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# **Merton Council**

## **Standards and General Purposes Committee Agenda**

### **Membership**

#### **Councillors:**

Mike Brunt (Chair)  
John Oliver (Vice Chair)  
Brenda Fraser  
Caroline Cooper-Marbiah  
Edith Macauley MBE  
Stephen Alambritis MBE  
Martin Whelton  
Billy Hayes  
John Braithwaite  
Robert Page  
Victoria Wilson  
Michael Paterson

#### **Substitute Members:**

Andrew Howard  
Sheri-Ann Bhim  
Caroline Charles  
Samantha MacArthur  
Simon McGrath

**Date: Thursday 21 July 2022**

**Time: 7.15 pm**

**Venue: Council Chamber, Civic Offices, London Road, Morden, SM4 5DX**

This is a public meeting and attendance by the public is encouraged and welcomed. For more information about the agenda please contact or telephone [020 8545 3616](tel:02085453616).

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

# Standards and General Purposes Committee Agenda

## 21 July 2022

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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. For further advice please speak with the Managing Director, South London Legal Partnership.

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# Agenda Item 3

## STANDARDS AND GENERAL PURPOSES COMMITTEE

10 MARCH 2022

(7.15 pm - 8.15 pm)

**PRESENT** Councillors Councillor Peter McCabe (in the Chair),  
Councillor Adam Bush, Councillor Ben Butler,  
Councillor Dickie Wilkinson, Councillor David Williams,  
Councillor Hina Bokhari, Councillor Mary Curtin,  
Councillor Nick Draper, Councillor Martin Whelton,  
Councillor Stephen Crowe, Councillor Joan Henry and  
Councillor Stephen Alambritis

**ALSO PRESENT** Roger Kershaw (Assistant Director of Resources), Caroline  
Holland (Director of Corporate Services), Margaret Culleton,  
Amy Dumitrescu (Democracy Services Manager), Richard  
Seedhouse (Democratic Services Officer) and Roger Kershaw  
(Assistant Director of Resources)

**ATTENDING  
REMOTELY**

Caroline Holland (Director of Corporate Services) and Richard  
Seedhouse (Democratic Services Officer)

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

Apologies were received from Mr Clive Douglas (Independent Person)

Cllr Joan Henry replaced Cllr John Dehaney as a member of the Committee  
Cllr Stephen Crowe replaced Cllr Andrew Howard as a member of the Committee  
Cllr Stephen Alambritis replaced Cllr Brenda Fraser as a member of the Committee

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

There were no declarations of interest.

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

RESOLVED that the minutes of the meeting held on 4 November 2021 were agreed  
as a correct record

### 4 EXTERNAL AUDIT 20/21 FINAL AUDIT RESULTS REPORT (Agenda Item 4)

The External Auditor presented the Final Audit Results Report. In response to  
questions, the External Auditor reported that there would not be an impact of the  
actions of Russia in the Ukraine on this report, but it may be relevant to the next  
audit.

RESOLVED: That the Committee noted the contents of the report.

## 5 EXTERNAL AUDIT PLANS FOR COUNCIL AND PENSION FUND ACCOUNTS (Agenda Item 5)

The External Auditor presented the outline audit plan, noting that it was shorter than a normal plan with a planning visit due in April; the next committee will receive an extensive audit plan.

The audit plan set out high level risks, as the audit was only recently signed for 2021, there had not been much movement. The Accounts Audit was due in September/October, the deadline for issuing the audit had previously been September, the target date was now 30th November and the report would be brought to the November meeting so that it could be signed off before the end of November.

The Committee noted that the key risks identified were around financial sustainability, the DSG deficit, and the OFSTED inspection to assess the impact on the council and value for money arrangements.

In response to questions and comments from members, the External Auditor confirmed that they were already engaged with the Finance Team, and would be selecting samples in April so that officers had time over the summer to find relevant evidence. The same officer from last year had been engaged to look at the sticking points from last year.

It was too early to say what impact the Russia/Ukraine situation would have, but conversations had started and that would be part of the audit process. All firms, would be working together to ensure consistency across the audit firms.

In response to further questions, the External Auditor responded that the sampling of data in the accounts would begin in April, the External Auditor would then extract data and while the management judgement areas which caused discussions and some disagreement last time have not changed, there may be different questions in different areas that could have an impact on this audit. CIPFA was consulting public bodies about whether The Council was required to do full work this year, or if the process would cease for this year. This may remove the need for some of the discussions from last year.

The External Auditor was unsure at this stage whether the FRC would look at their work however they had not yet confirmed whether the work relating to Merton had been selected.

### RESOLVED

That the Committee noted EY's updated Audit Results Report for the Pension Fund accounts and that the Committee noted EY's updated Audit Results Report for the Statement of Accounts.

## 6 INTERNAL AUDIT PLAN (Agenda Item 6)

The Head of Internal Audit presented the Internal Audit Plan, noting in particular that on the audit plan for this year, some of the audits were joint reviews with other councils. As a joint service we also align audits, this year we will align climate change, across the five boroughs.

In response to questions the Director of Corporate Services informed the Committee that the list of senior people in the report are contacts for governance rather than executive matters, but it would not prevent the Head of Internal Audit speaking to the Leader of the Council if she had concerns to bring to the Leader's attention.

RESOLVED: That the Committee reviewed and commented upon the 2022/23 Draft Internal Audit Plan, Strategy and Charter

## 7 INTERNAL AUDIT PROGRESS REPORT (Agenda Item 7)

The Head of Internal Audit presented the Internal Audit Progress Report, drawing the committee's attention to its 78% assurance at substantial or above. There are 7 limited assurance opinions provided, three of which have been previously reported. The latest 4 limited assurance reports are summarised in this report and include the management responses, and an update on progress of actions being implemented. Some schools which received limited assurance have actions still in progress.

The Head of Internal Audit highlighted the Priority 1 actions. There are 3 areas still making progress on implementations: Building Control will be implemented from April and will take 6 months; PCI compliance nearly there, waiting for the certificates to come through; and the pre-paid cards responses were delayed due to the recent OFSTED inspection, but we have now been informed that actions have been implemented.

In response to questions, the Head of Internal Audit informed the committee that the annual report which will be presented at the next meeting will include year on year comparisons and can include comparison to neighbours. The key financial areas are Cash and Bank, General Ledger, Payroll, which all achieving the substantial assurance. The limited assurance audit applies to service areas that we don't look at regularly due to our risk-based approach, where we focus audit work on areas of known concern or areas identified as high risk. Overall, the key financial systems, procurement, and IT would be expected to come out with substantial assurance. There was limited assurance on cyber security, although no priority 1s emerged, and all actions were implemented immediately. Internal Audit did not have more concerns this year than in previous years.

The Head of Internal Audit advised that there is a team within Finance with responsibility for managing school budgets and deficits which provides good oversight. Having audited in another Borough on monitoring of returns and deficits and a useful report with good recommendations came out, it is proposed to do the same for Merton next year.

The Assistant Director for Resources agreed to report to the Committee on the number of schools in the Borough with a deficit and the extent of the deficit.

The Head of Internal Audit confirmed that the Building Control team have responded to confirm they intend to meet the schedule of actions. Internal Audit will be checking progress on their Priority 1s.

The Director of Corporate Services confirmed to the Committee that if a school runs up debts, we can remove financial delegations from the schools if we have concerns over the way they are running their finances, though it is not something we do lightly.

RESOLVED – That the Committee considered and commented on the Internal Audit Progress Report

#### 8 UPDATE ON RIPA AUTHORISATIONS (Agenda Item 8)

There has been only one RIPA authorisation in the last year, in relation to an alleged theft of a blue badge, granted by a Magistrate at the end of February with surveillance for one month, which is about to expire.

RESOLVED: That the Committee noted the update.

#### 9 MEMBER TRAINING FOR THE NEW INTAKE (Agenda Item 9)

The Monitoring Officer presented the report and highlighted to the Committee that the proposed training also covers IT provision for new members. The welcome session has been moved from Saturday morning to Monday evening. Otherwise, the programme mirrors previous inductions – five sessions covering standards; safeguarding; community work; and training for planning and licensing as relevant.

It was proposed that all Councillors will be offered a laptop to be issued shortly after the election. It will be possible to use their own devices instead and to have Microsoft 365 and ModernGov software installed. Training will be arranged as required.

After laptops have been issued, members would move to a paper-free operational model for meetings, as standard, except where there were specific accessibility requirements and potentially paper versions of the extensive budget papers could be made available. Electrical sockets had now been installed under every other desk in the Chamber to ensure devices could remain charged during lengthy meetings.

Officers expected to assist more on information governance and retention periods than to date.

In response to questions from the Committee, the Monitoring Officer confirmed that dates for training had been agreed with group offices, but would re-confirm to allay concerns around potential clashes with group events planned over that period.



The Monitoring Officer confirmed that 'Keeping Our People Safe' is a combination of safeguarding children and adults, and corporate parenting comes under safeguarding children.

Outgoing councillors will be contacted to explain the process for returning equipment, passes and access to accounts, and managing the handover of casework. The Welcome evening would be an in-person event with further training sessions likely to follow a hybrid format where appropriate

Training feedback forms would incorporate a question on the preferred format for participants to ensure that members requirements were being met.

#### RESOLVED:

A. The Committee agreed the proposed member induction programme for 2022 set out in paragraph 2.2

B. The Committee agreed to the provision of electronic devices to all members and that papers will be circulated electronically unless there are specific accessibility reasons why members require printed copies.

C. The Committee agreed the main member induction event will take place on the evening of Monday 9 May 2022, subject to further confirmation with Group Offices.

#### 10 FREEDOM OF THE BOROUGH (Agenda Item 10)

The Monitoring officer reported that nominations for Cllrs Williams and Simpson to be awarded Freedom of the Borough have been submitted. The recommendation is to form a member working group, which would allow other nominations to come forward, to meet in July with a special council meeting later in the year to confer the honour.

The working group will need one member from each group, with groups to nominate a member.

RESOLVED: That a member working group would be established to consider the nominations of Councillor Simpson and Councillor Williams, together with any other nominations received for awarding Freeperson of the Borough Status.

#### 11 COMPLAINTS AGAINST MEMBERS (Agenda Item 11)

No complaints have been received

The Monitoring Officer suggested that in the future, a six monthly or yearly review of complaints that don't reach investigation might be of interest to the Committee.

12 WORK PROGRAMME (Agenda Item 12)

RESOLVED that the Work Programme was noted and agreed.

13 EXCLUSION OF PUBLIC (Agenda Item 13)

RESOLVED: That the public were excluded from the meeting during consideration of item 14 on the grounds that they were exempt from disclosure for the reasons stated in the reports.

14 TEMPORARY AND CONTRACT STAFF UPDATE (Agenda Item 14)

The Director of Corporate Services presented the report which provided an analysis of the use of agency and temporary contract staff. Members noted there had been an increase in the use of agency staff, and also an increase in additional functions and therefore additional funding, some of those roles, for example, those within the Track and Trace team would end at the end of March 2022 with 36 staff to go.

The Workforce Strategy Refresh looked at ways in which the Council could attract a more diverse workforce and ensure that a more diverse group of staff have the opportunity to progress within Merton.

In response to questions the Director confirmed that Merton 2030 had set aside £1million for projects, presented to Cabinet in November and January, which represents additional money for short term projects, but noted it was not for recruiting permanent staff.

The Director confirmed that we would reconsider use of the term BAME in the analysis of data, and this will be included in our refresh of the Equality Diversity and Inclusion strategy and this will come through the Commission and the Director was happy to take suggestions which would be welcome.

The Director agreed to circulate figures giving the percentage of temporary and agency staff to the Committee.

The Director confirmed that work was ongoing to fill roles in areas where we have traditionally struggled to recruit.

RESOLVED:

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

**London Borough of Merton**

**Auditor's Annual Report  
Year ended 31 March 2021**

**4 May 2022**

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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 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.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Section 1

# Executive Summary

# Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
<b>Opinion on the Council and Pension Scheme:</b>	
Financial statements	<p>Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2020/21.</p> <p>We issued our auditor’s report on 4 February 2022.</p>
Going concern	We have concluded that the Director of Corporate Services’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the Statement of Accounts 2020/21 and other information published with the financial statements	We concluded that financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited accounts.
Consistency of the Pension Fund annual report and other information published with the financial statements	Financial information in the Pension Fund Annual report and published with the financial statements was consistent with the audited accounts.
<b>Area of work</b>	
<b>Conclusion</b>	
<b>Reports by exception:</b>	
Value for money (VFM)	<p>We had no matters to report by exception on the Council’s VFM arrangements.</p> <p>We have included our VFM commentary in Section 04.</p>
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

# Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued an Audit Results Report dated 1 February 2022 to the Standards and General Purposes Committee.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed and has not yet been issued, and is not expected until July 2022 at the earliest.

## Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in a number of areas. As a result, we intend to agree an associated additional fee with the Director of Corporate Services. We include details of the final audit fees in Appendix 1.

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

*E. Jackson.*

Elizabeth Jackson

Associate Partner

For and on behalf of Ernst & Young LLP

Section 2

## Purpose and responsibilities



# Purpose and responsibilities

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This report summarises our audit work on the 2020/21 financial statements.

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## **Purpose**

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

## **Responsibilities of the appointed auditor**

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued on 11 March 2021. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

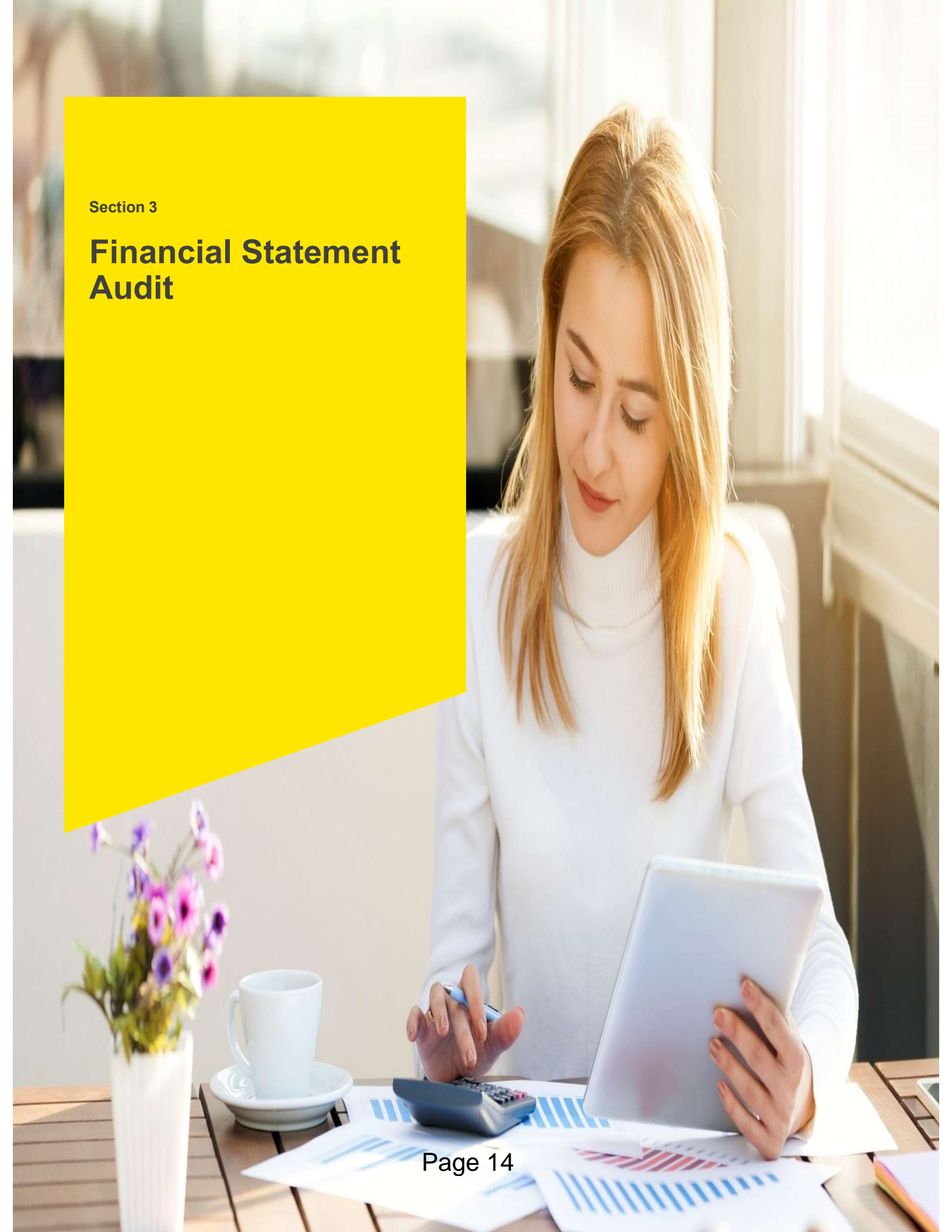
- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

## **Responsibilities of the Council**

The Council is responsible for preparing and publishing its financial statements and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

# Financial Statement Audit



# Financial Statement Audit – London Borough of Merton

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We have issued an unqualified audit opinion on the Council 2020/21 financial statements.

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## Key issues

The Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

On 4 February 2022, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 4 November 2021 Standards and General Purposes Committee meeting and provided an update at the meeting on 10 March 2022. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
<p><b>Misstatements due to fraud or error - management override of controls</b></p> <p>An ever present risk that management is in a unique position to commit fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>We did not identify any:</p> <ul style="list-style-type: none"><li>• material weaknesses in controls or evidence of material management override;</li><li>• instances of inappropriate judgements being applied; or</li><li>• any other transactions during our audit which appear unusual or outside the Council's normal course of business.</li></ul>
<p><b>Inappropriate capitalisation of expenditure</b></p> <p>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.</p>	<p>In response to the risk we:</p> <ul style="list-style-type: none"><li>• tested capital additions to ensure that the expenditure incurred and capitalised is clearly capital in nature; and</li><li>• sought 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.</li></ul> <p>In undertaking this testing we focused on the judgements taken by management.</p> <p>Our testing of capital additions identified no instances where expenditure had been inappropriately capitalised.</p>

Continued over.

