further enquiries was determined to be at the ratio of 1 out of 25 incidents, thus limiting the potential data vital for making marked improvements in this area.
- 2.6. The following table with data from reported outcomes to the Department of Food, Environment & Rural Affairs (DEFRA) across London in 2018/19 (Appendix 1) summarises the Council's performance and demonstrates the current effectiveness of the enforcement team within London.

Table 1. LBM performance ranking within London (2018/19)

<b>Total Incidents</b>	14
<b>Total Actions</b>	4
<b>Warning Letter Actions</b>	15
<b>Statutory Notice Actions</b>	19
<b>Littering Fixed Penalty Notices issued in conjunction with fly-tipping</b>	1
<b>All Other Fixed Penalty Notices issued</b>	4
<b>Total Fixed Penalty Notice Actions</b>	2
<b>Duty of Care Inspection Actions</b>	11
<b>Formal Caution Actions</b>	2

- 2.7. Locally and within this current year, we have observed an overall decrease in the number of littering offences that have been recorded through our service provider, Kingdom. We have yet to draw any firm conclusion on the forward trend, but as smoking and the litter associated with this activity decreases, it is natural to project a drop in the number of enforcement actions delivered. We will also be working with the service provider within the new enforcement service contract to determine the additional value that can be gained by including further potential enforcement actions within other areas such as dog fouling in parks & open spaces.
- 2.8. The following data table provides a Ward-by-Ward analysis this year of the FPNs issued regarding environmental enforcements. The incidents range from littering, fly-tipping, breaches of waste duty of care and dog fouling.

Table 2. Ward analysis of FPNs issued (2019/20)

Wards	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Abbey	29	11	29	48	47	46	28	27	71	33	25
Cannon Hill	1	0	0	0	12	0	0	0	0	0	2
Colliers Wood	26	12	11	76	58	133	120	87	71	62	30
Cricket Green	4	0	1	2	9	0	2	3	4	1	2
Dundonald	8	2	3	0	3	4	0	0	1	1	1
Figges Marsh	37	19	27	38	24	17	26	24	28	14	20
Graveney	12	7	21	46	5	10	2	1	7	17	43
Hillside	7	5	6	0	10	10	3	6	3	7	3
Lavender Fields	0	0	1	1	3	1	0	1	0	2	0
Longthornton	0	0	0	1	1	2	2	0	0	0	0
Lower Morden	0	0	4	0	0	3	0	0	0	1	0
Merton Park	103	78	127	162	281	137	159	160	93	62	63
Pollards Hill	0	1	2	0	0	4	1	0	1	0	0
Ravensbury	6	0	2	3	6	9	1	0	2	0	2
Raynes Park	0	2	0	1	1	11	1	2	0	0	0
St Helier	2	3	1	5	2	2	8	1	0	2	0
Trinity	205	197	297	103	118	94	69	43	58	38	77
Village	0	0	6	1	0	0	11	5	0	1	0
West Barnes	0	0	2	0	0	0	1	0	0	0	0
Wimbledon Park	5	1	0	0	1	6	0	3	0	0	2
<b>Total FPNs</b>	<b>442</b>	<b>293</b>	<b>442</b>	<b>481</b>	<b>564</b>	<b>483</b>	<b>430</b>	<b>356</b>	<b>334</b>	<b>231</b>	<b>266</b>

- 2.9. In the above, the higher volume items within the Colliers Wood, Trinity and Merton Park Wards are associated with littering offences and representative to areas with heavy footfall, especially in the areas near to transport interchanges. Whereas, the 20% of the enforced activity in the Figges Marsh Ward was focused around a CCTV supported enforcement activity which has yielded £20k in penalty payments by offenders in lieu of prosecution.
- 2.10. The environmental enforcements associated with the issuing of FPNs this financial year have yielded fines that total approximately £460k. While it is positive to have a sustained delivery model to support enhanced environmental enforcements, the costs of managing fly-tipping and street cleansing resources far exceeds any values that can be garnered through the issuing of FPNs and undertaking prosecutions.
- 2.11. The current non-payment rate of FPNs issued by the service provider is 10.6%, and the subsequent cases where payment was not received are prepared and escalated through the Single Justice Procedure (SJP) to conclude the formal enforcement. However, there are some that are 'written off' as personal details provided and / or address information had been erroneously supplied by the alleged offender.

Table 3. FPNs referred for prosecution through SJP

	FPNs Issued	Number sent for Prosecution through SJP		FPNs Issued	Number sent for Prosecution through SJP
April	409	31	October	399	49
May	280	44	November	317	46
June	422	47	December	318	37
July	460	48	January	220	26
August	547	39	February	265	30
September	445	35	March	0	0

- 2.12. The Council's website currently has an information page of previously successful prosecutions which informs the Public on the number of FPNs and prosecutions undertaken, including those related to littering. The content of this webpage has been reviewed and updated. Please find this page - [link here](#).
- 2.13. As part of the development of a wider awareness of fly-tipping across the borough, the enforcement team will be working on an enhanced communications plan for implementation in 2020/21. The previous design scheme associated with fly-tipping (pic. 1 below) will be reviewed to reenergise the targeted promotion of enforcement.