# Financial Statement Audit – London Borough of Merton (continued)

Significant Risk	Conclusion
<p><b>Valuation of land and buildings</b></p> <p>Land and buildings is the most significant balance in the Council's balance sheet. The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements. We made use of our own professionally qualified valuation specialists to support our work in this area.</p>	<p>Significant changes were made to the carrying value of property, plant and equipment in the financial statements in the current and comparative years as a result of our work. Our work highlighted two significant issues with regards to the valuation of other land and buildings, specifically those valued at Depreciated Replacement Cost (DRC), which had a material impact on the carrying value disclosed within the financial statements:</p> <ul style="list-style-type: none"><li>• The incorrect application of amenity land value for undeveloped land in non-school assets; and</li><li>• The blanket use of discounted residential land rates to non residential assets valued at DRC. We also identified that the Council applied a discounted residential rate ("school land predominantly in a residential area") value per acre to all non residential assets within the same geographical area within the borough. Under RICS guidance the Council are required to consider each asset individually to determine the correct valuation basis, which could be a blended rate across locality types.</li></ul> <p>The correction of the two errors detailed above resulted in an increase to the carrying value of property, plant and equipment as follows:</p> <ul style="list-style-type: none"><li>• At the end of 2018/19 the total net book value of PPE increased by approximately £47.5million;</li><li>• At the end of 2019/20 the total net book value of PPE increased by a further £2.2million; and</li><li>• At the end of 2020/21 the total net book value of PPE increased by a further £5.2million</li></ul>
<p><b>Pension Asset and Liability valuation</b></p> <p>The Pension Fund asset and liability is a material balance in the Balance Sheet. 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.</p>	<p>There were two low value adjustments to the valuation of fund liabilities on Merton Pension Fund due to a late adjustment to the valuation of level 3 investments. As these netted off no adjustment was required to the Council's financial statements.</p>

Continued over.

## Financial Statement Audit – London Borough of Merton (continued)

In addition to the significant risks on the previous pages, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
<p><b>Going concern disclosures</b></p> <p>The Council is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Council's financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.</p>	<p>Management produced a going concern assessment which was supported by cash flow forecasts through to March 2023. We reviewed the cashflow for reasonableness and the assumptions that underpinned them. We also reviewed and further challenged the going concern disclosure made by the Council, checking for consistency with our knowledge of the Council and the accounts. We are satisfied that it is an adequate reflection of management's assessment that it remains appropriate to prepare the financial statements on a going concern basis.</p>
<p><b>Accounting for Covid-19 related grant funding</b></p> <p>The Council received government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in 2020/21.</p>	<p>Based on our work we were satisfied that the accounting treatment adopted for Covid-19 related government grants accorded with the Council's assessment of whether it was acting as agent or principal, the underlying conditions of the grant and whether those conditions had been met.</p> <p>Our testing highlighted adjustments of £2.7m where the Council had accounted for Covid-19 grants acting as agent but were in fact acting as principal.</p>

## Financial Statement Audit – London Borough of Merton (continued)

Other area of audit focus	Conclusion
<p><b>National Non-Domestic Rates (NNDR) Appeals Provision</b></p> <p>Statistics compiled by the Ministry for Housing, Communities and Local Government, reveal that authorities are forecasting net additions to appeal provisions totalling £927m for 20/21, and £1.2bn next year.</p> <p>The reason behind the forecast increase is that, due to the impact of Covid-19, businesses are likely to seek reductions based on a decrease in rental prices on which rateable values are based.</p>	<p>The collection fund contains a provision of £16.4m for the estimated cost of appeals against NNDR charges which may be settled in future years. The provision consists of £5.9m of threats, £6.6m of challenges from the 2017 appeals list and £3.9m from the 2010 appeals list. The Council's share of this provision is £4.9m (30%).</p> <p>We assessed managements expert, reviewed the inputs they used in formulating the provision and challenged management regarding the local adjustments they made to the outputs.</p> <p>Based on our work we are satisfied that the NNDR appeals provision is fairly stated.</p>

Continued over.

# Financial Statement Audit – London Borough of Merton (continued)

## Audit differences

We highlight the following misstatements which have been corrected by management that were identified during the course of our audit.

- Significant changes have been made to the carrying value of property, plant and equipment in the financial statements in the current and comparative years as a result of two issues identified as a result of our testing as documented within section 3 of this report.

Our audit also identified a limited number of minor disclosure misstatements which our team have highlighted to management for amendment. These have been corrected during the course of the audit and relate to disclosure and presentational matters in the accounts.

We also identified the following misstatements which were not been corrected by management:

- Capital Grants (S106 Grants) - We tested a sample of S106 agreements and with reference to Section 2.3 of the Code and determined which grants contained a condition and should be treated as a capital grant receipt in advance and those which contained restrictions and should be transferred to the capital grants unapplied reserve. Our testing highlighted a number of agreements that had been accounted for as a Capital grant receipts in advance where there were no conditions present and as such should be transferred to the capital grants unapplied reserve. The Council has made an adjustment of £1.8m as a result of the factual misstatement. Additionally there is an unadjusted extrapolated difference of £3.9m.
- Our testing of property plant and equipment identified a number of judgmental differences between the Council's valuer and EYRE, our internal specialist. When reviewing assets valued at DRC we noted that the Council applied a total useful life (TEL) of one hundred years when calculating obsolescence of the asset, whereas our internal specialist considered forty to sixty years to be more appropriate. When this was extrapolated across the relevant population this resulted in an immaterial £1.5m judgmental understatement of PPE. Our testing also highlighted differences in the assumed rental income for a number of properties valued at existing use value. When the differences in rent were applied to the population this resulted in a judgmental understatement of the PPE balance of £1.7m. The total £3.2m extrapolated understatement of PPE in relation to the two judgmental differences identified above is immaterial to the financial statements and therefore does not impact on the audit report.

Management decided not to adjust for these audit differences on the grounds of materiality and included their justification in the letter of representation.

## Financial Statement Audit – London Borough of Merton (continued)

### Our application of materiality

When establishing our overall audit strategy, we determined the magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
<b>Planning materiality</b>	We determined planning materiality to be £10.0m as 1.8% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
<b>Reporting threshold</b>	We agreed with the Standards and General Purposes Committee that we would report to the Committee all audit differences in excess of £0.5m.



# Financial Statement Audit – Merton Pension Fund

On 4 February 2022, we issued an unqualified opinion on the Pension Fund accounts. We reported our detailed findings to the 4 November 2021 Standards and General Purposes Committee meeting and provided an update at the meeting on 10 March 2022. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant Risk	Conclusion
<p><b>Misstatements due to fraud or error</b> The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>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.</p> <p>We have considered where this risk manifests and we consider this to be in the manipulation of Investment income and valuation of assets.</p>	<p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied and did not identify any other transactions during our audit which appeared unusual or outside the Fund's normal course of business.</p>
Other area of audit focus	Conclusion
<p><b>Valuation of private debt and infrastructure investments</b> We consider the valuation of Level 3 investments to be of a higher degree of inherent risk due to the unobservable inputs making up the valuations.</p>	<p>Management made a late adjustment to the financial statements to increase the value of Level 3 investments by £1.4m. This was to ensure the financial statements agreed to updated information received from Private market investments and no other issues were noted.</p>
<p><b>Going Concern</b> There is a presumption that the Fund will continue as a going concern for the foreseeable future. In light of the continued impact of Covid-19 there is a need for the Fund to ensure its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive</p>	<p>We are satisfied with management's assessment that it is appropriate for the financial statements to be prepared on a going concern basis which is reasonable and supported by evidence, including a cashflow forecast, for the foreseeable future</p>

Continued over.

## Financial Statement Audit – Merton Pension Fund (continued)

### Audit differences

There were no audit differences greater than £6.8m which have been corrected by management or other specific misstatements identified during the course of our audit which we wish to draw to your attention.

Two lower value audit differences above relating to amendments to valuation of investment assets, and a number of disclosure amendments were made as a result of our work.

There were no uncorrected audit differences.

### Our application of materiality

When establishing our overall audit strategy, we determined the magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
<b>Planning materiality</b>	We determined planning materiality to be £9.0m as 1% of net assets reported in the accounts which is consistent with the prior year.
<b>Reporting threshold</b>	We agreed with the Standards and General Purposes Committee that we would report to the Committee all corrected differences above £6.8m and all uncorrected audit differences in excess of £0.45m.

Section 4

## Value for Money

# Value for Money (VFM)

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We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

## Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the Standards and General Purposes Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, and evaluation of associated documentation through our regular engagement with management and the finance team

We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

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We had no matters to report by exception in the audit report.

## Reporting

We completed our planned VFM arrangements work on 4 February 2021 and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

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Our VFM commentary highlights relevant issues for the Council and the wider public.

## VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- Financial sustainability  
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance  
How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:  
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

## Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

## Financial sustainability

*How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them*

An annual Business Plan, including a medium term financial plan (MTFP) is produced and reported to Cabinet by the S151 officer. The preparation of the MTFP is an ongoing process which engages officers, members and the public on a cyclical basis to continuously update the medium-term position of the Council once new information becomes available.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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Each year, the Council will then consider the opportunities for savings and growth to the initial MTFP. This is broken down in the different Council services which guide their wider strategy.

The annual Business Plan brings to together local and national strategies and is underpinned by individual service plans. Business Planning and financial planning frameworks are closely aligned and integrated.

In addition to this, the Council's Corporate Management Team are fully engaged in budget development to ensure a comprehensive package is developed. Significant financial pressures are then closely monitored and identified as part of on-going revenue monitoring with quarterly financial reporting to Cabinet.

## Financial sustainability (continued)

### How the body plans to bridge its funding gaps and identifies achievable savings

Budget planning is an ongoing process, usually starting in April each year, with a detailed timetable agreed by Cabinet. Officers then work on refining the underlying service plans and MTFP assumptions and developing budget proposals to deliver a sustainable budget that includes a Council tax strategy. This will prompt further dialogue between members and officers and once a sustainable plan has been identified, this is then put out for public consultation, after which Cabinet will formulate a final balanced budget.

Savings proposals are produced annually, by service and monitored on a monthly basis at Cabinet. Savings proposals are fully consulted on with staff and impact assessments scrutinised before implementation.

For 2020/21, the final outturn position for the General Fund Revenue position was an underspend, after covid funding, of £8.6m. This balance was transferred to reserves.

### How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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The Council's policy is to hold a General Fund Balance at £14m going forwards following an annual risk assessment as part of the Business Plan process in February 2021. The Council deem the new level to be a generally accepted and appropriate level for the Council. The S151 officer then determines whether the estimates are sufficiently robust to allow the Council to set the Revenue Budget and Capital Programme.

Alongside this, the annual Business Plan process involves two-way communication and collaboration with services and lead members. The strategic aims of each service are interlinked with the financial budget projections for the 4-year Business Plan timescale.

The next step for the Council is to start looking forward to future years as the financial gap becomes more significant so more strategic initiatives, focusing on prevention, need to be established early so savings can be delivered in 2023/24.

## Financial sustainability (continued)

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The Council's Business Plan is structured in a way to combine and capture all of the Council's strategic plans. This process is embedded across the Council from service submissions, to challenge sessions, formal member meetings, consultations with staff and the wider scrutiny processes.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Budget monitoring is completed each month. Any budget variations are supported by demand data or key performance data and this information is used as the starting point for the following years budget. Any emerging pressures identified are included in the Integrated Planning process. This is reported formally to Cabinet on a quarterly basis.

The Council holds a number of contingency reserves for in year unplanned events. As part of the business planning cycle, these are reviewed taking account of the external environment, internal known challenges and the level of savings needing to be delivered in year. This currently includes uncertainties in respect of Covid-19, spending review timing and dedicated schools grant deficits. The council holds its General Fund balance to be used if the annual contingency is not sufficient to meet in year operational overspends and other unforeseen pressures.

As part of the Integrated Plan approved in February 2021 the level of the General Fund balance was reviewed and set at £14m.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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## Governance

### How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Leader of the Council is responsible for approving the Council's Corporate Risk Management Strategy and for reviewing the effectiveness of risk management. The Chief Executive's Leadership Team is responsible for implementing the Corporate Risk Management Strategy throughout the Council. Members are responsible for ensuring that there are appropriate processes in place for effective risk management.

The Standards and General Purposes Committee has overall responsibility for promoting corporate governance and ensuring controls are adequate and working effectively. The Committee is also concerned with the promotion and maintenance of high standards of conduct within the council, the enforcement of the Member Code of Conduct and advising the council on ethical governance matters.

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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The Council maintains risk registers, including corporate risk registers which are reviewed. The Standards and General Purposes Committee receives and considers reports on the Council's overall risk management arrangements and also receives reports on specific risk issues that are considered worthy of individual reporting by Internal Audit or the officers of the Council.

The Standards and General Purposes Committee approves the Internal Audit Plan and receives regular updates on progress against the plan as well as copies of the final reports for individual review as required. The Committee considers the overall annual opinion on internal control provided by the Internal Audit Service along with the opinions on the Council's accounts provided by External Audit.

The Head of Assurance's Annual Report on the internal control environment, prepared in accordance with the Public Sector Internal Audit Standards, provides an independent opinion on the adequacy and effectiveness of the Council's system of internal control in respect of its financial and non-financial systems.

The Council also receives Counter Fraud Progress Reports which outline how the service prevent, detect and deter fraud, both internally and externally.

The Council maintains a wide-ranging constitution which sets out how the Council functions, the decision-making processes in place and the procedures which are followed to ensure that decisions are responsible, effective and transparent.



## Governance (continued)

### How the body approaches and carries out its annual budget setting process

The Annual Budget process including the responsibilities and procedures in the annual budget process is set out within the Constitution of the Council.

The Business Plan process has a structure and timetable which is comparable year on year, however the underlying strategic goals and challenges can change drastically between years dependent on pressures and strains by department.

The Business and financial planning of the Council is fully integrated with financial and non financial plans being considered together. Both are also fully linked to the Council's priorities, helping it achieve its strategic aims within the resources available.

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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Source: LBM Business Plan 2022-26

Cabinet agree draft proposals in December each year. After this the plans are taken to various scrutiny committees within the Council to challenge and provide comment before the final Business Plan is approved by Cabinet at the end of February.

## Governance (continued)

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.

The Council's constitution details the responsibility for providing appropriate financial information is with the S151 Officer. It further details the processes and procedures required to report this information to Cabinet.

In practice budget and performance reports are monitored monthly by Cabinet. Furthermore Council and sub-committees receive information as required. Below that, processes and systems are in place to address the different components for budgetary control at a service level and reported and monitored throughout the Council regularly.

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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Our audit of the 2020/21 Accounts identified a number of issues with the valuation of assets owned by the Council. Significant amendments were required to the valuation in the current and prior years. The Council worked proactively with the EY valuer to revise the valuations at year end and improvements have been made for the valuation process in 2021/22.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.

The Council has a committee structure to allow it to make informed decisions, these are supported by a number of scrutiny and overview committees as described, notably the Standards and General Purposes Committee and an Overview and Scrutiny Commission and panels with terms of reference as defined within the constitution.

The Council's constitution includes guidelines on how decisions need to be made and by whom. On the council's website there is the Forward Plan of key decision and a record of decisions made.

The Forward Plan is a list of the Council's Key Decisions that will be made over the month, published on the Council's website. Key decisions such as budgets and the Business Plan are subject to several layers of scrutiny prior to approval and implementations. Decisions made at Cabinet, Council and Committee meetings are recorded for future reference. This can be evidenced through the published Committee papers and minutes.

## **Governance (continued)**

*How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).*

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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The Council maintains a Code of Corporate governance which sets out and ensures appropriate legislative and regulatory requirements were met. The Council also has a clear constitution which sets out the policies such as the Council's Code of Conduct (for officer's and member's) providing advice on the disclosure of gifts and hospitality as well as other interests. This extends to dealing with allegations of breach of the Code and ensures that Members of the Council have access to training and advice on the Code of Conduct.

To ensure that concerns or complaints from the public can be raised, the Council has an established formal complaints policy which sets out how complaints can be made, what should be expected and how to appeal. An annual complaints report is presented to Standards and General Purposes Committee. There is a formal process to deal with Freedom of Information requests and Subject Access requests. In 2021/22, revised Code of Conduct training sessions will be provided to members on the requirement of the revised Code of Conduct.

Any issues, for example from whistle-blowing processes or complaints, are investigated in accordance with agreed processes and/or referred to Internal Audit or the Monitoring Officer, as appropriate. Councillors are required to complete and update Registers of Interest which are available on the Council's public website.

## **Improving economy, efficiency and effectiveness**

*How financial and performance information has been used to assess performance to identify areas for improvement.*

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The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

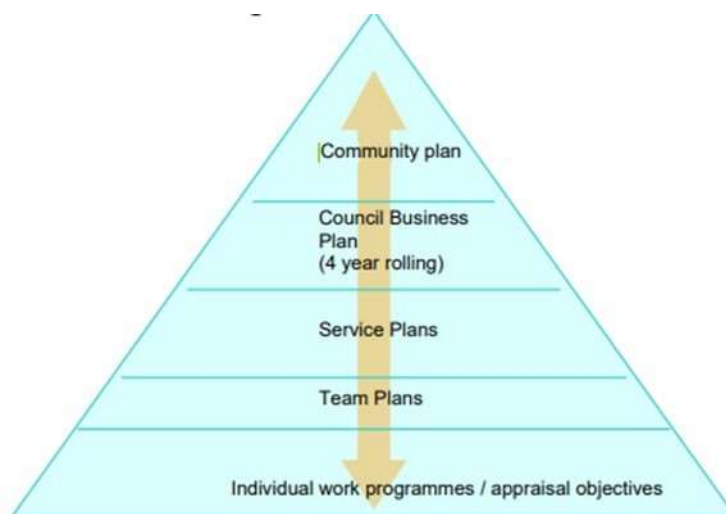
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The Council receives reports on performance in key areas which outline the current performance against planned targets and outcomes and highlight any instances of overspend or underspend and over or under performance against service expectations.

Each service undertakes annual assessments of their performance, and benchmarks where possible. This assessment by each portfolio is included in the detailed service assessment that forms part the Business Plan. These assessments then form the budget bids and challenge around each portfolio to ensure the most efficient decisions are made on where to invest the local taxpayer's money.

The Council's Annual Report and Annual Governance Statement also set out the review of performance for the year.

The performance management framework included within the Business Plan highlights the Golden Thread, demonstrating the link between the Community Plan to that of individual work programmes and targets.



Source: LBM Business Plan 2022-26

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The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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### How the body evaluates the services it provides to assess performance and identify areas for improvement

The Council publishes an Annual Report which summarises significant developments and achievements for the period. The report sets out how the Council's finances have been applied to meet its priorities and also outlines some of the potential challenges and opportunities it will face in the coming year.

Corporately the Council receives benchmarking information from a number of sources, including CIPFA, the government department that was MHCLG (via published returns) and other sector specialists.

In addition, the Council is subject to external reviews from bodies such as the Care Quality Commission and Ofsted, which provide insight into the performance and effectiveness of key services provided by the Council.

## Improving economy, efficiency and effectiveness (continued)

*How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve*

The Council partners with a range of external organisations to consult on and deliver services. The Merton Partnership and its thematic Boards and working groups provide a mechanism for the Council to engage with key stakeholders, bringing together the public, private and community and voluntary sectors. This partnership will play a key role in delivering the Merton 2030 strategic framework and the latest priorities in the Community Plan 2020-26. Most of the Partnership Boards meet at least quarterly and all have clear governance arrangements.