Pic. 1 Current fly-tipping promotional scheme



- 2.14. Since the last report in November, we have successfully had a prosecution regarding a fly-tipping incident in Merton. The case (LBM v. Matthew James Wells) was heard on the 11 February 2020 at Lavender Hill Magistrates Court regarding the offenders breach of s.33 (Environmental Protection Act 1990). The offence occurred on the 12 June 2019 and the offender offered a guilty plea and was fined £960 with further charges of £860 for prosecution costs and £96 victim surcharge applied.
- 2.15. It should also be noted that the length of time taken to successfully prosecute this case which was aided by evidence gathered by CCTV and the Officer's investigative interview.
- 2.16. In addition to this successful outcome, the enforcement team, since September 2019, have undertaken 18 interviews under the Police and Criminal Evidence Act 1984 codes of practice (PACE); issued four (4) Home Office cautions; issued 39 official Warning Letters; and undertook 19 stop and searches of vehicles pertaining to the transfer of waste.

### **3 ALTERNATIVE OPTIONS**

- 3.1. None for the purposes of this report

### **4 CONSULTATION UNDERTAKEN OR PROPOSED**

- 4.1. Commencing in January, the Public Space division is currently undertaking a restructure to review, propose and implement changes on how the staff are deployed to deliver improvements in the management of our street environment and open spaces.
- 4.2. This restructure also includes the staff associated with the enforcement functions mentioned within the rest of this report. The new proposals



regarding enforcement will involve the expansion of the enforcement remit to a team of front-line officers who also undertake contract monitoring and management functions and the re-focusing of a core group of enforcement officers who will deliver focused enforcement actions.

## **5 TIMETABLE**

- 5.1. To reissue updated progress of environmental enforcement activity to the Committee as determined.

## **6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

- 6.1. Our service provider's business model has been designed to be effectively cost neutral for the Council. The model works on the basis that the full operation cost of the service is covered by the contractor. All money received from the issuing of FPNs is collected on our behalf by the contractor and transferred to the Council, however within the model Kingdom Security are paid a fix percentage for the issuing of FPNs.

## **7 LEGAL AND STATUTORY IMPLICATIONS**

- 7.1. All investigations that are carried out are required to have regard to the following legislation and in accordance with any associated guidance or codes of practice applicable to the service area.

- Police and Criminal Evidence Act 1984
- Criminal Procedure and Investigations Act 1996
- Criminal Justice and Police Act 2001
- Human Rights Act 1998

- 7.2. The Environmental Protection Act 1990 provides the Council with the power to take enforcement action regarding fly-tipping and littering. Fly tipping is the illegal dumping of liquid or solid waste on land or in water. The waste is usually dumped to avoid disposal costs. There is no comprehensive definition of litter but it does include cigarette ends and chewing gum. It will also include small miscellaneous items of waste that does not constitute fly-tipping. There is no clear distinction between fly-tipping and littering and each case will be judged on its own merits and appropriate enforcement action can then be taken.

- 7.3. Enforcement options include the power to offer fixed penalty notices an alternative to prosecution, or to prosecute for offences under the Environmental Protection Act 1990. The matters set out in this report are in accordance with the statutory provisions that apply.

## **8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

- 8.1. The Council's Overarching Enforcement Policy as per section 7.2 states 'Regard shall be given to the relevant legislation, codes and policies which protect the rights of the individual and guide enforcement action, (These include the Human Rights Act 1998, Data Protection Act 2018, Code for Crown Prosecutors, Corporate Customer Services Strategy and the Council's Equality and Diversity Policy).

**9 CRIME AND DISORDER IMPLICATIONS**

- 9.1. The policies and approaches to enforcement across the Council are outlined within the 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 Council wide enforcement policy can be found - [link here](#).
- 12.2. The Council's draft fly-tipping strategy can be found - [link here](#).

Appendix 1. - Environmental Enforcements update

Fly-tipping actions reported by local authorities(London Region) 2018/19

Year	LA Name	Region	Total Incidents	Total Actions	Warning Letter Actions	Statutory Notice Actions	Littering Fixed Penalty Notices issued in conjunction with fly-tipping	All Other Fixed Penalty Notices issued	Total Fixed Penalty Notice Actions	Duty of Care Inspection Actions	Formal Caution Actions
2018-19	Islington	London	1434	4145	70	369	7	2100	2831	516	0
2018-19	City of London	London	1501	1566	0	174	64	92	189	91	0
2018-19	Kingston upon Thames	London	1589	21	0	0	0	21	21	0	0
2018-19	Bexley	London	2146	205	26	0	0	5	86	0	0
2018-19	Barnet	London	2167	1016	0	0	0	0	1016	0	0
2018-19	Barking and Dagenham	London	2901	440	0	11	15	0	411	3	0
2018-19	Sutton	London	3151	995	60	83	323	3	338	111	0
2018-19	Bromley	London	3172	287	24	0	4	0	9	0	0
2018-19	Lewisham	London	3542	1308	15	245	85	172	331	221	0
2018-19	Richmond upon Thames	London	3588	2870	32	0	280	0	364	3	0
2018-19	Havering	London	3959	6114	2022	290	39	73	160	18	0
2018-19	Enfield	London	5164	6278	25	163	192	35	457	5288	0
2018-19	Lambeth	London	5379	1963	0	0	277	0	730	99	0
2018-19	Wandsworth	London	5410	8836	555	0	399	93	652	1216	866
2018-19	Kensington and Chelsea	London	6836	6915	0	0	32	27	85	54	0
2018-19	Tower Hamlets	London	9228	12403	1077	0	0	0	0	0	0
2018-19	Waltham Forest	London	9434	12943	223	341	1784	7321	9977	1159	0
2018-19	Hillingdon	London	10677	3453	0	0	3343	0	3343	110	0
<b>2018-19</b>	<b>Merton</b>	<b>London</b>	<b>11406</b>	<b>8862</b>	<b>37</b>	<b>48</b>	<b>6905</b>	<b>1619</b>	<b>8560</b>	<b>119</b>	<b>3</b>
2018-19	Ealing	London	12547	4620	148	91	3733	0	4055	119	0
2018-19	Hackney	London	13504	1751	98	281	44	58	210	297	0
2018-19	Harrow	London	13658	890	139	47	0	0	15	90	0
2018-19	Southwark	London	14412	2936	0	424	1	0	507	373	0
2018-19	Newham	London	14656	2070	0	71	115	76	722	0	0
2018-19	Westminster	London	15003	5855	1611	85	53	2817	4158	1	0
2018-19	Greenwich	London	15897	933	68	59	37	26	132	132	0
2018-19	Hammersmith and Fulham	London	16769	1700	0	76	93	53	195	108	0
2018-19	Haringey	London	21320	419	13	190	32	25	165	0	0
2018-19	Hounslow	London	21897	2862	206	0	309	0	408	82	0
2018-19	Croydon	London	22184	1994	55	199	491	3	518	668	0
2018-19	Brent	London	23965	6632	1392	803	1536	29	1679	75	0
2018-19	Camden	London	25765	26861	0	410	203	185	489	197	0
2018-19	Redbridge	London	:	:	:	:	:	:	:	:	:
<b>2018-19</b>	<b>*Total</b>	<b>London</b>	<b>324261</b>	<b>140143</b>	<b>7896</b>	<b>4460</b>	<b>20396</b>	<b>14833</b>	<b>42813</b>	<b>11150</b>	<b>869</b>

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## **Committee: Standards and General Purposes Committee**

**Date: 12 March 2020**

### **Subject: Amendments to the Appointments Committee Terms of Reference and the Employee Procedure Rules**

Lead officer: Louise Round, Managing Director South London Legal Partnership

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

Contact officer: Fiona Thomsen, Head of Shared Legal Services; and Julia Regan, Head of Democracy Services

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#### **Recommendations:**

- A. That the Standards and General Purpose Committee recommends that Council approves the amended Terms of Reference for the Appointments Committee, as set out in Appendix 1;
  - B. That the Officer Employment Procedure Rules be amended as set out in paragraph Appendix 2;
  - C. That authority be delegated to the Monitoring Officer to amend the Council's constitution to incorporate any direct or consequential changes resulting from the approval of recommendations A and B above
- 

## **1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1. This report presents proposed changes to the Appointments Committee Terms of Reference as set out in Appendix 1; and to the Officer Employment Procedure Rules and Appointments Committee Procedure as set out in Appendix 2 for consideration and recommendation to Council on 1 April 2020.

## **2 DETAILS**

### **Appointments committee**

- 2.1. The Council has established an Appointments Committee for the purposes of interviewing and recommending to Council the appointment of the Chief Executive and Head of Paid Service; interviewing and appointing Chief Officers, officers at Director level including the monitoring officer; and to consider the terms and conditions on which officers hold office including restructures and reorganisations at Deputy Chief Officer level and above. The terms of reference are set out in Part 3B, paragraph 1.2 of the Council's Constitution.
- 2.2. The Constitution and Pay Policy Statement state that approval to recruit to a post where the package is in excess of £100k p.a. must first be obtained by full Council.
- 2.3. The Appointments Committee should meet prior to the commencement of the recruitment process to agree the job description, person specification, timetable for recruitment. Custom and practice in Merton has been that a

panel of members is established to carry out the shortlisting and interviews, with the Appointments Committee meeting at the end of the process to ratify the decision of the panel, although this is not clear from the current wording of the Terms of Reference. The process could be streamlined by amending the Terms of Reference to enable the Appointments Committee to set up a formal sub-committee for the purposes of shortlisting and interviewing candidates for chief officer positions. The Sub-Committee would have delegated authority to make the appointment, without requiring the parent committee to meet again to ratify the decision. In the event of the appointment of the Chief Executive, the Sub-Committee would make a recommendation to Council, which is required by statute to appoint the Head of Paid Service. There would be no absolute requirement for the Appointments Committee to establish a sub-committee for specific individual appointments, if it considered it wished to reserve the appointment to itself.

- 2.4. A committee or sub-committee responsible for shortlisting and interview panels must, as a matter of law, have at least one member of the Cabinet sitting. Ideally the membership should be the same at each stage and every effort should be made to ensure the panel is diverse. The Sub-Committee should as far as possible reflect the overall political balance of the council. In the event of a joint appointment with a neighbouring borough, an amended process would need to be agreed with that borough.
- 2.5. No member should sit on such a Committee or Sub-Committee without first having received appropriate recruitment and selection training by HR.

### **Officer Employment Procedure Rules**

- 2.6. The Council's Officer Employment Procedure Rules are set out at Part 4H of the Council's constitution. The Officer Employment Procedure Rules have been amended to reflect the proposed changes to the process and the Appointments Committee Terms of Reference and are attached at Appendix 2. An amendment has also been made to clarify the position in relation to the appointment of the Monitoring Officer. The Council has designated the Managing Director of the South London Legal Partnership as Monitoring Officer and there is no legal requirement for the appointment of the individual to be approved by the full Council. As currently drafted there were inconsistencies between the terms of reference of the Appointments Committee and the Employment Procedure Rules. It is suggested these are amended to make it clear that any future appointments do not need the approval of full Council so long as it has approved the recruitment process and the salary package in advance.