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The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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As part of the Business Plan process, in accordance with statute, a consultation is run with ratepayers each year. This consultation gathers information from residents to understand their views on priorities and performance. The Council also conducts a number of other consultations and focus group events on a wide variety of areas throughout the year.

*How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.*

The Council's Constitution sets out the standing orders on procurement and contracts. The Council has also developed a Procurement Strategy for 2021-2022 which sets out the framework in which the Council will work to ensure it delivers value for money across all services to contribute to achieving its strategic goals. There are also additional requirements set out in the Council's Code of Conduct and the Council's Financial Regulations.

Alongside national and international procurement law, these regulations provide the legislative backdrop to the Council's procurement activities.

Each contract, where appropriate, has a set of key performance indicators and the monitoring of these and benefit of delivery is addressed throughout the contract lifecycle through contract management meetings and actions.

A photograph of a business meeting. A woman with blonde hair is leaning over a wooden table, looking at a document. Other people in business attire are visible around the table. A large yellow rectangular overlay covers the left side of the image.

Section 5

## Other Reporting Issues

## Other Reporting Issues

### **Governance Statement**

We are required to consider the completeness of disclosures in the Council's governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

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

### **Whole of Government Accounts**

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 20/21 is yet to be issued. We will liaise with the Council to complete this work as required.

### **Report in the Public Interest**

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### **Other powers and duties**

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

## Other Reporting Issues (continued)

### **Control Themes and Observations**

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls. However, we do have the following recommendations made during the course of the audit.

### **Council Tax and NNDR Debtors**

When undertaking the testing of council tax and NNDR Debtors we identified unreconciled differences between the Civica system and the general ledger. Whilst the balances were not material, council tax £0.9m and NNDR £1.4m, these differences have increased in 2020/21 and we would expect a full reconciliation to be undertaken routinely throughout the year.

**Recommendation** - The Council should investigate the underlying reason and fully reconcile the debtor differences between Civica and the general ledger.

### **Property plant & equipment (PPE)**

As reported above our audit testing highlighted a number of issues with the valuation of property, plant and equipment included within the financial statements. Our work highlighted material differences in the valuation of developed land values and the incorrect application of amenity land values to property assets valued at depreciated replacement cost. This resulted in the Council having to restate prior year balances and increased the value of PPE at 31 March 2021 by £54.9m from that included within the draft financial statements. There were a number of other observations resulting in immaterial judgmental differences in relation to the calculated market rents for assets valued at depreciated replacement cost and using the incorrect obsolescence factor on assets valued at existing use value.

### **Recommendation**

The Council should review the findings from the current year audit and apply them to future years valuations. We would also encourage additional engagement with their specialists, the District Valuer, regarding the assumptions they have used when revaluing assets at depreciated replacement cost. This is in addition to the procedures they already engage with them on for assets valued at fair value and existing use value.



Appendix A

## Audit Fees

## London Borough of Merton Audit Fees

The scale fee has been re-assessed to take into account a number of risk factors which includes procedures performed to address risks and additional work to address increase in Regulatory standards.

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
<b>Scale Fee – Code work</b>	110,493	110,493	110,493
Planned recurrent fee variation reflecting the underlying level of additional risk at the Council (see Note 1)	109,103	102,541	39,792
Risk Based fee variations (see note 2)	34,867	TBC	42,648
Code of Audit Practice 2020 and updated auditing and accounting standards 2020/21 (see note 3)	15,978	-	-
<b>Total Fee – Code Work</b>	<b>269,991</b>	<b>TBC</b>	<b>192,934</b>

We confirm we have not undertaken any non-audit work.

Final Fee 2019-20 – this has now been determined by PSAA at the levels included in the table above. We requested additional fee for 2019/20 of £138,841 and the amount shown in the table is the fee approved by PSAA in relation to this.

Final Fee 2020-21 – based on the recent determination of the 2019-20 audit fee we are in the process of determining the position for 2020-21. We will discuss this fee with Management before it is submitted to PSAA.

Note 1 - In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we undertook additional work at a fee of £117,298 to deliver the audit in 2020/21 and we expect to reoccur in subsequent years.

Note 2 - We are yet to fully quantify the 2020/21 risk based fee variations and agree them with the Council. We will provide an update in due course. This will include the extensive valuation work by EYRE and consultation for the prior period adjustment.

Note 3 - The impact on audit fees of the new requirements in the Code of Audit Practice 2020 and new or updated auditing and accounting standards for 2020/21 audits as set out in the Additional information for 2020/21 audit fees issued by PSAA in August 2021. This paper sets out agreed fee ranges for the new requirements. For London Borough of Merton we determined this to be £10,021 for VFM and £5,597 in relation to the new estimates standard ISA540. This amount will recur in 2021/22.

## Merton Pension Fund Audit Fees

The scale fee has been re-assessed to take into account of a number of risk factors which includes procedures performed to address risks and additional work to address increase in Level 3 Investments. The additional fee for 2019/20 has been discussed with management and remains subject to approval by PSAA Ltd.

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
<b>Scale Fee – Code work</b>	16,170	16,170	16,170
Planned recurrent fee variation reflecting the underlying level of additional risk (1)	35,397	28,290	9,900
Additional fee for IAS19 work on the 2019 triennial valuation of the Fund (2).	-	-	9,000
Going concern and PBSE assessments and disclosures including EY consultations (3)	3,703	2,000-6,000	2,900
<b>Total Fee – Code work</b>	<b>55,270</b>	<b>TBC</b>	<b>37,970</b>

We confirm we have not undertaken any non-audit work.

Final Fee 2019-20 – this has now been determined by PSAA at the levels included in the table above.

Final Fee 2020-21 – based on the recent determination of the 2019-20 audit fee we are in the process of determining the position for 2020-21.

1. We remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to do to meet regulatory requirements. In our view the scale fee for the Merton PF audit should be increased by £35,397.
2. IAS19 work is to provide assurance to the auditor of the LB Merton. These additional fees are not subject to approval from PSAA and for 2019/20 (where there was additional work on the triennial data) we have agreed fees with management.
3. The 2020/21 additional fees have been discussed with management but are subject to PSAA approval.

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# London Borough of Merton

## Audit planning report

Year ended 31 March 2022

9 June 2022

9 June 2022



London Borough of Merton  
Standards and General Purposes Committee  
Civic Centre  
Morden  
SM4 5DX

Dear Committee Members

Audit planning report

We are pleased to attach our audit planning report for the forthcoming meeting of the Standards and General Purposes Committee. The purpose of this report is provide the Committee with a basis to review our proposed audit approach and scope for the 2021/22 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 Committees' 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 21 July 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

*E. Jackson.*

Elizabeth Jackson, Associate Partner  
For and on behalf of Ernst & Young LLP  
Encl

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	06	Audit team	07	Audit timeline	08	Independence	09	Appendices	

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 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 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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01

# Overview of our 2021-22 audit strategy





# Overview of our 2021/22 audit strategy

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

## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud and error	Fraud risk / Significant risk	No Change in risk or focus	<p>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.</p> <p>In addition to our overall response, we consider where these risks may manifest themselves and identify separate fraud risks as necessary below.</p>
Inappropriate capitalisation of revenue expenditure	Fraud risk / Significant risk	No Change in risk or focus	<p>Linked to the risk of 'misstatements due to fraud and error', inappropriate revenue or expenditure recognition would most likely be affected through the override of controls.</p> <p>This risk manifests itself in areas where management makes judgements that impact the General Fund balance through determining whether items of expenditure are financed from capital or revenue resources.</p> <p>As such we associate this risk with capital additions and Revenue Expenditure Funded from Capital Under Statute (REFCUS).</p>
Risk of fraud in revenue and expenditure recognition – Covid-19 Grants	Fraud risk / Significant risk	New risk for 2021/22	<p>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 the accounting for Covid-19 related grant income as a specific area where revenue may be inappropriately recognised.</p>

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Valuation of Land and Buildings - PPE valued under Depreciated Replacement Cost (DRC) and Existing Use Value (EUV)/Fair Value (FV)	Significant risk	No change in risk or focus	<p>The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Authority's accounts and is subject to valuation changes, impairment reviews and depreciation charges.</p> <p>The valuation of these assets is reliant upon expert valuations based on information provided by the Authority. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Errors within the judgements, assumptions or information provided to the valuer can have a material impact on the financial statements.</p> <p>As a result of our work last year we identified errors which resulted in material amendments to the valuation of property, plant and equipment within the financial statements of the Authority. As such, the valuation of land and buildings remains a significant audit risk.</p>
National Non-Domestic Rates (NNDR) Appeals Provision	Inherent risk	No change in risk or focus	<p>Statistics compiled by the Department for Levelling Up, Housing and Communities (DLUHC), reveal that councils are forecasting net additions to appeal in the coming years. The reason behind the forecast increase is that, due to the impact of Covid-19, businesses are likely to seek reductions based on a decrease in rental prices on which rateable values are based.</p> <p>In light of this we consider there to be a higher inherent risk of misstatement of the Authority's NNDR appeals provision.</p>

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## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Going Concern Page 47	Inherent Risk	No change in risk or focus	<p>There is a presumption that the Authority will continue as a going concern for the foreseeable future. However, the Authority is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 during 2021/22 there is a need for the Authority to ensure its going concern assessment, including its cashflow forecast, is robust and appropriately comprehensive.</p> <p>The financial landscape for the Council remains challenging and it will again need to undertake a going concern assessment covering a period up to 12 months from the expected date of final authorisation. It will also need to make an appropriate disclosure in the financial statements. In addition, the revised auditing standard on going concern requires additional challenge from auditors on the assertions being made by management.</p>
Valuation of defined benefit pension scheme	Inherent Risk	No change in risk or focus	<p>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.</p> <p>The Council's pension liability is a material estimate and is required to be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued by the Pension Fund actuary to the Council. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on its behalf.</p> <p>We are required to undertake procedures on the use of the use of the actuary as management's expert and the assumptions underlying fair value estimates.</p>

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## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Infrastructure Asset Valuation	Area of Focus	New Inherent risk	<p>In March 2022, an issue was raised with the National Audit Office's Local Government technical network in relation to the accounting for infrastructure assets. Under the CIPFA Code of Local Authority Accounting, these assets are held at depreciated historic cost. Following more detailed consideration by auditors this year, it has been identified that although local authorities add expenditure incurred on replacing or enhancing such assets, most do not appear to be reviewing the Code requirement to establish whether this spend is a replacement of an asset, or a recognised component, and therefore, are not derecognising the old asset or component. As a consequence the gross cost and gross accumulated depreciation is therefore continually increasing, and the balance sheet may be misstated where the expenditure is a replacement for an asset/component that is not fully depreciated.</p> <p>CIPFA has established a task and finish group to address this. The group will consider the issues arising and how it might assist in their resolution. Such assistance may take the form of producing additional guidance and/or making amendments to the Code of Local Authority Accounting on the matter.</p> <p>We will engage with management to assess the impact of the issue on the Council's accounts.</p>

## Auditing accounting estimates

International Standard on Auditing (UK) (ISA (UK)) 540, which has recently been revised, deals with the auditor's responsibilities relating to accounting estimates and related disclosures in an audit of financial statements. Specifically, it includes detailed requirements and guidance that refer to other relevant ISAs (UK) applied in relation to accounting estimates and related disclosures. It also includes requirements and guidance on the evaluation of misstatements of accounting estimates and related disclosures, and indicators of possible management bias. We are required to comply with the requirements of the revised ISA (UK), undertake detailed work to understand the material estimates used by the Council to prepare its financial statements, and challenge and test the data and assumptions that underpin them. Due to the specialised nature of some of the estimates made by the Council, for example those relating to PPE and IP valuation and assessment of the IAS 19 pensions liability, the input of appropriately qualified and experienced specialists is required to support our work.

# Overview of our 2021/22 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 London Borough of Merton give a true and fair view of the financial position as at 31 March 2022 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.

We will provide an update to the Standards and General Purposes Committee Members on the results of our work in these areas in our report to those charged with governance which we currently expect to issue in November 2022.

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 complex investment assets, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years. Therefore to the extent any of these are relevant in the context of the London Borough of Merton audit, we will discuss these 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.

<p>Misstatements due to fraud or error*</p>	<p><b>What is the risk?</b></p> <p>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.</p> <p>We identify and respond to this risk on every audit engagement.</p>	<p><b>What will we do?</b></p> <ul style="list-style-type: none"> <li>• Inquire of management about risks of fraud and the controls put in place to address those risks.</li> <li>• Understand the oversight given by those charged with governance of management's processes over fraud.</li> <li>• Consider of the effectiveness of management's controls designed to address the risk of fraud.</li> </ul> <p>Perform mandatory procedures regardless of specifically identified fraud risks, including:</p> <ul style="list-style-type: none"> <li>• Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>• Assessing accounting estimates for evidence of management bias, and</li> <li>• Evaluating the business rationale for significant unusual transactions.</li> </ul> <p>We will utilise our data analytics capabilities to assist with our work.</p> <p>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.</p>
<p><b>Financial statement impact</b></p> <p>Misstatements that occur in relation to the risk of fraud due to management override could affect a number of areas of the financial statements.</p>		

## Our response to significant risks (continued)

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.

	What is the risk?	What will we do?
<p data-bbox="120 440 499 496">Inappropriate capitalisation of revenue expenditure*</p> <p data-bbox="103 699 136 863" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 52</p> <p data-bbox="120 802 472 831">Financial statement impact</p> <p data-bbox="109 853 537 1171">If revenue transactions were financed from capital resources, this would have the impact of understating revenue expenditure (causing the general fund to be overstated) and overstating capital additions and/or Revenue Expenditure Funded from Capital Under Statute (REFCUS) in the financial statements.</p>	<p data-bbox="584 467 1171 722">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.</p> <p data-bbox="584 742 1176 866">Linked to the risk of 'misstatements due to fraud and error', inappropriate revenue or expenditure recognition would most likely be affected through the override of controls.</p> <p data-bbox="584 885 1167 1042">This risk manifests itself in areas where management makes judgements that impact the general fund balance through determining whether items of expenditure are financed from capital or revenue resources.</p> <p data-bbox="584 1061 1176 1153">As such we associate this risk with capital additions and Revenue Expenditure Funded from Capital Under Statute (REFCUS).</p>	<p data-bbox="1207 467 1301 496">We will:</p> <ul data-bbox="1207 510 2085 738" style="list-style-type: none"> <li>• test a sample of capital additions. We will examine invoices, capital expenditure authorisations and other evidence that supports the appropriateness of these additions. We will ensure that the items are capital in nature, and do not include revenue items; and</li> <li>• test a sample of expenditure classified as REFCUS to ensure that it meets the definition in the Local Government Act 2003 and related regulations and directions.</li> </ul> <p data-bbox="1207 786 2016 879">We will utilise our data analytics capabilities to assist with our work through identifying high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.</p>



## 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.

<p>Risk of fraud in revenue and expenditure recognition *</p>	<p><b>What is the risk?</b></p>	<p><b>What will we do?</b></p>
<p>Financial statement impact</p> <p>53 Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.</p>	<p>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.</p> <p>We have considered the income and expenditure streams of the Council and our assessment is that the risk is most prominent with regards to inappropriate recognition of Covid-related grant funding, including incorrect identification of whether the Council is acting as the principal or an agent and whether any associated terms and conditions were met prior to recognition.</p>	<ul style="list-style-type: none"> <li>• Review the accounting treatment of new Covid-related grants to confirm that they have been correctly accounted for as either a principal or agent arrangement.</li> <li>• Test a sample of Covid-19 related grants to ensure that any terms and conditions were met prior to recognition as income.</li> </ul>

## Our response to significant risks (continued)

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

	What is the risk?	What will we do?
<p data-bbox="118 419 504 448">Valuation of land and buildings</p> <p data-bbox="118 783 470 812">Financial statement impact</p> <p data-bbox="103 842 504 997">Misstatements that occur in relation to the valuation of land and buildings could lead to an under or overstatement of asset values on the balance sheet</p>	<p data-bbox="577 435 1164 592">The fair value of land and buildings represents a significant balance in the Council's financial statements and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p data-bbox="577 616 1155 836">Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. 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.</p> <p data-bbox="577 860 1164 1016">In 2020/21 Significant changes were made to the carrying value of property, plant and equipment in the financial statements in the current and comparative years as a result of our work. Our work highlighted</p> <ul data-bbox="577 1024 1164 1181" style="list-style-type: none"> <li>• The incorrect application of amenity land value for undeveloped land in non-school assets; and</li> <li>• The blanket use of discounted residential land rates to non residential assets valued at DRC.</li> </ul> <p data-bbox="577 1233 1164 1390">At the end of 2018/19 the total net book value of PPE increased by approximately £47.5million, with a further £2.2million increase in 2019/20 and a further increase of £5.2million in 2020/21.</p>	<p data-bbox="1205 435 1301 464">We will:</p> <ul data-bbox="1205 504 2112 1257" style="list-style-type: none"> <li>• consider the competence, capability and objectivity of the Council's valuers;</li> <li>• consider the scope of valuers' work;</li> <li>• ensure L&amp;B assets have been revalued within a 5 year rolling programme as required by the Code;</li> <li>• consider if there are any specific changes to assets that should have been communicated to the valuer(s);</li> <li>• sample test key inputs used by the valuer(s) when producing valuations;</li> <li>• consider the results of the valuers' work;</li> <li>• challenge the assumptions used by the Council's valuers by reference to external evidence and our EY valuation specialists (where necessary);</li> <li>• test journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements;</li> <li>• test a sample of assets revalued in year to confirm that the valuation basis is appropriate and the accounting entries are correct;</li> <li>• review any assets that are not subject to valuation in 2021/22 to confirm the remaining asset base is not materially misstated (at the time of writing we expect all relevant assets to be valued in the year); and</li> <li>• ensure the appropriate disclosure has been made in the accounts in relation to any valuation uncertainty.</li> </ul>

## Other areas of audit focus

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

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

#### National Non-Domestic Rates (NNDR) Appeals Provision (Inherent risk)

Statistics compiled by the Ministry for Housing, Communities and Local Government, reveal that councils are forecasting net additions to appeal in the coming years. The reason behind the forecast increase is that, due to the impact of Covid-19, businesses are likely to seek reductions based on a decrease in rental prices on which rateable values are based.

In light of this we consider there to be a higher inherent risk of misstatement of the Authority's NNDR appeals provision.

#### Going Concern Disclosure (Inherent risk)

There is a presumption that the Authority will continue as a going concern for the foreseeable future. However, the Authority is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 during 2021/22 there is a need for the Authority to ensure its going concern assessment, including its cashflow forecast, is robust and appropriately comprehensive.

The financial landscape for the Council remains challenging and it will again need to undertake a going concern assessment covering a period up to 12 months from the expected date of final authorisation. It will also need to make an appropriate disclosure in the financial statements. In addition, the revised auditing standard on going concern requires additional challenge from auditors on the assertions being made by management.