## **3 ALTERNATIVE OPTIONS**

- 3.1. There are no alternative options proposed.

## **4 CONSULTATION UNDERTAKEN OR PROPOSED**

- 4.1. None for the purposes of this report.

**5 TIMETABLE**

- 5.1. Subject to consideration by the Standards and General Purposes Committee, it is proposed to report the amended Terms of Reference and Employee Procedure Rules to Council on 1 April (tbc).

**6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

- 6.1. None for the purposes of this report.

**7 LEGAL AND STATUTORY IMPLICATIONS**

- 7.1. The procedure complies with the statutory and regulatory requirements relating to the appointment of the head of paid service, statutory chief officers, non-statutory chief officers and deputy chief officers.

**8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

- 8.1. All appointments are made on merit and taking account of the protected characteristics.

**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**

- Appendix 1 – Revised Appointments Committee Terms of Reference
- Appendix 2 – Revised Officer Employment Procedure Rules and Appointments Committee procedure

**12 BACKGROUND PAPERS**

- 12.1. None

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## 1.2 Appointments Committee

(a) **Membership:** 10 Members

(b) **Functions:**

- (i) To recommend the appointment of a Chief Executive and Head of Paid Service to the Council
- (ii) To interview and appoint Chief Officers as defined in the Officer Employment Procedure Rules, and the post designated as the Council's Monitoring Officer, and to approve statements specifying:
  - the duties of the officer concerned;
  - any qualifications or qualities to be sought in the person to be appointed;
  - to make arrangements for the post to be advertised in such a way as is likely to bring it to the attention of persons who are qualified to apply for it;
  - to make arrangements for a copy of the statements mentioned in sub paragraph (ii) to be sent to any person on request; and
  - to make arrangements to shortlist applicants for these posts and agree the assessments to be taken by shortlisted applicants.
- (iii) To determine the terms and conditions on which officers hold office (including the terms of dismissals), restructures, exits, statutory discretion relating to termination payments, reorganisations involving changes to staff responsibilities at Deputy Chief Officer and above.
- (iv) All other staffing matters that have not been delegated to any other decision maker
- (v) To establish a sub-committee to perform any of these functions as appropriate

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## **Part 4 – H**

### **OFFICER EMPLOYMENT PROCEDURE RULES**

**Any mandatory standing orders issued in respect of senior appointments will be incorporated into these rules, as they become available.**

**References to Chief Officers and Deputy Chief Officers in these rules shall be construed in accordance with the provisions of section 2 of the Local Government and Housing Act 1989 and shall include both statutory and non statutory chief officers as defined by that section. A list of all employees falling within the definition of deputy chief officer shall be maintained by the Head of Human Resources.**

**For the purposes of these rules, the Proper Officer shall be the Head of Democracy Services**

**For the avoidance of doubt, the following provisions of these rules do not apply to the appointment of officers on an interim basis.**

#### **1. Recruitment and Appointment**

##### **(a) Declarations**

The Council will draw up a statement requiring any candidate for appointment as an officer to state, in writing, whether they are the parent, grandparent, partner, child, stepchild, adopted child, grandchild, brother, sister, uncle, aunt, nephew or niece of an existing councillor or officer of the Council; or of the partner of such persons.

Where a candidate has declared such a relationship, any offer of employment shall be subject to approval by the relevant Chief Officer or his/her nominee.

##### **(b) Seeking support for appointment**

The Council will disqualify any applicant who directly or indirectly seeks the support of any councillor or officer for any appointment with the Council. The content of this paragraph will be included in any recruitment information.

No councillor or officer will seek support for any person for any appointment with the Council.

#### **2. Recruitment of the Chief Executive Paid Service and Chief Officers**

- 2.1** Where the Council proposes to appoint a Chief Officer and it is not proposed that the appointment be made exclusively from among their existing officers,

the Council will:

- (a) draw up a statement specifying:
  - (i) the duties of the officer concerned; and
  - (ii) any qualifications or qualities to be sought in the person to be appointed;
- (b) make arrangements for the post to be advertised in such a way as is likely to bring it to the attention of persons who are qualified to apply for it; and
- (c) make arrangements for a copy of the statement mentioned in paragraph (a) to be sent to any person on request.

2.2 For any new appointment where the salary is £100k per annum or more approval should be obtained from Full Council prior to the commencement of the recruitment process

### **3. Appointment of Chief Executive**

- 3.1 Full Council will, before an offer of appointment is made, approve the appointment of the Chief Executive, following the recommendation of such an appointment by the Council's Appointments Committee or Sub Committee. That Committee must include at least one member of the Cabinet.
- 3.2 Full Council may only make or approve the appointments of the Chief Executive where no material or well-founded objection has been made by any member of the Cabinet (see paragraph 6 below).

### **4. Appointment of Chief Officers**

- 4.1 The Appointments Committee or Sub-Committee (the appointer) will appoint Chief Officers and the post designated as the Council's Monitoring Officer. That committee must include at least one member of the Cabinet.
- 4.2 An offer of employment as a Chief Officer or to the post designated as the Council's Monitoring Officer shall only be made where no material or well-founded objection from any member of the Cabinet has been received (see Para 6 below).