### What will we do?

We will consider the Council's estimation of the NNDR appeals provision by performing the following:

- Review the assumptions made by the Council's NNDR appeals provision specialist Analyse Local;
- Assess the reasonableness of any local adjustments made by the Council on the NNDR appeals provision.

We will meet the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Council's going concern assessment and its disclosure in the accounts by:

- Challenging management's identification of events or conditions impacting going concern.
- Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- Reviewing the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern.
- Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.
- Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties.

## Other areas of audit focus (continued)

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

What is the risk/area of focus?	What will we do?
<p><u>Valuation of defined benefit pension scheme</u> (Inherent risk)</p> <p>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.</p> <p>The Council's pension liability is a material estimated balance and is required to be disclosed on the Council's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued by the Pension Fund actuary to the Council. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on its behalf. We are required to undertake procedures on the use of the use of the actuary as management's expert and the assumptions underlying fair value estimates.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• liaise with the auditors of Merton Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council's scheme members;</li> <li>• assess the work of the LGPS Pension Fund actuary 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;</li> <li>• review Merton Pension Fund's financial statements and compare the year end asset value with the estimate used by the actuary when producing the Council's IAS 19 report; and</li> <li>• review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.</li> </ul>
<p><u>Infrastructure asset valuation</u> (Inherent risk)</p> <p>In March 2022, an issue was raised with the National Audit Office's Local Government technical network in relation to the accounting for infrastructure assets. Under the CIPFA Code of Local Authority Accounting, these assets are held at depreciated historic cost. Following more detailed consideration by auditors this year, it has been identified that while local authorities add expenditure incurred on replacing or enhancing such assets, most do not appear to be reviewing the Code requirement to establish whether this spend is on a replacement of an asset, or a recognised component, and therefore, are not derecognising the old asset or component. As a consequence the gross cost and gross accumulated depreciation is continually increasing, and the balance sheet may therefore be misstated where the expenditure is a replacement for an asset/component that is not fully depreciated.</p>	<p>CIPFA has established a task and finish group to further consider this issue. The group will consider the issues arising and how it might assist in their resolution. Such assistance may take the form of producing additional guidance and/or making amendments to the Code of Local Authority Accounting on the matter.</p> <p>We will engage with management to assess the impact of the issue on the Council's accounts, also considering any additional guidance or changes to the Code of Local Authority Accounting following completion of the review by the CIPFA task and finish group.</p>



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# Value for Money Risks





# Value for money

## The Council's responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

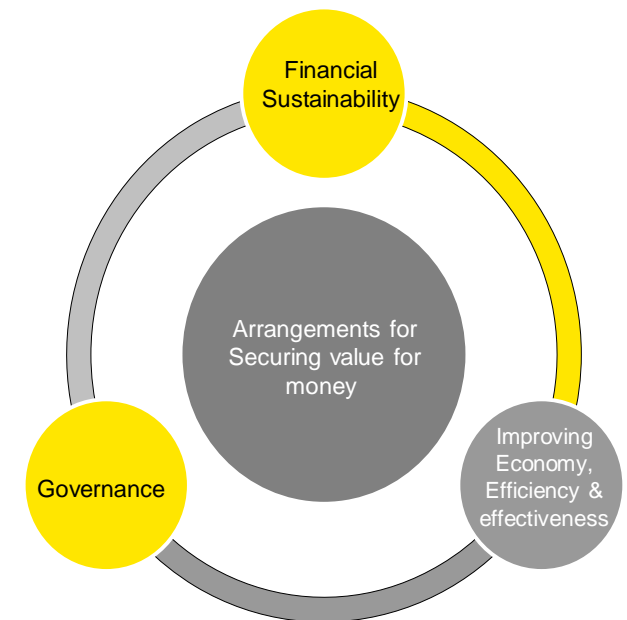
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

## Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there are no longer overall evaluation criteria on which we need to conclude. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability  
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance  
How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:  
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.





## Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Council to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves, or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.



# Value for money

## Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the audit committee.

## Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

## Status of our 2021/22 VFM planning

We have yet to fully complete our detailed VFM planning. However, based on our initial planning work undertaken to date we consider the following issues relevant to our work in 2021/22:

- the latest position regarding the Dedicated Schools Grant (DSG) deficit and potential safety valve funding received;
- the outcome of the OFSTED inspection that took place in February 2022;
- the impact of the Council renegotiating its energy contract due to the ongoing situation in Ukraine; and
- The outcome of internally commissioned reviews, including
  - the review of Commercial Services undertaken by Human Engine; and
  - an investment strategy review being undertaken by Grant Thornton

We will confirm our final assessment of risk to the Standards and General Purposes Committee in due course.





04

# Audit materiality



## Materiality

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

Our application of materiality

When establishing our overall audit strategy, we determine the magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole.

Gross expenditure on the provision of services

£557m

We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority.

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Planning materiality

£10.0m

Group planning materiality is the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. For planning purposes, planning materiality for 2021/22 has been set at £10.0 million, which represents 1.8% of the prior years gross expenditure on provision of services plus the forecast GRE of CHAS 2013 Limited. The use of 1.8% of gross revenue expenditure in line with the prior year.

Planning materiality for the Authority has been set at £9,8 million.

Performance materiality

£7.5m

Group performance materiality is the amount we use to determine the extent of our audit procedures. We have set performance materiality at £7.5 million for the group financial statements which represents 75% of planning materiality and is in line with the prior year.

Performance materiality for the Authority is £7.3 million.

Audit differences

£0.5m

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

These figures will be updated upon receipt of the draft 2021/22 financial statements. We have set we have set a lower level of materiality for remuneration disclosures, related party transactions, members' allowances and exit packages – we have set this at £5k which is based on 1% of audit differences above



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 2021/22 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

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

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

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

Internal audit:

We review internal audit plans and the results of internal audit work. We use this to inform our ongoing assessment of risks likely to impact our responsibilities.



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Audit team



# Audit team

Audit team structure:

Elizabeth Jackson  
Associate Partner

Ian Young  
Senior Manager

Albina Nayga  
Senior

EY Real Estates

PWC (consulting  
actuary) and EY  
Actuaries

## Use of specialists

- Our approach to the involvement of specialists, and the use of their work.

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

Area	Specialists
Valuation of Land and Buildings	The Council's own internal valuer is engaged by the Council for valuation of its PPE. EY Real Estates
Pensions disclosure	Barnett Waddingham - Actuary to Merton Pension Fund EY Actuaries and PWC (consulting actuary) and EY Actuaries

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

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

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





# 07 Audit timeline





# Audit timeline

## Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2021/22. The final timetable will depend on our ability to obtain sufficient, appropriate audit evidence to support our audit opinion.

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's Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Committee Meeting timetable	Deliverables
Planning: Risk assessment and setting of scopes Walkthrough of key systems and processes	April		Audit Planning Report Drafted
	July	Standards and General Purposes Committee	Audit Planning Report to be presented to the 21 July meeting of the Standards and General Purposes Committee .
Year end audit	October to November	Standards and General Purposes Committee	Delivery of the year-end audit and Audit Planning Update (if required)
	November	Standards and General Purposes Committee	Audit Results Report Audit opinions and completion certificates
Audit Completion procedures	December	Standards and General Purposes Committee	Auditor's Annual Report which will include commentary on key reporting themes for the Council.

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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 December 2019, 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

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence.

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### Final stage

- ▶ 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;
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto;
- ▶ 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;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- ▶ 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;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

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

## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

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

### Self interest threats

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

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to 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 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 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 2021

PwC & 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 2021 and can be found here:

[EY UK 2021 Transparency Report | EY UK](#)



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Appendices



# Appendix A – Audit Fees

## Services provided by Ernst & Young

The table below includes a summary of the proposed fees for the year ended 31 March 2022 in line with the disclosures set out in FRC Ethical Standard and in statute.

Full details of the services that we have provided are shown below.

	Planned Fee 2021/22	Final Fee 2020/21	Final Fee 2019/20
	£	£	£
Scale Fee – Code work	110,493	110,493	110,493
Final 2019/20 scale fee variation as determined by PSAA (See Note 1)	N/A	N/A	84,440
Proposed 2020/21 scale fee variation yet to be determined by PSAA (see Note 2)	N/A	159,458	N/A
2021/22 scale fee variation not yet quantified (see Note 3)	133,276	N/A	N/A
<b>Total Fees</b>	<b>TBC</b>	<b>269,991</b>	<b>192,934</b>

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Note 1 - Given the number of significant risks and areas of audit focus that we highlighted in our audit plan as areas of additional work required to meet our responsibilities, and in order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we provided an estimate of the additional recurrent fee that will be incurred in 2019/20 and in future years of £102,541. We also estimated an additional non-recurrent fee of £36,300 relating to specific risk based fee variations of the Council in 2019/20. PSAA ultimately determined that an additional 2019/20 fee of £84,440 should be paid by the Council on a non-recurrent basis.

Note 2 - Our proposed 2020/21 scale fee variation of £159,458 has been shared with the Council and submitted to PSAA, but not yet determined. Of the total proposed scale fee variation we consider that approximately £133,276 is for recurring issues and the cost of regulatory compliance, and approximately £26,222 relates to the specific audit risks of the Council in 2020/21.

Note 3 - We have yet to quantify our proposed scale fee variation for 2021/22. We will report our proposed 2021/22 scale fee variation to management the Standards and General Purposes Committee in due course.




## 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



Required communications	 What is reported?	When and where
Terms of engagement	Confirmation by the Standards and General Purposes Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Audit Planning Report, July 2022 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, November 2022 meeting of the Standards and General Purposes Committee.

## 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 78	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, November 2022 meeting of the Standards and General Purposes Committee.
	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, November 2022 meeting of the Standards and General Purposes Committee.
	Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Standards and General Purposes 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, November 2022 meeting of the Standards and General Purposes Committee.
	Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit Results Report, November 2022 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
Independence	<ul style="list-style-type: none"> <li>• Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</li> <li>• Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:                             <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> </ul> </li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Audit Planning Report, July 2022 meeting of the Standards and General Purposes Committee.</p> <p>Audit Results Report, November 2022 meeting of the Standards and General Purposes Committee.</p>
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>	<p>Audit Results Report, November 2022 meeting of the Standards and General Purposes Committee.</p>
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 Standards and General Purposes Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of</li> </ul>	<p>Audit Results Report, November 2022 meeting of the Standards and General Purposes Committee.</p>
Internal controls	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit</li> </ul>	<p>Audit Results Report, November 2022 meeting of the Standards and General Purposes Committee.</p>
Representations	<ul style="list-style-type: none"> <li>• Written representations we are requesting from management and/or those charged with governance</li> </ul>	<p>Audit Results Report, November 2022 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
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, November 2022 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, November 2022 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 Standards and General Purposes Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

## Additional audit information (continued)

### Purpose and evaluation of materiality

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

Materiality determines:

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

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

**Committee:** Standards and General Purposes Committee

**Date:** 21 July 2022

Agenda item: Wards:

All

**Subject:** Annual Governance Statement 2021/22

**Lead officer:** Caroline Holland – Director of Corporate Services

**Lead members:** Mike Brunt- Chair of Standards and GP Committee

Contact officer: Margaret Culleton- Head of Internal Audit

margaret.culleton@merton.gov.uk telephone: 0208 545 3149

## 1. Summary

- 1.1 This report presents the Council's Annual Governance Statement (AGS) for 2021/22. This statement is required to comply with Regulation 6 (3) of the Accounts and Audit regulations 2015 and the CIPFA/SOLACE standards.
- 1.2 As required by the CIPFA standards, the draft AGS will be signed by the Chief Executive and Leader of the Council for inclusion in the draft accounts.

## 2. Recommendation

- 2.1 To endorse the final 2021/22 AGS (as contained in Appendix A) for inclusion within the Council's final Statement of Accounts.

## 3. Details

- 3.1 The purpose of the Annual Governance Statement is to report on the robustness of the Council's governance arrangements. Corporate governance is defined, for the purposes of this report as:

*'The framework of accountability to users, stakeholders and the wider community, within which organisations take decisions, and lead and control their functions, to achieve objectives. The quality of corporate governance arrangements is a key determinant of the quality of services provided by organisations'*

- 3.2 Regulation 5 (1) of the Accounts and Audit Regulations 2015 requires that the Council undertake an effective internal audit to evaluate the effectiveness of the risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards or guidance.
- 3.3 Regulations 6 (1)(3) states the Council must, each financial year, conduct a review of the effectiveness of the system of internal control and submit the findings of the review to members of the authority.

- 3.4 The Annual Review is a high-level review carried out by Internal Audit, which provides an assessment of whether the Council complied with the principles of the CIPFA/SOLACE framework for good governance during 2021/22.
- 3.5 The Council's Governance Framework is described in the Annual Governance Statement. This narrative sets out the key elements of governance within the Council and these arrangements which have been assessed as part of this review.
- 3.6 Effective Governance arrangements impact across areas in which we seek to make a difference in Merton, it operates and spans different levels of the Council.
- 3.7 The Council recognises the benefits of strong corporate governance as: -
- Behaving with integrity, demonstrating a strong commitment to ethical values, and respecting the rule of law
  - Ensuring openness and comprehensive stakeholder engagement
  - Defining outcomes in terms of sustainable economic, social and environmental benefits and determining the interventions necessary to optimise the achievement of the intended outcomes.
  - Developing the Councils capacity, including the capability of its leadership and the individuals within it.
  - Managing risks and performance through robust internal control and strong public financial management.
  - Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

#### Governance review

- 3.8 Council-wide governance arrangements have been assessed against the core principles and supporting criteria set out by CIPFA/SOLACE in their publication 'Delivering Good Governance in Local Government 2016' The Annual Governance Statement uses evidence from a number of specific and general sources spanning the Council's assurance framework and is supported by an annual review of effectiveness, which draws upon the following work:
- An annual review of the Council's governance arrangements against CIPFA standards, as summarised within this report,
  - The Annual Effectiveness Review of the System of Internal Audit and the Head of Internal Audit's opinion on the adequacy of the Council's internal control environment.
- 3.9 The review of the governance framework against the standard, confirms that it is fit for purpose. A number of areas have been identified as actions for the Council during 2022/23 (table 2 of the AGS).

#### Review of the work of Internal Audit

- 3.10 The Head of Audit is required to provide the Council with an opinion on the adequacy and effectiveness of the internal control environment. The work of



Internal Audit during 2021/22 was sufficient to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's control environment.

3.11 Based on the work undertaken during 2021/22, there were 76% substantial and above assurances. The limited assurances covered: Cyber Security Care Management System (CM2000), Disclosure Barring Service checks, Adoption, Fostering and Special Guardianship payments, Merton Abbey Primary, Gorringe Primary, BeDifferent Federation Schools, Parking Enforcement and Children Placements Commissioning

3.12 All actions on these audits will be followed up to ensure implementation.

#### **4. ALTERNATIVE OPTIONS**

4.1 There are no alternative options as the AGS is a statutory requirement, as stated at paragraph 1.1 above.

#### **5. CONSULTATION UNDERTAKEN OR PROPOSED**

5.1 No external consultation has taken place or is planned for this document.

#### **6 TIMETABLE**

6.1 This report has been prepared to meet the timetable for the approval of the Statement of Accounts.

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

7.1 There are no specific financial, resource or property implications apart from the need to implement the AGS Improvement Plan, which will be completed within existing resources

#### **8 LEGAL AND STATUTORY IMPLICATIONS**

8.1 The AGS is a statutory requirement, as stated at paragraph 1.1 above.

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

9.1 There are no specific human rights, equalities or community cohesion implications, except in so far as this report is wholly concerned with good governance.

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

10.1 There are no specific risk management or health and safety implications other than the assessment of the Council's risk management arrangements in the AGS

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

11.1 Appendix I: Annual Governance Statement 2021/22.

**12 BACKGROUND PAPERS – THE FOLLOWING DOCUMENTS HAVE BEEN RELIED ON IN DRAWING UP THIS REPORT BUT DO NOT FORM PART OF THE REPORT**

12.1 Annual Governance Statement 2021/22

12.2 CIPFA / SOLACE Delivering Good Governance in Local Government – Framework 2016

12.3 CIPFA / SOLACE Delivering Good Governance in Local Government – Guidance Note for Local Authorities

## **ANNUAL GOVERNANCE STATEMENT 2021/22**

This statement from the Leader and the Chief Executive provides assurance to all stakeholders that within Merton Council processes and systems have been established, which ensure that decisions are properly made and scrutinised, and that public money is being spent economically and effectively to ensure maximum benefit to all citizens of the borough.

### **1. Scope of responsibility**

- 1.1. Merton Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently, and effectively. Merton Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2. Merton Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of senior managers within the Authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's Annual Report, and also by comments made by external auditors and other review agencies and inspectors.
- 1.3 This statement explains how Merton Council has complied with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government* (2016) and the requirements of regulation 6(1b) of the Accounts and Audit Regulations 2015 which requires all relevant bodies to prepare an annual governance statement. The Guidance has identified some seven core principles supported by a further 21 sub-principles against which local authorities should measure their compliance. The outcomes of such a review would then provide the key issues for Members to consider in relation to the production and content of the AGS.

### **2 The governance framework**

- 2.1 The governance framework comprises the systems and processes, culture and values by which the authority is directed and the activities through which it accounts to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.
- 2.2 The Governance Framework summarised in this Statement has been in place at the Council for the year ended 31 March 2022 and up to the date of approval of the Statement of Accounts. Some of the key elements of the Authority's governance framework are described below.

### **3 Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

- 3.1 The Council's Constitution sets out how decisions are made and the procedures that are followed to evidence open and transparent policy and decision making and compliance with established policies, procedures, laws and regulations. The Monitoring Officer completes an annual review of the Council's Constitution to ensure its aims and principles are given full effect.
- 3.2 The full council sets the policy and budgetary framework and is responsible for the appointment of the mayor; members of other bodies such as Scrutiny, other Committees, and local committees. It also adopts the Code of Conduct for Councillors, agrees any changes to the Council's constitution and terms of reference for committees, panels, and other member bodies. These meetings are open to the public, except where personal or confidential matters are being discussed. Reports from local community forums (for each area; Wimbledon, Raynes Park, Collier Wood, Morden, and Mitcham) are reported regularly to Council.
- 3.3 The Cabinet is the part of the Council that is responsible for most executive decisions. The Cabinet is required to make decisions which are in line with the Council's overall policies and budget. If it wishes to make a decision that is outside the budget or policy framework, the decision must be referred to the Council as a whole to decide.
- 3.4 A calendar for upcoming meetings is published on the Council's website and all the minutes of the committees are published including any reports discussed. During 2021/22 the meetings were live streamed and available through different format such as audio and video with closed captions and available on platforms such as YouTube, making it transparent and accessible to everyone
- 3.5 The Overview and Scrutiny Commission and Panels are responsible for holding the executive to account, influencing the decision-making process, and shaping the development of new policy. Scrutiny oversees the development of the council's business plan and budget and takes an active role on financial and performance monitoring of council services. Three scrutiny panels cover all portfolios, and all areas of council activity. The Commission comprises fourteen members, four of whom are statutory co-opted members. In 2021-22 the chair of the Commission is the leader of the Merton Park Ward Independent Resident Group.
- 3.6 The Council has the following scrutiny panels: - Overview and Scrutiny Commission; Sustainable Communities Overview & Scrutiny Panel: Healthier Communities & Older People Scrutiny Panel: Children & Young People Overview & Scrutiny Panel
- 3.7 The External Scrutiny Protocol sets out scrutiny powers, duties and responsibilities of the council and its partners. The protocol seeks to ensure all partners, statutory and non-statutory, adhere to the same principles for effective scrutiny, provide information, consider recommendations, and respond to the relevant overview and scrutiny panel within an agreed time frame. The protocol

forms part of the council's constitution.