### **5. Other Appointments**

- 5.1 Appointment of officers at or below deputy chief officer (other than assistants to political groups and an assistant to the Mayor) is the responsibility of the Head of Paid Service or his/her nominee(s), (the appointer) and may not be made by members. However, appointments of deputy chief officers are subject to the procedure set out in paragraph 6, even though the appointment is being made by officers.

## 6. Offers of Appointment

6.1 An offer of an appointment to the following posts shall comply with the following provisions of this rule:

- a) the Chief Executive;
- b) the Director of Communities and Housing\*;
- c) the Director of Children, Schools and Families\*
- d) the Director of Public Health\*
- e) the Director of Corporate Services\*
- f) the Director of Environment and Regeneration\*\*
- g) a deputy chief officer (including the post designated as the Council's Monitoring Officer);

\* statutory chief officer

\*\* non statutory chief officer

6.2 Such an appointment shall not be made by the appointor until

- a) the appointor has notified the Proper Officer of the name of the person to whom the appointor wishes to make the offer and any other particulars which the appointor considers are relevant to the appointment;
- b) the Proper Officer has notified every member of the Cabinet of the authority of –
  - (i) the name of the person to whom the appointor wishes to make the offer;
  - (ii) any other particulars relevant to the appointment ; and
  - (iii) the period within which any objection to the making of the offer is to be made by the Leader on behalf of the Cabinet to the Proper Officer; and
- c either –
  - (i) the Leader has, within the period specified in the notice under subparagraph (b)(iii), notified the Proper Officer that neither he nor any other member of the Cabinet has any objection to the making of the offer; and
  - (ii) the Proper Officer has notified the appointor that no objection has been received by him within that period from the Leader; or
  - (iii) the appointor is satisfied that any objection received from the Leader within that period is not material or is not well-founded

- 6.3 Appointment of an assistant to a political group under section 9 of the Act shall be made in accordance with the wishes of that group.
- 6.4 No appointment of an assistant to a political group under section 9 of the Local Government and Housing Act 1989 shall be made until the Council has allocated such a post to each of the political groups that qualify for one.
- 6.5 No post as an assistant to a political group under section 9 of the Local Government and Housing Act 1989 shall be made in respect of any party group which does not qualify for one under that Act.
- 6.6 Determination of qualification for posts under section 9 of the Local Government and Housing Act 1989 shall be the responsibility of the Monitoring Officer.
- 6.7 No more than one post as a political assistant shall be allocated to any one political group.

## **7. Suspension**

The Chief Executive, the Chief Finance Officer, and the Monitoring Officer may be suspended whilst an investigation takes place into alleged misconduct. That suspension will be on full pay and last no longer than two months beginning on the day on which the suspension takes effect.

## **8. Disciplinary action**

- 8.1 No disciplinary action to dismiss may be taken in respect of the Chief Executive, the Director of Corporate Services (s.151 officer) or the Monitoring Officer except after having taken into account any advice, views or recommendations of a panel, the conclusions of any investigation and any recommendations of the relevant officer i.e. as set out in the Local Authorities (Standing Orders) (England) (Amendment) Regulations 2015.
- 8.2 **Involvement of Councillors.** Subject to paragraph 8.1 above in the case of the Monitoring Officer, Councillors will not be involved in the disciplinary action against any officer at or below Deputy Chief Officer except where such involvement is necessary for any investigation or inquiry into alleged misconduct.

## **9. Dismissal**

- 9.1 Where a committee, sub-committee or officer is discharging, on behalf of the Council, the function of the dismissal of an officer designated as the Council's Chief Executive, the Council must approve that dismissal before notice of dismissal is given to him/her.
- 9.2 Where a committee or a sub-committee of the Council is discharging, on behalf of the Council the function of the dismissal of any officer referred to in

paragraph 6.1(a-f) or the Monitoring Officer, at least one member of the Cabinet must be a member of the committee or sub-committee.

- 9.3 Notice of the dismissal of an officer referred to in paragraph 6.1 must not be given by the dismissor until:
- (a) the dismissor has notified the Proper Officer of the name of the person who the dismissor wishes to dismiss and any other particulars which the dismissor considers are relevant to the dismissal;
  - (b) the proper officer has notified every member of the Cabinet of:
    - (i) the name of the person who the dismissor wishes to dismiss;
    - (ii) any other particulars relevant to the dismissal which the dismissor has notified to the Proper Officer ; and
    - (iii) the period within which any objection to the dismissal is to be made by the Leader on behalf of the Cabinet to the proper officer; and
  - (c) either:
    - (i) the Leader has, within the period specified in the notice under sub-paragraph (b)(iii) notified the dismissor that neither he nor any other member of the Cabinet has any objection to the dismissal;
    - (ii) the Proper Officer has notified the dismissor that no objection was received by him within that period from the Leader; or
    - (iii) the dismissor is satisfied that any objection received from the Leader within that period is not material or is not well-founded.
- 9.4 Termination payments – for Chief Officers, termination payments are subject to approval by the Standards General Purposes Committee and all severance packages over £100,000 shall be reported to full Council for approval.