- 3.8 The key principles of scrutiny in Merton, set out in the scrutiny handbook, are that it should be member-led, consensual, evidence-based, and relatively informal. The handbook also contains advice for councillors and officers on their respective roles, guidance, and practical steps on how to achieve successful scrutiny. It is based on experience of scrutiny in Merton, best practice research and examples from other local authorities.
- 3.9 The Standards and General Purposes Committee is responsible for a range of non-executive functions, including electoral matters and personnel issues. It also has responsibility for considering and making recommendations to Full Council on any changes to the council's Constitution. The Committee comprises twelve members, and the Council's two Independent Persons regularly attend as observers.
- 3.10 The Standards and General Purposes Committee is a key component of the Councils corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards. The Council's Standards function is undertaken by this committee, as well as discharging its responsibility as an audit committee. The terms of reference cover all of the requirements and members are regularly trained and updated on their responsibilities. During 2021/22 the following areas were discussed at this committee: -

Member complaints process (revised), Constitutional changes and revisions to CSO (June 21). Complaints against members, AGS and Internal Audit Annual report (July 21) Final accounts, RIPA applications and recruitment of an independent person (sept 21). Annual report on members and officers' gifts and hospitality, external and internal audit reports (November 2021), Member training programme, external and internal audit reports and verbal update on member complaints (March 2022).

#### **4 Developing the entity's capacity, including the capability of its leadership and the individuals within it.**

- 4.1 The Council's Constitution sets out the roles and responsibilities of Members and senior officers. The role of the corporate management team, including the statutory chief officers, such as the Head of Paid Service (Chief Executive) and Section 151 officer as well as the Monitoring Officer is to support members in the policy and decision-making process by providing assessments and advice to ensure that decision making is rigorous, lawful and risk based.
- 4.2 The Council has a designated Monitoring Officer, who, after consulting with the Chief Executive and the Director of Corporate Services, may report to the Full Council, or the Leader in relation to an executive function, if they consider that any proposal, decision, or omission would give rise to unlawfulness or if any decision or omission would give rise to unlawful action. The Monitoring Officer also oversees Members complaints and 'conduct' matters referred by the Standards and General Purposes Committee and delivers reports and

recommendations in respect of those to this Committee.

- 4.3 There are clear roles and responsibilities held within the financial regulations and leadership roles are defined within the Council Constitution.
- 4.4 The Standards and General Purposes Meeting in March 2021 agreed a revised Code of Conduct for members based on the model code drawn up by the Local Government Association. This followed consideration of the draft code by the cross-party working group set up in 2020/21 to oversee a review of the Council's constitution. The revised code was approved by full Council on 7 July 2021. Members and co-opted members sign an undertaking to abide by their Code of Conduct at the point of their election or appointment. These Codes are available for reference and reminders and training provided, as necessary. Each year (after Annual Council) Members are asked to declare their interests and at the start of all committee meetings. The Monitoring Officer ran a number of training sessions for Members on the new Code of Conduct in Autumn 2021.
- 4.5 A revised members complaints process to support the new Code of Conduct for members was approved by Standards and General Purposes in June 2021.
- 4.6 Members' induction training is undertaken after each local government election. In addition, an on-going programme of training and awareness is available for Members with formal and informal events each year, covering all major changes in legislation and governance issues. Details of Member development programmes are reported regularly to the Standards and General Purposes Committee. A new member induction programme was agreed by Standards and General Purposes Committee in March 2022, for Councillors elected in the May 2022, local elections.
- 4.7 The Council has adopted codes of conduct for its staff. These are provided to all staff as they are inducted into the organisation. The corporate induction programme is delivered to all new staff joining the Council, supplemented by department specific elements. In addition, further developmental needs are identified through the Council's Appraisal Scheme. The staff induction programme has been delivered on-line since 2020.

## **5 Defining outcomes in terms of sustainable economic, social, and environmental benefits. Determining the interventions necessary to optimise the achievement of the intended outcomes**

- 5.1 The Council's Business Plan sets out the Council's priorities for improvement over the next four years and is reviewed every year to ensure that it always reflects the most important improvement priorities. Service Plans are reviewed every year to ensure they outline the key issues and priorities for the department. The Medium-Term Financial Strategy (MTFS) outlines how much money the Council expect to receive over the next four years and in broad terms what we expect to be spending this on. The Business Plan 2021-25 was approved by Overview and Scrutiny and Cabinet in February 2021.

5.2 Reports on progress of the 2021/22 Business Plan were made to Cabinet on 11 October 2021, 8 November 2021, 6 December 2021, 17 January 2022. and 7 February 2022 (Business Plan 2022-26 approval).

5.3 The Mission for Merton set out the following principles: -

- Safer Merton: covering the drive to make the borough a safer place, tackling anti-social behaviour in particular, and to ensure cohesion between communities and generations.
- Sustainable Merton: a commitment to improve the local environment whilst providing access to better local amenities, transport and social housing.
- Enterprise Merton: a commitment to stimulate enterprise in the borough, reduce red tape to support small businesses, promote employment opportunities and keep council tax down.
- Healthy Merton: a commitment to enhance the lives of vulnerable, younger and older residents through improving health and social opportunities.
- Opportunity Merton: a programme to improve education, from nursery level to adult provision, to develop local cultural and leisure offers for all, and to increase participation in local decision making.

5.4 Following a 2019 Local Government Association peer review and the impact of Covid-19, the Council developed a single, co-ordinated change programme. The Recovery and Modernisation Programme (R&MP) is a council wide programme of improvement, both internal and within the local community. The programme consists of various work streams which are expected to deliver benefits to the Council through change. The R&MP has three broad connected objectives:

- Developing and embedding the opportunities and benefits already evident through the experience of responding to the pandemic
- Re-imagining, rethinking and redesigning operating models
- Delivering substantial improvements, efficiencies, and savings.

5.5 The Recovery and Modernisation programme (R&MP) is overseen by CMT. The R&M Governance Framework has a Change Board within each of the four Council departments, and 9 cross-cutting workstreams. Information from each Change Boards feeds into the R&MP Board who have responsibility for the strategic leadership and oversight of the Modernising Merton Programme.

5.6 The Council is working on an ambition for the borough. In the spring of 2021, the major engagement programme started to inform this. Early in 2021 the council commissioned a company to assist with developing and delivering the borough wide engagement programme called 'Your Merton'. The engagement took place from April to August 2021. It was made up of four distinct but complementary strands:

- Residents Perception survey.
- Open access digital platform – Commonplace.
- Focus groups delivered on our behalf by local VCS groups In-depth

deliberative workshops with residents.

**Action 1 Development of a new ambition for the Council that will inform the development of the Business Plan for 2022/26**

- 5.7 The Constitution contains the requirements for consulting Overview and Scrutiny on the budget and business plan. There is an initial phase of scrutiny in November each year, with the second round in January representing the formal consultation of scrutiny on the proposed Business Plan, Budget, and Capital Programme
- 5.8 The Community Plan has been developed by the Merton Partnership and sets the overall direction and vision for the borough.
- 5.9 Merton's Climate Strategy and Action Plan was adopted in November 2020. It sets an aim to reach the net-zero targets formed as part of our climate emergency declaration to decarbonise the borough by 2050 and the Council by 2030. It sets out the transformative change and high-level actions required to create a green and circular economy, to decarbonise Merton's buildings and energy supply, support a switch from petrol and diesel vehicles to greener alternatives. Spend on projects which support the aims of Merton's Climate Strategy and Action Plan in 2020 was in the region of £2m. The overall investment cost of decarbonising the borough was estimated to be in the region on £3.1bn and further £88m to meet the Council's 2030 target. This has been included as an Action on the 2022/23 action plan.

**Action 2: Ongoing review and monitoring of progress against the Councils Climate Change Action plan, including lobbying for funding and oversight.**

**6 Managing risks and performance through robust internal control and strong public financial management**

- 6.1 The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Councils policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.
- 6.2 Internal Audit reviews in 2021/22 provided 76% substantial assurance that controls were in place. There were 8 limited assurance reviews in relation to weaknesses in: -
- Procurement (CM2000 and children placement commissioning),



- Schools in relation to agreed budget deficits and fixing the agreed budgets on the financial system.
  - Other reviews found weaknesses in: Cyber security, DBS renewal checks, Parking enforcement – agreements procedures, transport strategy, adoption, fostering and SGO annual reviews and payments.
- 6.3 Where weaknesses are identified, follow up action is undertaken to ensure prompt improvement of controls. The council has 6 outstanding actions carried over from 2020/21, and 16 outstanding actions from 2021/22, currently in progress.
- 6.4 The Council has a risk management process to identify, assess and manage those significant risks to the Council's objectives including the risks of its key strategic partnerships. The risk management process includes corporate and Departmental risk registers. All departments review their risks quarterly at their respective DMTs, followed by a review of all risks by the Corporate Risk Management Group (CRMG). The final quarterly report is presented to CMT to review the risks that are on the Key Strategic Risk Register (KSRR); these are significant risks, which may have a strategic impact on the council. The top strategic risks for the council have been identified as.
- budget pressures,
  - supporting children with additional needs,
  - implementation of the Climate Action Plan
  - risk of a Cyber-attack.
- 6.5 The risk management strategy was updated in January 2022 and approved by Cabinet on 7 February 2022 and approved by Council on 2 March 2022 as part of the 2022/26 Business Plan. The Risk Management Strategy and Key Strategic Risks are reported to Standards and General Purposes Committee (last reported to March 2021 committee). A report will be presented in 2022/23.
- 6.6 The Council has a performance planning process supplemented by detailed business planning to establish, monitor, and communicate the Council's objectives. This includes a performance management system that sets key targets and reports on performance monitoring. The performance management framework is utilised to measure the quality of services for users, to ensure that they are delivered in accordance with the Council's objectives and that these services represent the best use of resources and value for money.
- 6.7 Annual Service Plans are subject to regular monitoring and review, KPIs agreed and embedded within team service plans which in turn are integrated with individual's appraisal targets. Review and challenge of PIs are established as part of service planning with monthly, quarterly, and annual returns e.g., monitor if changes markedly from prior measure. Performance reports are produced in accordance with agreed timescales and include regular reporting of both Key and Service-related Performance Indicators.
- 6.8 London Authority Performance Solutions provides current comparison data across London for approximately 30 Indicators to compare and challenge if our data changes markedly and report to Corporate Management Team

- 6.9 The financial management of the Council is conducted in accordance with the Financial Regulations set out in the Constitution. The Council has designated the Director of Corporate Services, as the Chief Financial Officer in accordance with Section 151 of the Local Government Act 1972. The financial strategy ensures the economical, effective and efficient use of resources including a financial management process for reporting the Council's financial standing.
- 6.10 The Council's financial management arrangements conform to the requirements of the CIPFA statement on the Role of the Chief Financial Officer in Local Government (CIPFA 2016). The Director of Corporate Services is required to report to Council as part of the budget process on the robustness of the estimates and the adequacy of the proposed financial reserves
- 6.11 A new Financial Management code was introduced by CIPFA, setting out the standards for financial management in Local Authorities. The FM Code applicable in full, from 2021/22, is the collective responsibility of elected members, the Section 151 Officer and the leadership team of the Council to ensure that compliance with the code is monitored and that the requirements are being sufficiently met. The principles of the FM Code are supported by specific standards and statements of practice which are considered necessary to provide the strong foundation to financially manage the short-, medium- and long-term finances of a local authority and financial resilience to meet demand on services
- 6.12 A review of the Council's current financial management arrangements has been undertaken against the FM Code, in 2021/22. The findings from this review and a set of proposed actions to further improve the financial management arrangements were reported to CMT.
- 6.13 A review of the Council's Financial Regulations, Financial Procedures and Schemes of Management are currently in progress. This has been included as an action on the AGS 2022/23 action plan.

**Action 3: A review of the financial regulations and financial procedures to ensure they reflect the Councils processes and other procedures.**

- 6.14 The Council uses Cipfa's financial resilience index tool. This is a comparative analytical tool used by local authorities to provide an understanding of the council's financial resilience and risk. It highlights areas requiring additional scrutiny. The current analysis shows that the council has low financial risk, compared to other London Boroughs.
- 6.15 The annual financial planning process includes two rounds of budget scrutiny each year where the public can make representations in writing and at meetings. Budget monitoring reports are also presented and discussed at the quarterly Overview and Scrutiny Committee financial monitoring task group.
- 6.16 The financial impact on the Council was monitored throughout the year and reported regularly to the Overview and Scrutiny Commission. In 2021/22 the Overview and Scrutiny Panels and the Overview and Scrutiny Commission

examined the budget and business plan proposals in February 2022 relating to the service areas within their remit, as well as scrutinising the draft service plans, prior to submission to Cabinet and full Council on 2<sup>nd</sup> March 2022. Consultation has taken place with business ratepayers in February 2022.

- 6.17 The January (period 10) monitoring report for 2021/22 presented to Cabinet on 21 March 2022 forecast a net adverse variance to the Council of £6.592m.
- 6.18 The final 2021/22 Revenue outturn against revenue was £5.785m overspend, offset by the use of Corporate Provisions (including Covid Funding and other grants) to deliver an underspend overall of £0.630m. (this excludes the accounting for the Dedicated Schools Grant). As a result of hard-fought negotiations with the DfE and the subsequent Safety Valve Agreement, a contribution of £11.6m was received to reduce the deficit. As a result, the budgeted level of monies for the offset provision were not required, resulting in an overall favourable variance of £10.8m. There will be future budget restraints for the Council, with increased inflationary pressures, legacy pandemic costs, and potential impact of white papers on social care reforms. This is an area identified on the Key Strategic Risk Register as a high risk and has been included in the 2022/23 action plan.

<p><b>Action 4: Financial planning to develop longer term financial plans aligned to the Business Plan.</b></p>
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- 6.19 The Council has established processes to manage the risk of the loss of personal data, of which a significant amount is held across many areas. The processes include mandatory training for staff, publication of guidance and an Information Security Policy. Prompt reporting of any security incident is following up and oversight of is provided by the Information Governance board which meets six weekly to discuss information governance issues and to review policy, procedures, and breaches, with representatives from each department and key officers. Information Security training is in place.
- 6.20 Business Continuity and Disaster Recovery Plans were last formally reviewed and updated in December 2020, but interim arrangements were in place during the Covid pandemic and are due to be reviewed in 2022/23.

## **7 Implementing good practices in transparency, reporting, and audit to deliver effective accountability**

- 7.1 The Council's commitment to openness and transparency to publish data is freely available on the Councils website.
- 7.2 The council publishes most of the information specified by the governments Open Data requirements on the councils Open Data webpage. An Internal Audit review of compliance with the Transparency Agenda was undertaken in 2021/22 and provided a substantial assurance.

- 7.3 Under the Freedom of Information (FOI) Act, a public authority must respond to an FOI request within 20 working days. The council is measured against a target of 90% of FOI requests dealt with in time. In 2021/22, a total number of requests made were 1341, in which 1171 (87%) were responded to in time. Performance is reported to the Corporate Management Team monthly and is also published on the council's website via the performance monitoring dashboard.
- 7.4 To ensure that concerns or complaints from the public can be raised, the Council has an established formal complaints policy which sets out how complaints can be made, what should be expected and how to appeal, the latest policy was last reviewed in April 2017, and is currently under review to bring it in line with the Ombudsman guidance that was issued in October 2020, to be available during 2022/23. New templates have been written to help services respond to complaints. All complaint responses are quality checked by the complaints team

**Action 5: A review of the Complaints process and policy.**

- 7.5 Council's performance in responding to complaints is reported to the Corporate Management Team on a monthly basis and published on the council's performance monitoring dashboard. An annual complaints report is reported to S & GP. The last annual report 2019/20 went to S&GP Committee in March 2021. A report is currently being drafted for prepared for 2020/21 and a report will then be prepared for 2021/22. The number of complaints received by the Council has increased from 410 in 2020/21 to 720 in 2021/22. The number of complaints escalating to stage 2 has risen slightly from, 10.4% in 2020/21 and 10.8% 2021/22. The number of Ombudsman referrals has reduced from 42 in 2020/21 to 11 in 2021/22.
- 7.6 Declaration of Interests (officers) form and guidance was updated during 2020/21. The Standards and General Purposes Committee receives annual reports on gifts and hospitality offered to officers and members.
- 7.7 A Whistleblowing Policy has been adopted to enable staff, partners, and contractors to raise concerns of crime or maladministration confidentially. This has been designed to enable referrals to be made without fear of being identified. These arrangements are part of ensuring effective safeguarding, counter-fraud and anti-corruption arrangements are developed and maintained in the Council. The operation of this policy is overseen by the Head of Internal Audit, Head of Fraud, Legal, Head of Human Resources, and the Monitoring Officer bi-monthly.
- 7.8 The Whistleblowing Policy was reviewed and updated for approval at S&GP November 2020 committee and will be reviewed in 2022/23. Regular Fraud update reports were presented to the Standards and General Purposes committee.
- 7.9 The Council maintains an effective Internal Audit service that has operated in accordance with the Public Sector Internal Audit Standards. The Council's assurance arrangements conform to the governance requirements of the *CIPFA*

*Statement on the Role of the Head of Internal Audit (2019)*. An internal Public Sector Internal Audit Standards review for 2019/20 of the Internal Audit service concluded that the service is satisfactory and fit for purpose. A five-year external review was also undertaken in May 2018 and provided a compliance assurance.

7.10 Internal Audit is responsible for monitoring the quality and effectiveness of internal controls. Using the Council's risk registers and an audit needs assessment, a plan of internal audit work is developed. The outcome of the internal audit risk-based work is reported to Directors and regularly to the Standards and General Purposes Committee. Implementation of recommendations is monitored, and progress reported. Regular Fraud update reports are presented to the Standards and General Purposes Committee by the SWLFP. The Anti-Fraud and Corruption strategy is due to be reviewed in 2022/23.