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## Appointments Committee Procedure

See also Constitution [Part 4H](#) (Officer Employment Procedure Rules) and [Part 3B](#) (Appointments Committee Terms of Reference)

	<b>Action</b>	<b>By</b>
	<b>Vacancy arises</b>	
1.	Advise DS that a vacancy is due to arise and agree provisional meeting timetable	HR
2.	Submit Forward Plan item for the next available Council meeting (two items to cover this report and report at stage 15 if required)	HR
3.	Write report to seek Council's agreement to recruit to post being paid in excess of £100k p.a.	HR/DS
	<b>Council resolves to recruit</b>	
4.	Convene a meeting of the Appointments Committee with membership as agreed at AGM and appropriate officers	DS
5.	Officers liaise with Leader and Opposition Group Leaders as appropriate to agree makeup of shortlisting and interview panel, reflecting a balance of gender and diversity as appropriate.	DS
6.	Write report for meeting of Appointments Committee to agree process for recruitment including: arrangements for advertisement; job description; person specification; the appointment of a Sub-Committee if relevant to conduct shortlisting and interview (to include at least one Member of the Cabinet); shortlisting assessments; and timetable for recruitment.	HR/DS
	<b>Appointments Committee agrees the detail</b>	
7.	Officers to arrange for advertisement and conduct longlisting stage.	HR
8.	Convene Committee/Sub-Committee to conduct shortlisting with agreed membership on agreed date and publish meeting notice in accordance with Access to Information Procedure rules.	DS
9.	Provide DS with applicant packs prior to the shortlisting panel for circulation to Members and liaise with recruitment consultant or relevant officer to ensure attendance at shortlisting panel	HR
	<b>Shortlisting takes place</b>	
10.	Shortlisted candidates notified of date for final interview panel	HR
11.	Convene Committee/Sub-Committee to conduct final interviews with agreed membership on agreed date and	DS

	publish meeting notice in accordance with Access to Information Procedure rules.	
	<b>Final interviews take place</b>	
12.	Conditional offer of employment made to successful candidate	HR
13.	The Appointments Committee/Sub-Committee writes to the Proper Officer (Chief Executive) to advise them of its decision	DS
14.	Chief Executive writes to Cabinet Members to advise them of the decision of the Appointments Committee, enclosing the relevant applicant pack and invite any objections within 3 working days.	DS
	<b>No objections received (see 15 and/or 16)</b> <b>Objections received (see 17)</b>	
15.	<b>For Head of Paid Service only</b> Write report to the next full Council meeting to approve the appointment/designation.	DS
	<b>Council approval obtained</b>	
16.	Officers advise the successful candidate	HR
	<b>Objections received</b>	
17.	Convene a meeting of the Appointments Committee or Sub Committee as the case may be to consider whether the objection is material and well founded and if they consider it is not, the appointment can be confirmed. The decision of the Committee will be final.	DS

HR – Human Resources (recruitment)

DS – Democratic Services

CE – Proper officer

**Notes:**

Merton's Constitution states that the Appointments Committee has delegated authority from full Council to make arrangements for the appointment of senior chief officers (Directors and Monitoring Officer only).

Deputy Chief Officers and below (with the exception of political assistants and Mayor's EA, are the responsibility of the Head of Paid Service.

Full Council, on the recommendation of the Appointments Committee, is responsible for appointing the Chief Executive.

The Constitution and Pay Policy Statement state that approval to recruit to a post where the package is in excess of £100k p.a. must be obtained by full Council.

The Appointments Committee should meet prior to the commencement of the recruitment process to agree the JD, Person Specification, timetable for recruitment; and to appoint the Sub-Committee responsible for shortlisting and final interviews (if appropriate).

Shortlisting and interview panels should have at least one Member of the Cabinet sitting and ideally the membership should be the same at each stage.

No Member should sit on a panel without first having received appropriate recruitment and selection training by HR.

No appointment can be made to a chief officer or deputy chief officer post until every Member of the Cabinet has been written to by the Proper Officer, setting out the name and particulars of the person the appointer wishes to appoint, and a period for objections to be made to the Proper Officer.

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## **Committee: Standards and General Purposes Committee**

**Date: 12<sup>th</sup> March 2020**

Wards: All

### **Subject: Social Media Guidance for Councillors**

Lead officer: Louise Round, Managing Director of SLLP and Monitoring Officer

Lead member: Chair of Standards and General Purposes Committee

Contact officer: Louise Round, Managing Director of SLLP and Monitoring Officer

[Louise.round@merton.gov.uk](mailto:Louise.round@merton.gov.uk)

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#### **Recommendations:**

A. Approve the Social Media Guidance for Councillors

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### **1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

1.1 To seek approval of the Social Media Guidance for Councillors, which is designed to give guidance on the safe use of social media.

### **2 DETAILS**

2.1 The use of social media is increasing exponentially. Whilst it is a useful tool for all walks of life, including assistance in performing the role of a Councillor, the pitfalls are becoming more apparent. It is important to have safeguards in place to ensure that the benefits of social media are exploited, without breaching the law or codes of conduct. This guidance has been designed to raise awareness of the responsibilities of Councillors in relation to social media and to give guidance on the safe use of social media. It should be read in conjunction with the Councillor Code of Conduct and the Acceptable Use of IT Policy.

2.2. A copy of the Guidance is attached at Appendix 1.

### **3 ALTERNATIVE OPTIONS**

3.1 The Council could have taken no action in this respect, but because of the increasing number of incidents nationally involving social media, this was not considered a viable option.