## **8 Ensuring openness and comprehensive stakeholder engagement**

8.1 The Council significantly increased its engagement with residents, stakeholders and businesses in 2021/22:

- Your Merton –largest-ever resident engagement programme, to help set resident priorities ahead of the new administration. 2,500 responses were received which will shape the ambition and priorities of the Council as set out in the Council's 2022/23 business plan, under the heading 'Merton 2030'
- Weekly borough e-newsletter – a weekly e-newsletter now reaching almost 20,000 residents.
- Merton Business e-newsletter – introduced a weekly e-newsletter to support business improvement and engagement with local firms.
- Merton Local – a new mobile app designed to bring together local businesses & residents with exclusive offers and discounts and support high street recovery.
- Social media – adding new channels (including NextDoor) to engage thousands more residents.
- Internal communications – establishment of a professional internal communications function, responsible for leadership and staff comms

8.2 The Merton Community Plan 2020 -2025 sets out the achievements of the Partnership over recent years and priorities for the next five years. The Community Plan has eight thematic priorities which were agreed by the relevant Thematic Networks of the Merton Partnership (Safer Merton, Health and Wellbeing, Children's Trust and Sustainable Communities and Transport).

8.3 The Merton Partnership is responsible for the delivery of the Merton Community Plan (the Sustainable Community Strategy). The Partnership is chaired by the Leader of the Council and hosts an annual themed conference. It has an

Executive Board, also chaired by the Leader of the Council that meets quarterly and whose role is to set the strategic direction of the Partnership and manage the delivery of the priorities and targets set out in the Community Plan.

- 8.4 The Merton Partnership Governance Handbook and the Performance Management Framework set out the respective governance and performance management arrangements for the Merton Partnership, including the thematic partnerships sitting under the Partnership and Executive Board (namely the Health and Wellbeing Board, the Children's Trust, the Sustainable Communities and Transport Board, and the Safer and Stronger Communities Board (which also serves as the Community Safety Partnership).
- 8.5 The Merton Partnership and its thematic Boards and working groups provide a mechanism for the Council to engage with key stakeholders. Most of the Partnership Boards meet quarterly and have clear governance arrangements. The MVSC are being commissioned to provide training to community groups.
- 8.6 The principles guiding the relationship and conduct between the council and voluntary, community and faith sector is set out in the Merton Compact. The Merton Compact is a partnership agreement between local public bodies and the voluntary and community sector to improve the relationships. The Merton Compact subscribes to the principles of the National Compact, setting out principles and values of the partnership and aims to achieve a Compact way of working
- 8.7 The Merton Compact is monitored by the Compact Board, comprising of representatives from public bodies including Merton Council (political and officer), Merton CCG, the police, the Fire Brigade and South Thames College and local representatives from the voluntary, community and faith sector. A dispute resolution procedure has been developed to help organisations through the difficulties associated with disputes and disagreements.
- 8.8 The Council maintains a Partnerships Register which captures details of partnership bodies the council is involved in that are outside the standing bodies of the council, but which inform policy development or implementation. The Partnerships Register is reviewed annually to ensure it is up to date and is published on the council's intranet and website.
- 8.9 The Merton Partnership developed a new Voluntary Sector and Volunteering Strategy to inform and guide its collective approach to sustaining a thriving voluntary sector. This new Strategy will guide the requirements for the Council's Strategic Partner programme that commissions advice and information services, as well as support for the voluntary sector.
- 8.10 The Council publishes an annual report setting out expenditure with the Voluntary and Community Sector, including notional funding and business rate discounts.
- 8.11 The Council is also part of the following joint health boards and scrutiny committees:

- **South West London (SWL) and Surrey County Council Joint Health Scrutiny Committee**, covering 7 councils to consider strategic issues affecting health.
- **South West London and Surrey JHSC sub-committee** - Improving Healthcare Together 2020-2030, is established by 3 Councils, to scrutinise the work being undertaken by the 3 Clinical Commissioning Groups (NHS Surrey Downs, Sutton and Merton)
- **Merton Health and Wellbeing Board (HWBB)** is a statutory Board chaired by the Cabinet Member for Adult Social Care and Public Health, providing the overall vision, oversight and strategic direction for health and wellbeing as set out in Merton Health and Wellbeing Strategy 2019-2024.
- **Merton Health and Care Together Board (MHCT)** is a non-statutory partnership between the Council and the NHS, reporting to the HWBB. The refreshed draft Merton Local Health and Care Plan 2022-24 focuses on holistic integrated health and care services and prevention.

8.12 Key partners include: SWL CCG; SWL and St George's MH Trust. New partnership arrangements linked to the development of the new SWL Integrated Care System will come into effect during 2022/23.

8.13 In line with the Health and Care Act 2022, changes in the way the NHS is structured locally are due to be introduced in 2022 with new regional Integrated Care Systems (ICSs), Integrated Care Partnerships (ICPs) and, at borough level, Place Based Partnerships to be established. The implications of proposed changes to care legislation, statutory responsibilities of Local Authorities and the Care Charging regime are currently unknown. Work is underway to test the proposals and model the potential impact on service users, self-funders, Councils and Health Authorities. The Council is part of these discussions and working with partners across the London networks to understand and assess the proposals. This has been included in the AGS Action Plan for 2022/23.

**Action 6: Response to a number of national Social Care changes (such as White Papers for Adult and Children Social Care) will be undertaken during 2022/23.**

8.14 The Equality and Community Cohesion strategy is currently being refreshed and will be launched in 2022/23.

8.15 Staff engagement. During 2021 there have been regular news updates to staff via email and the Merton Hub to share the values of the organisation. The Chief Executive and other Directors have regular staff engagement events remotely.

## **9 Council owned companies**

9.1 A review was carried out by the Committee on Standards in Public Life on Local Government Ethical Standards in January 2019 which recommended areas of best practice.

Best practice 14: Councils should report on separate bodies they have set up or which they own as part of their annual governance statement and give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan principles of openness and publish their board agendas and minutes and annual reports in an accessible place.

9.2 Merton council has established two companies.

**CHAS 2013 Ltd (CHAS)**. The company was incorporated on the 28 March 2013, to provide both desktop and onsite supplier/contract risk management assessment and services. There are 4 Council officers listed as directors, the Director of Environment and Regeneration, the Interim Director of Community and Housing, Assistant Director E&R , and the Head of Law (for Social Care and Education SLLP). The membership will be reviewed in 2022/23 due to staff turnover. The accounts are audited by EY and filed and published with Companies House. A note is also included in the council's main accounts as part of its group accounts. In 2020/21 the governance arrangements for CHAS were reviewed by the Monitoring Officer and a new process was established to oversee decision making by the Council in its capacity as shareholder.

**Merantun Development Limited**. The company was incorporated on the 9th August 2017, to undertake new housing build for 77 residential units. There are 2 council officers listed as directors, the Assistant Director of Resources and the Assistant Director of Sustainable Communities.

The shareholders board (Merantun Development Limited subcommittee) has 3 Councillors; the Leader of the council, Cabinet Member for Regeneration, Housing and Transport and the Deputy Leader and Cabinet Member for Finance. The sub committee meets 3 or 4 times a year and minutes and agendas are published on the council's website. The accounts are audited by Ernst & Young and are filed and published with Companies House.

A decision was made by Merantun Development Limited subcommittee in December 2020 to dissolve the company Merantun Development Ltd in 2021/22. An application was made to Company House on the 24 March 2022 to strike off and dissolve the company, this application was in progress at the end of March but has now been actioned.

## **10 Review of effectiveness**

10.1 The London Borough of Merton has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, Standards and General Purposes committee, the Head of Internal Audit annual report, and also by comments made by the external auditors and other review agencies and inspectorates and others as appropriate.

10.2 A governance review was undertaken on the Councils arrangements against each



of the principles as summarised above. Other assurances are also considered such as: -

- The opinion of the external auditors in their reports and annual letter.
- Other review agencies, through their inspection arrangements, such as the Care Quality Commission and Ofsted.
- OFSTED inspection of Children's Services in March 2022 – 'Good' scoring.
- LGA peer reviews, PSN Code of Connectivity assessments.
- Review of preparedness for CQC Assurance Regime undertaken by London ADASS in December 2021.
- Review of Financial Assessment team business processes undertaken in partnership with Agilisys during a Robotic Process Automation Proof of Concept project

## **11. Assurance by Directors and Assistant Directors**

11.1 The Council ensures corporate ownership of the Annual Governance Statement through requiring senior management to complete a Self-Assessment covering the controls in place in their service areas. The statement provides assurance that they have reviewed arrangements for meeting their responsibilities in relation to:

- Service planning.
- Counter fraud and corruption.
- Finance and budgetary control.
- Health and safety.
- Human resources.
- Internal control.
- Partnership arrangements.
- Performance.
- Risk management; and
- Value for money

## **12. Conclusion**

12.1 This annual review has shown that the governance framework is consistent with the principles of the CIPFA / SOLACE best practice framework and the examples of the arrangements that should be in place. In particular, Internal Audit has reviewed the effectiveness of the system of internal control for 2021/22. The Head of Internal Audit's opinion based on this work, is that the system of internal control is generally sound and effective.

**Table 1  
2021/22**

**Update on issues identified in previous years review for**

<b>Issues</b>	<b>Action taken</b>
<p>1.A recovery plan for the easing of the lockdown and an assessment of the long-term disruption and consequences arising from the coronavirus pandemic</p>	<p><b>In progress c/f</b> A Recovery and Modernisation Programme to reframe the council’s relationship with its communities and the voluntary and community sectors. ensure integration across different parts of the system. It has three broad connected objectives:</p> <p>The Council is currently working on a place-based ambition for the borough. A major engagement programme to inform this is currently taking place. This will result in the agreement of a new ambition that will inform the development of the Business Plan for 2022/26.</p>
<p>2.Increasing financial pressures.</p>	<p><b>On-going c/f</b> Budget setting for 2022/23 will begin early following a further review of existing savings proposals as part of budget monitoring, and an updated evaluation of financial risks and potential growth. This will seek to protect the Council's financial position by identifying early whether or not additional savings proposals are required for next year so that we can set the budget without drawing on unearmarked reserves. The forecast will be updated based on the latest information available at key points over the next year.</p>
<p>3.Constitution</p>	<p><b>Complete</b> Review of the Council’s constitution by a member working group. This was agreed by Full Council on 7<sup>th</sup> July 2021.</p>
<p>4.Financial Regulation and procedures and departmental Schemes of Delegation</p>	<p><b>In progress- c/f</b> Review and update of the financial regulations and procedures and Scheme of Delegation.</p>
<p>5.Contact Standing Orders</p>	<p><b>Complete</b> A review and update of Contract Standing Orders has been undertaken, in conjunction with a wider review of the constitution and the drive to improve compliance with legislative requirements is being further supported through the introduction of specialist procurement training for those individuals who are responsible for procurement as part of their normal duties. This was agreed by Full Council on 7<sup>th</sup> July 2021.</p>
<p>6.Governance review of Local Authority Trading companies</p>	<p><b>Complete</b> in respect of CHAS (2013) Ltd; unnecessary for Merantun Developments Ltd as a decision was made to apply for its dissolution</p>

**Table 2 Issues identified for 2022/23:**

Issues	Action	Responsible Officer
1. Ambitions for the borough	The Council is currently working on ambitions for the borough after the local elections. This will result in the agreement of a new ambition that will inform the development of the Business Plan for 2022/26	CMT
2. Response to the Climate Emergency and failure to reduce carbon emissions in the borough	On-going review and monitoring of progress against the Councils action plan, lobbying for funding and oversight	Director of Environment and Regeneration
3 Review and update of the financial regulations and procedures and Scheme of Delegation	Completion of the review of Financial Regulations, procedures and Scheme of Delegation	Director of Corporate Services
4) Medium Term Financial Sustainability	The last few years have required short term financial plans. Now need to consider longer term plans with the MTFS that reflects the new ambition for the council along with revised Business Plan. The uncertainty due to the impact of the cost of living, high inflation, and the energy crisis will need to be closely monitored.	Director of Corporate Services
5. Complaint's process and updated policy	The latest complaints policy was issued in April 2017, is currently under review to bring it in line with the Ombudsman guidance that was issued in October 2020 with a new policy to be released 22/23	Head of Communications
6. Social Care and Integration white papers, including Care Accounts and the Care Cap	During 2022/23 we are undertaking a major programme of work to ensure we are prepared for the implementation of the new duties and powers arising from the recent Social Care and Integration white papers, including Care Accounts and the Care Cap.	Director of Community and Housing

**13 Statement of the Leader of the Council and the Chief Executive**

13.1 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by senior management and the Standards and General Purposes Committee. The arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined above. We are satisfied that these steps will address the need for improvements that were identified in our review of

effectiveness and will monitor their implementation and operation as part of our next annual review.

- 13.2 It is our opinion that the Council's governance arrangements in 2021/22 were sound and provide a robust platform for achieving the Council's priorities and challenges in 2022/23.

Signed on behalf of Merton Council

**Signed: Leader**

**Date**

**Signed: Chief Executive**

**Date**

**Committee:** Standards and General Purposes Committee

**Date:** 21 July 2022

Agenda item:

Wards: All

**Subject:** Internal Audit Annual Report

Lead officer: Caroline Holland Director of Corporate Services

Lead member: Mike Brunt Chair of Standards and General Purposes Committee

Forward Plan reference number:

Contact officer: Margaret Culleton Head of Internal Audit

margaret.culleton@merton.gov.uk

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**Recommendation:**

That Committee review and comment on the Internal Audit Annual Report 2021/22

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

1.1 The council has a responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of effectiveness of the system of internal control is informed by the work of the internal auditors. This is detailed in the Accounts and Audit Regulations 2015

**Regulation 5** requires an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, and taking into account public sector internal auditing standards or guidance

**Regulation 6** requires bodies to review the effectiveness of the system of internal audit once a year and for the findings of the review to be considered by a committee of the body, or by the body as a whole, as part of the consideration of the system of internal control referred to in regulation 5.

1.2 The guidance accompanying the Regulations states that in practice councils are likely to take assurance from the work of Internal Audit when discharging their responsibility for maintaining and reviewing the system of internal control. External Audit and other review agencies and inspectorates are also potential sources of assurance.

1.3 The Annual Report summarises the work of Internal Audit in 2021/22 and provides the Head of Audit opinion on the adequacy and effectiveness of the internal control environment.

## **2 DETAILS**

- 2.1 The overall opinion is that the internal control environment is satisfactory. During 2021/22 76% of Internal Audit reviews provided substantial or above levels of assurance. This is a slight increase from 2020/21 from 76% substantial assurance
- 2.2 There have been 8 limited assurance reports issued in 2021/22, with a total 31 Priority 1 actions recommended. We had 11 priority 1 actions carried over from previous years, giving a total of 42 PI's, of which 23 have been implemented and 19 are currently in progress. The number of outstanding actions is higher than usual. Regular discussions are being held with the responsible officers and Directors to ensure that the actions are progressed.

## **3 Head of Audit Assurance**

- 3.1 The Head of Audit is required to provide the Council with an opinion on the adequacy and effectiveness of the internal control environment. In the Annual Report on the work of Internal Audit during 2021/22 the Head of Internal Audit is satisfied that sufficient internal audit work has been undertaken to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's control environment.

## **4 ALTERNATIVE OPTIONS**

- 4.1 There are no alternative options as the annual report is a key component of the Annual Governance Statement, which is a statutory requirement,

## **5 CONSULTATION UNDERTAKEN OR PROPOSED**

- 5.1 No alternative consultation has taken place or is planned for this document.

## **6 TIMETABLE**

- 6.1 This report has been prepared to meet the timetable for the approval of the Statement of Accounts.

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

- 7.1 None for the purposes of this report.

## **8 LEGAL AND STATUTORY IMPLICATIONS**

- 8.1 The report sets out a framework for Internal Audit to provide an annual report for 2021/22. The Local Government Act 1972 and subsequent legislation sets out a duty for Merton and other Councils to make arrangements for the proper administration of their financial affairs. The provision of an Internal Audit service is integral to the financial management of Merton and assists in the discharge of these statutory duties.
- 8.2 This report is designed to meet the requirements of the Accounts and Audit Regulations 2015

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

- 9.1 Effective and timely auditing and advice enable 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 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.

## **10 CRIME AND DISORDER IMPLICATIONS**

- 10.1 This report has already summarised activities in relation to fraud and irregularities

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

- 11.1 A review of Risk Management has been included in this report.
- 11.2. 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 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT**

Appendix A Annual Report

Appendix B Audit Assurance Opinions 2021/22

## **13. BACKGROUND PAPERS**

Internal Audit files and papers.

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# **LONDON BOROUGH OF MERTON**

## **INTERNAL AUDIT ANNUAL REPORT YEAR ENDING 31<sup>ST</sup> MARCH 2022**

## 1. Head of Audit Assurance Opinion

1.1 As Head of Internal Audit for the London Borough of Merton, I am required to provide the Council with an opinion on the adequacy and effectiveness of the internal control environment: I base my opinion upon:

- All internal audit assignments undertaken during the year
- Any follow up action taken in respect of previous audit work
- Any significant recommendations not accepted by management and the consequent risks
- Matters arising from previous reports to the Standards and General Purposes Committee
- Any limitations, which may have been placed on the scope of the internal audit.

### **Opinion**

**I am satisfied that sufficient internal audit work has been undertaken to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's control environment. In giving this opinion, it should be noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided, subject to the limited assurance opinions detailed in this report.**

1.2 Where weaknesses in controls have been identified, action plans are in place. It is important that departments ensure that audit actions are implemented in a timely manner to ensure effective controls are in place.

## 2 The Internal Audit Assurance Framework

2.1. A key responsibility of Internal Audit is to give the organisation assurances about the levels of internal control being exercised in the areas of risk and in particular, where there are transactions that are considered "material" to the Council.

2.2. In order to give such an assurance, a balanced programme of Internal Audit reviews is constructed each year. This Annual Internal Audit Plan contains elements of all the Council's activities selected using a "Risk Based" approach. There are many tools used to achieve a balanced plan including undertaking systems reviews, regularity audits (e.g., schools), contract and computer audit, fraud and misappropriation reviews and an annual review of major financial systems such as the main accounting system, payroll, Council Tax and Housing Benefits.

2.3 For each audit carried out, Internal Audit provides an opinion as to the quality of the control environment in the following processes:

- Risks have been identified, evaluated and managed
- Internal controls reduce risks to acceptable levels
- Action is being taken to promptly remedy significant failings or weaknesses
- The current levels of monitoring are sufficient

2.4 Each audit is given an opinion based on 4 levels of assurance depending on the conclusions reached and the evidence to support those conclusions. Members and management should note that the assurance level is an opinion of controls in operation at the time of the audit. The auditor will agree with management a number of recommendations which, when implemented, will result in a reduction of the exposure to risk. Each recommendation is given a priority ranking and an implementation date and these are monitored on a regular basis by the Internal Audit team. Priority 1 recommendations are defined as being those where major issues have been identified for the attention of senior management.

<b>Levels of assurance</b>	
<b>Full Assurance</b>	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
<b>Substantial Assurance</b>	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
<b>Limited Assurance</b>	There are significant weaknesses in key control areas, which put the system objectives at risk.
<b>No Assurance</b>	Control is weak, leaving the system open to material error or abuse.

<b>PRIORITY OF RECOMMENDATIONS</b>	
<b>1</b>	Major issues that we consider need to be brought to the attention of senior management.
<b>2</b>	Important issues which should be addressed by management in their areas of responsibility to avoid exposure to significant risk.
<b>3</b>	Minor issues where the risk is low. Action is advised to enhance control or improve operational efficiency.

2.5. In addition, each recommendation emanating from the audit review is given a priority rating of 1, 2 or 3 for implementation, with priority 1 being a high risk requiring immediate attention. All recommendations are followed up by Internal Audit to ensure that they have been implemented.

- 2.6. The audit plan for 2021/22 covered those area of high fraud risk, as identified through the Council's own assessments and through information from CIPFA, and other sources, where fraud risks are highlighted. Examples of these are procurement cards, business rates, and direct payments.
- 2.7 These audits reviewed the controls in place, although no fraud was identified in any of these reviews, a number of recommendations were made to improve the controls.

### **3 Planned coverage and output**

- 3.1 The plan was compiled with reference to the Council's Strategic Risk register and following discussions with each departmental management teams (DMTs). This ensured that audit work was focused on the Council's key risks and targeted areas where senior managers required independent assurance over controls in their service areas.
- 3.2 The Council's risk profile is constantly changing. Therefore, Internal Audit and the internal audit plan need to be flexible to be able to respond to these changing and emerging risks. The overall number of reports will be subject to change over the course of the year as audits may be deferred or no longer required. However, additional reviews may be added if concerns are raised about a specific control area or existing reviews may have their budgets increased.
- 3.3 The Internal Audit function is conscious of the significant pressure on resources that the Council is facing and has continued to identify where we can support management through looking to identify potential efficiencies and making recommendations for possibly fewer but better controls wherever possible.

### **4. Internal Audit Assurances 2021/22**

- 4.1. There were 43 audits undertaken during 2021/22 of these 34 have provided an assurance opinion.
- 4.2 There were 26 Substantial Assurances or above (76%) and 8 limited assurances (24%). A full list of the assurances can be found in Appendix A. Action Plans for improvements are in place for all audits.

#### **Financial systems**

- 4.3 There were five key financial systems reviewed this year, which all received a substantial assurance.

**Table 1 Key Financial systems audit assurance for last 3 years**

<b>Financial System</b>	<b>Assurance 2019/20</b>	<b>Assurance 2020/21</b>	<b>Assurance 2021/22</b>
Payroll (iTrent)	Substantial	Substantial	Substantial
Pension Administration	Substantial	Substantial	Substantial
Cash and Bank		Substantial	Substantial
Accounts Payable		Substantial	Substantial
Capital			Substantial
Treasury management/pension investment	Substantial		
Council Tax	Substantial		
Accounts Receivable	Substantial		
Fixed Assets	Substantial		

- 4.4 The key financial systems audits found that the controls in place were effective. Some recommendations have been made to further enhance controls, these covered; regular reconciliations to the General Ledger, removing leavers access and completion of an annual review of direct debits. All recommended actions have been accepted and implemented.
- 4.5 Duplicate payment testing has been carried out in 2021/22 covered 12 months from April 2021 to March 2022. A total value of £123,639 for 2 duplicate transactions were identified. £105,978 has now been credited and the remaining £17,661 duplicate payment is in the process of being actioned.
- 4.6 A review of adult social care debt was undertaken in 2021/22. Interrogation of e5 identified 3 debtors (with outstanding debts) flagged as being on a deferred payment scheme, two of which had been incorrectly identified and had outstanding debts with no recovery action. It was also identified that debts were outstanding for 2 years from the CCG. Improvements were recommended to ensure oversight on the deferred payment records and prompt invoicing to the CCG.

### **School Audits**

- 4.7 School audits are designed to assess their corporate governance, compliance with the Council's Scheme for Financing Schools, and financial management arrangements. During 2021/22 the following schools were audited
- Gorrington Park Primary school
  - BeDifferent Federation- Lonesome, William Morris and Singlegate Primary Schools,
  - Merton Abbey Primary school
  - Rutlish High school
- 4.8 Common findings from these reviews related to.

- Approved budgets not fixed on the financial system
  - Official order not raised and authorised prior to expenditure
  - Monthly budget monitoring not evidenced
  - Non-Adherence to the Scheme for Financing Schools for contracts
- 4.9 All actions from the school reviews are sent to the Headteacher and Chair of Governors for approval and implementation. A newsletter is issued to all schools to highlight areas of control weaknesses identified on audit reviews during the year and areas of recommended good practice,

## **5. Key Areas for 2021/22**

- 5.1 Internal Audit has continued to improve their level of engagement with all levels of management. This has been achieved by attending regular DMT's to discuss audit progress and meeting with key stakeholders prior to the start of the audit to agree the audit brief.
- 5.2 When the audit plan is set, discussions are held with all key people for input; this engagement has enabled the Internal Audit team to focus on the key areas of risk as well as work closely with management to formulate actions to address areas where improvement is required.
- 5.3 As set out in the above section we have identified areas of good practice and an effective control environment across the majority of the systems, processes and establishments reviewed. This includes the Council's key financial systems.
- 5.4 However there are a number of areas where further improvements are required to strengthen the control environment and we have summarised the key issues below.

### Priority 1 actions

- 5.5 During 2021/22 Internal Audit made 259 recommended improvement actions, including 31 Priority 1 (P1s) actions. There were also 11 P1's carried over from previous years, giving a total of 42 P1's, of these 23 have been actioned. Management has responded to each of our recommendations stating the action they will take and when it will be implemented.
- 5.6 We currently have 19 Priority 1 actions outstanding, 6 P1's are for audits completed prior to 2021/22 and 13 P1's for reports issued since April 2021.

**Table 2: Limited Assurance/Priority 1 audits 2021/22**

<b>Audit</b>	<b>Number of Priority 1 recommendations</b>	<b>Actions outstanding</b>
Cyber Security (final issued 24/6/21)*	0	0
Care Management System (CM2000) (final issued 17/6/21)*	4	2
Disclosure Barring Service checks (final issued 27/5/21)*	2	0
Adoption, Fostering and Special Guardianship payments	2	0
Transport Fleet Management (Substantial)	1	1
Merton Abbey Primary School	3	0
Gorringe Primary School	1	0
BeDifferent Federation Schools (substantial)	1	0
Parking Enforcement	12	6
Children Placements Commissioning	5	4
<b>Total P1's</b>	<b>31</b>	<b>13</b>

\*20/21 audits - final report issued in 2021/22

**Table 3 Limited Assurance reports issued prior to 2021/22 with outstanding Priority 1 audit actions.**

<b>Audit</b>	<b>Final report date</b>	<b>Number of Priority 1 recommendations</b>	<b>No of P1's outstanding</b>
Building Control	5/8/20	3	3
PCI compliance	20/12/19	3	3
<b>Total</b>		<b>6</b>	<b>6</b>

**Key issues from 2020/21 (not yet implemented)****5.4 Building Control** (final report issued 5/8/20) 3 outstanding P1'S

**Issues:** The building control surveyor undertakes, site inspections, reviewing the applications for approval, updating the M3 system and issuing the completion certificate, and agreeing invoices. A review on the role of the building control surveyors should be undertaken to ensure a separation of duties.

A full system reconciliation should be established and undertaken regularly to ensure that the requests for inspection fees have been recorded correctly on M3, submitted to finance for payment and payment subsequently received on E5.

As instructed in the Charges Regulations, the financial statements should be completed and signed by the Section 151 officer within 6 months of the end of the financial year.

- **Action:** The 2 actions for Building Control are currently in progress. The outstanding action for finance in relation to completion of the financial statements is also in progress. These actions are due to be implemented by October 2022.

**PCI compliance** (final report issued 20/12/19) 3 outstanding P1's

- 5.5 **Issues** An approve charter for the PCI DSS compliance programme should be put in place by management to include a communication structure that ensures executive / senior managements are accountable for and aware of any compliance impacting risks on an ongoing basis. This should also include sets of metrics that summarises the performance of implemented security controls and compliance programme that can be reported to Senior Management monthly. Quarterly PCI scanning should be conducted by an Approved Scanning Vendor (ASV) to ensure that internal and external vulnerabilities are timely identified, and remedial actions are timely taken

**Action:** These actions were put on hold due to a new cash receipting system. The actions will now be reviewed. These actions are due to be implemented by September 2022.

### **Key Issues 2021/22**

5.6 **Cyber Security – (All Actions completed)**

**Issues:** Low completion of information security training. 'admin' accounts (30) enabled not logged in for over 90 days. seven leaver accounts enabled; two accounts logged in after their leaving dates. Server Message Block (SMB) was enabled, which is noted as a vulnerable service. Testing not recorded.

**Action:** The mandatory completion of the information security training is being addressed by the Corporate Management Team. A user access review has been performed, as part of a wider cleansing programme of works. We initially blocked accounts not logged in for 45 days with accounts that are no longer required being disabled or locked. SMB is now blocked at the firewall rule level. A fully recorded risk assessment has been completed on any testing done over functionality or DR testing carried out.

- 6.7 **DBS Final- (All actions completed)** (report 28/5/21). This review covered the arrangement between RBK and Merton on the Disclosure Barring Service checks.

**Issues:** The SLA (2016) required a review and update to reflects the current requirement. Sample testing found evidence of new employees (requiring a DBS check), commencing employment prior to the DBS clearance without a risk assessment being completed. Significant delays in DBS renewals checks with a lack management oversight on expired DBS renewals.



**Action:** Officers have been reminded of the need to ensure that either the checklist is signed off by the Manager or they are in receipt of an e-mail from the Manager demonstrating that the risk assessment has been completed. Kingston now report quarterly on the number of DBS checks carried out by the team. Kingston now review customer satisfaction levels.. Kingston report on the time taken to get DBS checks back quarterly.

4.26 **Care Management System (CM2000)** 16/6/21 - (2 outstanding actions)

**Issues:** Error identified in the contract documentation that requires updating. Contract not signed and sealed. Not all providers are using the CRM system, which has been set up to record and monitor care provided.

**Actions:** Will be completed as part of work to ensure contracts are signed and sealed. C&H DMT have agreed the methodology for identifying which providers CM should be rolled out to and a project plan is in place

4.27 **Special Guardianship/Adoption and Fostering Payments** (Final report November 2021) (**All actions complete**)

**Issues:** Council policy and procedural guidance requires review. Annual reviews of means-tested allowances not carried out in a timely manner. Overpayments not calculated or reclaimed. Referrals forms not completed to authorise the changes to Adoption, Special Guardianship Order or Child Arrangement Orders. A formal budget-monitoring process has not been established.

**Action:** The policies and procedures have been reviewed and updated to reflect current practice and payments. A master spreadsheet has been created to monitor and review all payments. A clear agreed process of means testing to include requests for updated information and option to freeze payments if delayed. The backlog now cleared and new annual review cycle established. Overspend from last financial year recouped. A process to recoup any overpayments on a 2-weekly basis in line with payment runs established. Budget monitoring arrangements put in place.

4.28 **Transport Fleet Management (Substantial assurance – 1 P1 outstanding)**

**Issue:** LBM does not currently have a formal Fleet Management Strategy. A formal Fleet Management Strategy should be developed to identify LBM's fleet requirements both currently and in the future. Once a formal strategy has been developed, management should monitor performance in delivering the actions contained within the strategy, and against agreed performance management standards.

**Action:** This is a key work stream in 2022/23. The new department restructure was undertaken in the fourth quarter of 2021/22 following which the service has a dedicated full-time manager overseeing the creation and formal approval of a new Fleet Management Strategy. This is due to be implemented in July 2022.

**4.29 Merton Abbey Primary School** (final report issued 26/11/21) **(All actions complete)**

**Issue:** Deficit budget for 2021/22 approved by Governors on the 06/06/2021 and submitted to the Local Authority. At the time of audit (October 2021), the LA had not approved the deficit budget. Budget monitoring was weak and commitment accounting not fully in place.

**Action:** Deficit approval letters for 2021/22 were issued to all deficit schools towards the end of March 22. The Head Teacher and Finance Officer have regular discussions on budget management and will ensure that all signed records are kept as evidence. The school closed their yearend accounts with a surplus of £23,477.73 which included additional LBM funding of £30,000 which they received in March 22. Without this, the school would have closed in a small deficit. The schools proposed 2022-23 budget is showing a deficit of just under £100k

**4.30 Gorringe Park Primary School** (final report February 2022) **(All actions complete)**

**Issues:** Approved budget not fixed on SIMS FMS. Lack of evidence of monthly budget monitoring. Supporting evidence of financial reports to be made available to Governors, included extended school, and closing journals. Official orders not always raised and authorised prior to purchase. Adherence to the Scheme for Financing Schools (Annex E) not demonstrated and signed contracts not in place.

**Action:** Budget approved now fixed on FMS. Regular budget monitoring meetings and financial information provided to governors. Review all on-going contracts to ensure value for money is achieved.

**4.31 BeDifferent Federation Schools** **(All actions complete)**

**Issue:** The approved 2021/22 budget at each school had not been entered and fixed onto the schools financial Management System.

**Action** Approved budgets now fixed on financial system.

**4.32 Parking Enforcement** (final report 8/2/22) 6 audit actions outstanding

**Issues** Where parking enforcement services are provided there is no one overall agreement in place and no overall management oversight. The Council would benefit from a more joined-up approach to providing commissioned services. Charges made for enforcement services provided do not reflect the actual cost to the Council, for example, the invoices only cover overtime paid, tow truck hire, traffic charges and vehicle hire, but have missed other costs and do not include overheads as well as failing to re-charge VAT. A full reconciliation should be undertaken of all costs incurred and a review of additional overheads included. The arrangements for claiming overtime are currently inadequate as

there is insufficient separation of duties and the rates paid are inconsistent with agreed rates.

**Actions:** Meetings has been held on the services to be provided and costs and a draft contract set up. We will ensure full reconciliations are carried out and clear management oversight. New Financial Operational procedures have been established, which include the process of capturing costs. Contract documentation now stored in a shared folder. Tow truck contract to be extended for 1 year, procurement exercise to commence in summer 2022. Consultation has started on the overtime rates and a review of the overtime process undertaken to ensure an appropriate audit trail. Silver control arrangements are in discussion and will feed into the updated operational plan.

#### **4.33 Children Placements Commissioning (4 audit actions outstanding)**

**Issues:** A signed and agreed copy of the Service Level Agreement (SLA), including the service specification with the London Commissioning Alliance (LCA) was not held by the department. No contracts in place with providers that have been commissioned and procured outside of the LCA (SLA). Procurement approved the use of the Light Touch Regime to set up a pseudo-framework agreement for the delivery of semi-independent accommodation and key-work support, this framework is still in the consultation stage. Audit testing and confirmation from the Service Manager concluded that the procurement of providers of Supporting Housing and Lodging (Semi-Independent Accommodation) have not been established. Individual Placement Agreement to agree the individual child's terms and cost of the contract have not been completed and agreed with the providers on placements, since December 2020.

**Actions:** A new service level agreement to be set up and signed by the new Assistant Director The service manager working in partnership with Merton Legal Team will produce contracts for off framework placements (implementation due by end of July). We are currently reviewing the staffing and resources within the service and are seeking to allocate work to a member of staff to clear the backlog and issue Individual Placement Agreement (due by September 2022).

## **6. Review of the Effectiveness of the System of Internal Audit**

- 6.1 A requirement laid down in the Accounts and Audit (England) Regulations 2015 states that 'the relevant body shall, at least once a year, conduct a review of the effectiveness of its internal audit'. An annual self-assessment against CIPFA's Code of Practice for Internal Audit in Local Government has to be carried out each year and an external assessment every 5 years.
- 6.2 A self-assessment has been undertaken against the Public Sector internal audit standard (PSIAS). This demonstrated substantial compliance with the standards. An external Assessment against the PSIAS was carried out in May 2018 and provided substantial assurance. Where actions have been identified these will be reviewed and included in the Quality Action Implementation Plan and progress reviewed.

6.3 The key focus of the review of the effectiveness of internal audit is the delivery of the service to the required standard in order to produce a reliable assurance on internal controls and the management of risks in the authority. In coming to a view on the effectiveness of the system of internal audit, the following factors are all indicators that should be taken into accounts.

- Performance of the internal audit provider (in-house and/or contractors) in terms of both quality and cost.
- Views of external audit & reliance placed on work by internal audit.
- Role and effectiveness of the Standards and General Purposes Committee.
- The extent to which internal audit adds value to the organisation and helps delivery of objectives.

6.4 During 2021/22, the internal audit service has achieved the following: -

- Delivery of 100% of the audit plan
- 100% client satisfaction for audit work

## 7 Fraud Investigations

7.1 The Council's Anti-Fraud and Anti-Corruption strategy sets out the Council's approach to detecting, preventing and investigating fraud and corruption. This strategy is supported by the Council's whistleblowing policy, which was reviewed and updated in 2020 and by the Council's code of conduct. The Internal Audit section has a key role in implementing this strategy and to ensure that the internal controls in place are robust to prevent fraud occurring or to tighten controls where fraud has occurred.

7.2 The Southwest London Fraud Partnership (SWLFP) was established on the 1<sup>st</sup> April 2015 as a 5-borough shared fraud investigation service between LB Merton, RB Kingston, LB Sutton, LB Richmond and led by LB Wandsworth.

### Update from the SWLFP

7.3 **Evictions:** The large backlog of evictions that arose during the pandemic are slowly being cleared and evictions are taking place although at a slower rate due to capacity.

7.4 **Prosecution/Court Action:** There is a large backlog of cases in both the Criminal and Civil Court systems, and we are in contact with Housing and SLLP in order to monitor cases to ensure they are still being progressed. Cases are being issued to the Courts although there is a smaller capacity for hearings, so it is taking longer to get to the Hearing stage.

7.5 **Business Grant Data** – NFI requested data for 11 grant schemes, and this was uploaded at the end of January 2022. NFI has recently advised that the first phase of matching has been completed and they are they are in the process of

further matching against the NAFN fraud watchlist and the first phase grants paid.