### **4 CONSULTATION UNDERTAKEN OR PROPOSED**

4.1 The report has been reviewed by the Director of Resources.

### **5 TIMETABLE**

5.1 None for the purposes of this report

## **6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

6.1 There are no financial, resource of property implications.

## **7 LEGAL AND STATUTORY IMPLICATIONS**

7.1 There is potential for breaches of various areas of law including defamation, copyright, harassment, data protection, discrimination and malicious and obscene communications in the use of social media.

## **8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

8.1 No equalities impact needs assessment (EINA) has been carried out, but the guidance included information about potential breaches of equality provisions.

## **9 CRIME AND DISORDER IMPLICATIONS**

9.1. None for the purposes of this report, other than guidance is given regarding prevention of potential crimes.

## **10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

10.1. The purpose of the Guidance is to minimise risk in relation to such things as reputational damage or breaches of the law.

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

- Social Media Guidance for Councillors

## **12 BACKGROUND PAPERS**

12.1. Social Media Guidance for Councillors

# Social Media Guidance for Councillors

## Section 1 – Introduction

1. The Council welcomes and wishes to encourage Councillors' use of new technology, including social media. It is not a requirement for Councillors to have a Facebook or Twitter account or use other forms of social media. If Councillors are already using or planning to use social media in connection with their work as a councillor, they should ensure that they are familiar with the guidance set out below and that their use of social media does not use Council resources for party political purposes or put the organisation's information and security systems at risk.
2. Most people are familiar with doing things online and residents will increasingly expect the Council to provide its services online, with the same level of interactivity that they find everywhere else. However, there are challenges that may discourage Councillors and the Council from using social media. For example, inappropriate use (which may occur inadvertently) can cause significant damage to a Councillor's (or the Council's) reputation and can lead to legal claims. In addition, technology is changing fast. This can mean that it is hard to keep up and maintain useful interaction with residents.
3. There are also some pitfalls to be aware of, and this Guidance is produced to help Councillors avoid these. This Guidance does not tell Councillors what social media is, or which blogs or networks might be used effectively. It assumes that Councillors are aware of those. It deals with the pitfalls that specifically apply to the role of local Councillors.

## Section 2 – Legal Considerations

4. Three of the important Nolan Principles applying to those in public life are "Openness", "Accountability" and "Leadership". That means Councillors should be as open as possible about the actions and decisions they take, submit to an appropriate level of public scrutiny, and lead by example. Social media can be a vital tool for public debate and its use by Councillors is encouraged.
5. In the same way as anyone else publishing material, Councillors will need to be aware of the laws that apply to published material. Some of the main ones are these:

- a. **Defamation:** if you publish an untrue statement about a person that is damaging to their reputation you may be liable to pay damages;
  - b. **Copyright:** publishing information that is not yours, without permission, may also result in an award of damages against you;
  - c. **Harassment:** it is an offence to repeatedly pursue a campaign against a person that is likely to cause alarm, harassment or distress;
  - d. **Data protection:** do not publish personal data of other people, including photographs, without their express permission to do so;
  - e. **Incitement:** it is an offence to incite any criminal act;
  - f. **Discrimination and ‘protected characteristics’:** it is an offence to discriminate against anyone based on protected characteristics (as defined in the Equality Act 2010);
  - g. **Malicious and obscene communications:** it is an offence to send malicious or obscene communications
6. Likewise, inappropriate and offensive material should not be published. This includes revealing confidential or commercially sensitive information belonging to the Council, personal or confidential information about an individual, publishing something that could reasonably be considered insulting or threatening and something that promotes illegal activity or is intended to deceive.
7. Additional considerations apply to Councillors.

Bias and pre-determination

8. Members sitting on regulatory committees such as planning or licensing should be aware that they are allowed to have a view but must not have gone so far as to have predetermined their position on a matter. Any views aired on social media could be used as evidence of making a decision in advance of hearing all relevant information. The Council’s decision is then open to challenge and could be invalidated, and the ‘disrepute’ provisions of the Code of Conduct for Members could be engaged.



### Equality and discrimination

9. The Council is a public authority required to comply with the Equalities Act 2010. As noted above it is an offence to discriminate against anyone based on their protected characteristics. The Council must also have 'due regard' to the Public Sector Equality Duty (which consists of eliminating unlawful discrimination, advancing equality of opportunity and fostering good relations) and that applies to Councillors when appearing to act in their official capacity.

### Electioneering

10. Council resources, including any the use of social media on Council mobile devices or IT equipment, should not be used for political/campaign purposes. Particular care should also be taken when using social media during the pre- election period. The Electoral Commission has further guidance including on the requirements to provide a return of expenditure on election advertising which includes web advertising.

### Human Rights

11. Article 8 of the European Convention provides that public authorities should not interfere with the right of individuals to a private and family life without lawful authority to do so, and where it is necessary, proportionate, and in pursuit of one of the aims set out in Article 8(2). (These are national security, public safety, economic well-being, health or morals, prevention of crime or disorder, or protecting others' rights).

### Code of Conduct

12. Councillors may use social media in both an official and personal capacity but they must be aware that the public may perceive them as acting in either capacity when that is not their intention. Any social media account which could be potentially linked to a councillor would need to meet the standards of the code of conduct.

## **Section 3 – Responsibilities of Councillors**

13. Councillors will need to monitor and, where appropriate, censor or remove the contributions made by others to their sites. Allowing defamatory or offensive statements to remain on a site can become the Councillor's own legal problem as the 'publisher' of the material and could also give rise to Code issues where allowing comments to remain could be seen as condoning or endorsing them.

14. Similarly, 'liking', 'sharing' or 're-tweeting' posts could be seen as an endorsement of them and legally this can be a separate instance of publication, by the Councillor, to which all the legal and Code considerations would apply.
15. Beyond that it is generally best to allow disagreement rather than to seek to censor it. However, there is no need to respond to everything and unhelpful online arguments should be avoided. Be professional, respectful and polite, even (or especially) when corresponding with those who do not return the courtesy.
16. Careful use of language is required. Sarcasm, irony and ambiguous comments should be avoided.
17. Promptly admit to mistakes.
18. Avoid using social media when you are tired, angry, upset or your judgment may be impaired as something permanently published can't be easily taken back
19. Think carefully about who to 'follow' or 'befriend' online. Online 'friendships' with council officers should be avoided as they may compromise the appearance of impartial advice. It is inadvisable to 'follow' anyone without a good reason – some constituents may find it uncomfortable (and see the Human Rights comments above). Many Councillors wait to be 'followed' before returning the compliment.
20. Always ensure the security of your devices to prevent unauthorised access by third parties who may make inappropriate use of the device. You will have signed up to the Acceptable use of IT Policy, so refer to its contents for guidance.

#### **Section 4 – Principles for using Social Media**

You should follow these five guiding principles for any social media activities:

21. **Be respectful** – set the tone for online conversations by being polite, open and respectful. Use familiar language, be cordial, honest and professional at all times. Make sure that you respect people's confidentiality – do not disclose non-public information or the personal information of others.
22. **Be credible and consistent** – be accurate, fair, thorough and transparent. Encourage constructive criticism and deliberation. Make sure that what you say online is consistent with your other communications.

23. **Be honest about who you are** – it is important that any accounts or profiles that you set up are clearly and easily identifiable. Be clear about your own personal role, in particular a clear distinction should be drawn between use of an account in your personal capacity and use in your capacity as a councillor. Note that merely stating you are acting in your private capacity may not be sufficient.
24. **Be responsive** – make an effort to share what you know. Offer insights where appropriate and put people in touch with someone who can help if you cannot. Respond to questions and comments in a timely manner.
25. **Think twice** – think carefully about all your social media posts. Once published it will be too late to change your mind. Following these rules and seek further guidance if you need it.

### **Section 5 – Use of Social Media during Committee Meetings**

26. Use mobile devices sparingly, discreetly and with common sense at meetings, considering the impression they are giving to others. Councillors should be mindful that regulatory committees such as planning or licensing require the Councillor to alert officers to any lobbying material they have received. This would be difficult if it arrives on Twitter and is read by the Councillor during the course of a meeting.
27. Mobile devices enable councillors to manage their busy lives when time is at a premium. There may be occasions when texting or e-mailing between Councillors during meetings on matters relevant to the debate at hand may be valuable (on the same basis as circulating paper notes) However it is important for Councillors not to give the impression that insufficient attention is being given to the discussion at the meeting. That could lead to the relevant decision coming under challenge if Councillors are perceived to have made a decision without having properly listened to the debate. It could also result in Code complaints of a failure to treat others with respect or of bringing the Council into disrepute.

### **Section 6- Inappropriate use of Social Media by Others**

28. Anyone receiving threats, abuse or harassment via their use of social media should report it to the police.
29. Other inappropriate content can be reported to the social media site directly to ask for it to be removed. You may wish to save a screenshot in the circumstances.

## **Section 7 - Further Reading Materials**

- Connected Councillors – A guide to using social media to support local leadership. Local Government Association.
- The Local Government Association's webpage on social media

## **Section 8 – Complaints**

30. These guidelines do not form part of the Code of Conduct for Members but there may be instances where councillors' use of social media amounts to a breach of that Code and the Monitoring Officer may take these guidelines into account when considering whether such a breach has taken place. The procedure for making complaints against councillors is set out in part four of the Council's constitution:

<https://democracy.merton.gov.uk/ecSDDisplay.aspx?ID=212&RPID=0>

## **Contact details**

For further information please contact Louise Round, Monitoring Officer on 020 8545 3380.

Email: [louise.round@merton.gov.uk](mailto:louise.round@merton.gov.uk).

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[Fabiola.hickson@merton.gov.uk](mailto:Fabiola.hickson@merton.gov.uk)

## **Standards and General Purposes Committee Forward work plan 2020-21**

### July

- Annual Governance Statement
- Internal Audit Annual Report
- External Audit – Fee Letters for the Council and Pension Fund Accounts
- External Audit of the Council and Pension Fund Accounts
- Final Accounts
- Update on RIPA Policy
- Update on RIPA Authorisations
- Revisions to Contract Standing Orders
- Code of Conduct – Consultation method proposal
- Complaints against Members
- Member Training and Development
- Temporary and Contract Staff update
- Work Programme

### September

- Internal Audit progress report on annual audit plan
- Update on RIPA authorisations (March and September)
- Code of Conduct Annual Review
- Complaints against Members
- Work programme

### November

- 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
- Report on dispensations issued by Monitoring Officer
- Risk management
- Complaints against Members
- Temporary and Contract Staff update
- Work programme

### March

- 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
- 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.