7.6 During 2021/22, the SWLFP has undertaken counter fraud activities in the following areas:

- National Fraud Initiative (NFI)
- Blue badge/parking permits
- Council tax reduction/discount
- Employee fraud
- Housing tenancy fraud/abuse

### Investigation caseloads

7.7 In total 107 cases have been opened in 2021/22 as a result of the referrals received and concerns highlighted through proactive fraud drives and NFI matches during the year. A breakdown of fraud referrals accepted for investigation is shown in the table below:

**Table 4 Investigation Caseloads**

2021/22	Sanction target	Open cases b/fwd	New Cases in Year	Total Cases	Closed No Sanction	Closed with Sanction	Open Cases c/fwd
Tenancy Fraud	9	27	13	40	12	5	23
Right to Buy	5	0	5	5	5	0	0
Hsg App rejects*	20	0	66	66	7	59	0
Permit fraud	0	1	2	3	0	2	1
Employee	0	4	6	10	2	4	4
CTR/SPD	0	0	12	12	3	6	2
Other	0	8	3	11	4	2	5
<b>Total</b>	<b>34</b>	<b>40</b>	<b>107</b>	<b>147</b>	<b>33</b>	<b>78</b>	<b>35</b>

7.8 **Tenancy Fraud**-Four properties were recovered in 2021/22. This allows for those on the Councils waiting list to be provided with the opportunity for a housing tenancy. Work is ongoing, including two cases with legal for consideration of legal action.

7.9 **Housing Application rejects**- The NFI data match identifies matches of residents on the housing waiting list, that appear on other lists or living in another borough. It has been identified that the data held by Merton includes old data and

a data cleanse is required. There were 66 matches for Merton, that have been identified from NFI and removed from the waiting list. A meeting was held in February 2022 with the Housing Applications Manager to discuss undertaking a pro-active exercise on the Waiting List.

### Corporate Fraud (internal)

7.10 There are 10 corporate fraud cases involving employees, 4 cases c/f and 6 new cases in 2021/22. Progress on these cases are: -

- 1 Prosecution in progress (from previous years)
- 1 Case – recovery of funds- in progress (from previous year)
- 1 resignation (from previous year)
- 2 disciplinary – dismissed (1 case from previous year)
- 1 contract terminated
- 2 no further action (internal controls improvements)
- 2 investigations in progress

7.11 The frauds related to misuse of position, misuse of council funds, unauthorised absence, false references. Where frauds are identified, fraud information is shared across the partnership and internal controls weaknesses reviewed.

### National Fraud Initiative (NFI)

7.12 The NFI matches are: - Creditors, Market Traders, Personal Alcohol Licences, Parking, Payroll, Pensions, Personal Budgets, Residential Care, Council Tax & Electoral Registration. This data is matched between councils and within Merton. Progress on these matches are shown below: -

**Table 5 National Fraud Initiative (NFI)**

<b>NFI</b>	<b>Total Referrals</b>	<b>Processed (closed)</b>	<b>In Progress</b>	<b>Fraud / Error</b>	<b>To Review</b>
NFI 2020/21 – Main NFI	6429	3633	503	332/90	2293
Re-Check - Ctax to ER – 2020	1984	0	0	0/0	1984
Re-Check - Ctax to ER – 2021	2072	0	0	0/0	2072
Re-Check - Ctax to ER – 2022	2234	0	0	0/0	2234
	<b>12719</b>	<b>3633</b>	<b>503</b>	<b>327/90</b>	<b>8583</b>

## 8. LOCAL GOVERNMENT TRANSPARENCY CODE

- 8.1 Under the code the Council is required to publish the following data regarding its Fraud Investigation activity. Listed below are 2021/22 figures (with 2020/21 comparative figures shown within brackets).

<b>Accredited number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers</b>		
	21/22	(20/21)
Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014	5	3
The Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013	6	0
<b>Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud</b>		
	Absolute	FTE
Fraud Investigation - SWLFP #	15 (15)	15 (15)
<b>Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists</b>		
PINS trained Fraud Specialist	7 ( 6)	7 ( 6)
CIPFA Certificate in Investigative Practices	1 ( 2)	1 ( 2)
CIPFA Accredited Counter Fraud Specialist	4 ( 4)	4 ( 4)
<b>Total amount spent by the authority on investigation and fraud prevention</b>		
	21/22	(20/21)
Fraud Partnership	£125.9k	£123.2k
<b>Total number of fraud cases investigated.</b>		
SPD/Council tax reduction/ Housing/Tenancy related Investigations	9 83	0 21
Right to Buy	5	3
Permit Fraud Investigation	2	3
Other Investigations	<u>12</u>	<u>26</u>
<b>TOTAL</b>	<b>111</b>	<b>53</b>

- 8.2 To ensure that sufficient knowledge and capability for fraud investigation was maintained Merton entered into a partnership with four neighbouring boroughs, the SWLFP. For 2021/22, the number of Fraud investigation officers and officers with specialist fraud qualifications relates to the pool of officers within the SWLFP team that can be called upon, Merton's funding contribution equates to 2 FTE investigators.

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Appendix B

Audit Assurance Opinions: 2021/22

AUDIT TITLE	Department	FINAL DATE	ASSURANCE LEVEL				RECOMMENDATIONS			
			FULL	SUBSTANTIAL	LIMITED	NO	Priority 1	Priority 2	Priority 3	
1	Compliance and Enforcement grant	E&R	7/5/21	Grant sign off						
2	Role of the Operational Procurement Groups	All	13/5/21	-	Y	-	-	-	8	-
3	Mascot Centre	C&H	19/5/21		Y				12	1
4	Cash and Bank	CS	19/5/21		Y				5	1
5	Disclosure Barring Service	CS	27/5/21			Y		2	3	2
6	Payroll (joint audit with LBS and RBK)	CS	28/5/21		Y				4	
7	MSJCB	ER	8/6/21	Accounts sign off						
8	Corporate Procurement follow up	CS	17/6/21		Y				3	3
9	CM2000 Home care monitoring	CH	17/6/21			Y		4	13	
10	Cyber Security	CS	24/6/21			Y			8	8
11	Supporting families grant-quarter 1	CSF	30/6/21	Grant checks						
12	Duplicate payment checks- quarter 1	CS	30/6/21		Y					
13	Accounts Payable	CS	10/9/21		Y				3	

14	Declaration of Interests & Gifts & Hospitality-Officers	CS	10/9/21		Y				7	
15	Annual Governance review	all	28/9/21		Y				5	
16	Departmental Schemes of Management	all	30/9/21		Y				1	
17	Supporting families grant-quarter 2	CSF	30/9/21		Grant sign off					
18	Duplicate payments – quarter 2	CS	30/9/21		Y					
19	Mayor’s account	CS	1/10/21		Accounts sign off					
20	Capital Programme	CS	20/10/21		Y				2	2
21	Adult Social Care debt	CH	29/10/21		Y				5	
22	Adoption, Fostering and Special Guardianship payments	CSF	26/11/21	-	-	Y	-	2	9	-
23	Transport Fleet Management	ER	20/12/21		Y			1	3	
24	Merton Abbey Primary School	CSF	26/11/21			Y		3	12	
25	Planning applications	ER	18/11/21		Y				2	
26	Local Authority Bus Subsidy grant	ER	21/12/21		Grant sign off					
27	Supporting families grant-quarter 3	CSF	14/1/22		Grant sign off					
28	Duplicate payments – quarter 3	CS	14/1/22		Y					
29	ICT Change Management	CS	14/1/22		Y					3
30	St Marks Primary School	CSF	14/1/22		Y					
31	Pension administration (Joint audit with Wandsworth Council)	CS	20/1/22		Y				1	1
32	Gorringe Primary school	CSF	21/1/22			Y		1	27	
33	Parking Enforcement	ER	9/2/22			Y		12	5	
34	Transparency Agenda	All	13/12/21		Y				3	

35	Wimbledon Tennis tickets	CS	21/3/22		Y				4	2
36	Infection Control Payments	CH	25/2/22		Y				4	
37	BeDifferent Federation Schools	CSF	21/2/22		Y			1	19	
38	Emergency Travel Grant	ER	21/2/22		Grant sign off					
39	Covid 19 recovery (grants)	CS	30/3/22		Y				2	1
40	Supporting families grant-quarter 4	CSF	31/3/22		Grant sign off					
41	Duplicate Payments	CS	31/3/22		Y					
42	Children Placements Commissioning	CSF	11/5/22			Y		5	11	2
43	Rutlish High School	CSF	13/6/22		Y				21	

	<b>TOTALS</b>			<b>0</b>	<b>26</b> <b>(76%)</b>	<b>8</b> <b>(24%)</b>	<b>0</b> <b>(0%)</b>	<b>31</b> <b>(12%)</b>	<b>202</b> <b>(78%)</b>	<b>26</b> <b>(10%)</b>
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## **Committee: Standards and General Purposes Committee**

**Date: 21 July 2022**

Wards: n/a

### **Subject: Amendments to the Constitution**

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

Lead member: Councillor Billy Christie, Cabinet Member for Finance and Corporate Services

Contact officer: Amy Dumitrescu, Democracy Services Manager

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#### **Recommendations:**

To recommend to Council that the following amendments to the Council's Constitution be authorised:

- A. Part 4B Para 18 as described in paragraph 2.5 below and detailed at Appendix A
  - B. Rule 2.3h (Community Fora Motions) as described at paragraph 2.8 below
  - C. Part 4A Para 21.5 (Remote Attendance) as described in paragraph 2.11 below and detailed at Appendix B
  - D. To note that the practice of automatically circulating reports which are legally exempt from publication to all councillors will cease; such circulation to be restricted to councillors with a statutory right of access to such documents or who can otherwise they have a need to know the information contained in such documents.
  - E. To agree the suggested change in practice in relation to Part 4B (Access to Information Rules) as described at paragraph 2.7 below
  - F. To note that potential amendments to the Planning Protocol at Part 5 of the Constitution may be required as described at Paragraph 2.2 below
  - G. To consider and recommend to Council the financial limit at which directors may agree contract awards and the treatment of contract extension for decision making purposes, details of which are set out in 2.8 to 2.10 below.
- 

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

- 1.1. To consider changes to the Constitution to update sections with current working practice and to amend any other sections as detailed within the report as required.

#### **2 DETAILS**

##### 2.1. Planning Protocol

- 2.2. Following a recent view of the Planning Committee process and the appointment of a new Chair and several new officers, a number of potential improvements have been identified to ensure the compliant and effective running of the Planning Committee. Officers are working with the Chair to revise those procedures which may in turn require some amendments to the Planning Protocol which forms part 5F of the Constitution. Any proposed

changes will be considered by the Planning Applications Committee before being submitted to full Council, possibly at its meeting in September.

2.3. Part 4B Access to Information Rules

2.4. Paragraph 18 of Part 4B (Exempt Urgency Procedure) of the Constitution refers to a meeting at which exempt or confidential information is to be considered being held in private. In such cases, where it is not possible to give 28 days' notice of the agenda item, as the constitution is currently drafted the consent of the Chair of the Overview and Scrutiny Commission is required to allow the item to be considered. This is not a legal requirement. Such a requirement only applies where it is proposed to hold the entire meeting in private which in practice rarely happens. Where there are meetings where restricted (exempt) appendices to reports or singular restricted items are being considered and therefore the majority of the meeting is held in public, with the public excluded for those items, the only legal requirement is that the Chair of the Overview and Scrutiny Commission agrees to that item being considered if it has not been on the forward plan for at least 5 clear working days. It is therefore proposed to amend paragraph 18 to reflect the legislative requirements.

2.5. The Democracy Services Manager and the Monitoring Officer continue to work on internal processes to improve the use of the forward plan across the organisation to prevent items being required to go through the urgency process.

2.6. Part 22 and 23 of Part 4B which detail the access rights to documents by members and by members who are members of the Overview and Scrutiny Commission. General practice at Merton has been that all group office staff and all Councillors are automatically provided with access to all restricted documents, however there is no automatic legal right for all Councillors to this information and it is not good information governance practice to have such a wide circulation of confidential information. Committee is therefore asked to note that the practice of an unrestricted circulation of exempt reports or appendices will cease and such documents will only be provided to Councillors who have a statutory right to see such documents if they request such documents and can demonstrate a 'need to know' to the Monitoring Officer.

2.7. Rule 2.3h – Community Fora Motions

2.8. The Constitution currently states that "Any original motion relating to the report of a Community Area Forum must be submitted to the Chief Executive by 9am on the day before the meeting to enable time-tabling before meeting." However all other motions (Ordinary and Strategic Theme) are required to be submitted by the following deadlines:

6.1 (Ordinary Motions) - not later than 5pm on the day which is seven clear working days before the date of the Council meeting.

2.3G (Strategic Theme Motions) - such motions shall be submitted to the Chief Executive by 9am on the day two clear working days before the day of the meeting;

2.7 It is therefore recommended that the deadline for Community Forum motions be brought in line with other motions to allow for amendments to be

submitted as required (by 9am the working day before the Council meeting). It is therefore recommended these motions be submitted by 9am on the day two clear working days before the day of the meeting.

## 2.8 **Inconsistency Between the Scheme of Delegation to Officers and Contract Standing Orders.**

2.9 When the constitution was revised following consideration by a cross party working group and this Committee in July 2021, the Scheme of Delegation to Officers contained in Part 3D of the Constitution set financial limits on the value of contracts Directors are able to award. That limit was £2million and all contracts in excess of that amount must be agreed by Cabinet (subject to certain urgency provisions). However, the Contract Standing Orders which also form part of the Constitution (Part4G) set financial limits by reference to internal departmental schemes of management. Under those schemes, Directors are only authorised to award contracts up to a value of £500K. Contracts between £500k and £2million must be agreed either by the Director of Corporate Services (the Council's section 151 officer) or the chief Executive. It is not good governance for there to be internal inconsistencies in the Constitution and Committee is therefore being requested to consider which limit should apply and to recommend to full Council an amendment to reflect that decision.

2.10 The other area in the contract standing orders which requires clarification is whether when agreeing an extension to a contract, the threshold for determining who can make that decision and whether it constitutes a key decision is the value of the whole contract as extended or just the value of the extension. It is recommended that where, on the original contract award, there was a specific delegation by Cabinet to officers to exercise a right to extend, then only the value of any such extension should be taken into account in determining whether it is a key decision and who has authority to take it. In other cases, the cumulative value of the contract should apply.

## 2.11 Remote Participation at Meetings

During the Covid-19 Pandemic, the Constitution was amended to permit remote participation at meetings where Councillors were unable to attend. Councillors are not permitted to vote if attending remotely however can still participate. The Constitution is currently silent on the definition of participation. It is therefore proposed to amend the current standing orders (Part 4A Para 21.5) to include the provision that members are not able to move or second motions or amendments remotely. A further line will therefore be added to 21.5 to this effect.

## 3 **ALTERNATIVE OPTIONS**

3.1. The Council is advised to make these changes to ensure the Constitution is up to date and compliant with current legislation and best practice. The alternative option would be to do nothing, which is not recommended

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

4.1. None for the purposes of this report

#### **5 TIMETABLE**

5.1. The recommendations of the Standards and General Purposes Committee will be considered by Council at its' meeting on 14 September 2022.

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

6.1.

#### **7 LEGAL AND STATUTORY IMPLICATIONS**

7.1. The Constitution provides that proposed changes to the Council's constitution be reported to this Committee for approval prior to being considered at Council. (Article 15)

7.2. The Monitoring Officer has delegated authority to make minor administrative changes to the Constitution to reflect legislative changes or for the purposes of clarification.

7.3. The proposed amendments to the Constitution comply with the legislative requirements for decision making and in particular, the changes to paragraph 18 of the Access to Information Procedure rules reflect the provisions of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012

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

8.1. None for the purposes of this report

#### **9 CRIME AND DISORDER IMPLICATIONS**

9.1. None for the purposes of this report

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

10.1. None for the purposes of this report

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

- Appendix A – Amended wording for Part 18 of the Access to Information Rules (Part 4B)

#### **12 BACKGROUND PAPERS**

12.1. None



### 18 Exempt Urgency Procedure

Where ~~the date of the meeting~~ a meeting at which it is proposed to consider exempt or confidential information and therefore the meeting is to be held entirely in private makes compliance with (17.1 above) impracticable the meeting may only be held in private where:

- a) The Chair of the Overview and Scrutiny Commission (or in his/her absence The Mayor or in his or her absence the Deputy Mayor) has agreed that the meeting is urgent and cannot reasonably be deferred; and
- b) a notice of that agreement is published as soon as reasonably practicable;

APPENDIX B – Part 4A Council Procedure Rules – Section 21 Remote Attendance

21.5 A member may participate in a meeting of Full Council remotely and shall have the right to ask questions pursuant to Rule 12. Such participation would not amount to attendance at that meeting for the purposes of ascertaining whether the meeting is quorate and they shall not be entitled to vote on any matter under consideration.

**Members are not permitted to move or second motions or amendments remotely.**

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

**Date: 21.07.2022**

Wards: All wards

### **Subject: Political Group Use of Council Resources**

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

Lead member: Councillor Billy Christie, Cabinet Member for Finance and Corporate Services

Contact officer: Andrew Robertson, Head of Democracy and Electoral Services

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#### **RECOMMENDATIONS:**

That members consider the options for the use of Merton letterheaded paper by councillors set out in paragraph 3 below and either:

A) Agree which option should be adopted in future; or

B) Agree to establish a cross party working group to consider the options and to report back to this committee at its next meeting.

---

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

1.1 For many years, individual councillors have from time to time used Merton Council headed paper to write to their residents for a variety of reasons. These include notifying residents of upcoming planning applications or other events in their wards as well as “welcome letters” sent by some councillors to new residents.

1.2 It would appear that the approach to sending such letters is not consistent among the political groups and it would therefore seem prudent to review the position and, if necessary, clarify the provisions of Part 5E of the Council’s Constitution (Protocol on the Use of Council Resources and Facilities) to see whether they should be amended either to reflect practice on the ground or to change the overall agreed approach.

1.3 Part 5E covers this issue as follows:

***Personalised Letterhead, Compliment Slips and Business Cards***

*These are provided for use only in connection with Council business and are available to all members of the Council and can be customised to show positions held as Leader of the Council, Deputy Leader of the Council, Cabinet Portfolio Member and Chair of a committee*

*Letterheads, compliment slips and business cards can, as a matter of fact, state the name of the political party group to which the councillor belongs and the ward they represent and details of surgeries.*

### **Postage**

*Basis of Provision Facilities are available to Members of the Council on the basis of posting individual letters for the purpose of:*

- *Communication with other organisations as a part of dealing with issues raised by constituents or in relation to members' responsibilities e.g., Cabinet portfolio or role as committee chair.*
- *Providing information on a one-off basis to new electors in the ward on the work of the Council, its committees, services in the area provided by the Council or joint authorities [e.g. GLA, police, fire, transport, health] and how to contact their local Councillors or MP; and*
- *The circulation of information to individuals or groups of individuals within wards or the conduct of surveys or consultation processes*

*Responding to individuals or small groups of constituents on specific matters raised by them;*

*The Council's facilities are not available for ward-wide mail shots, the distribution of leaflets or the posting of general information to constituents other than in the circumstances described above. They are also not available for posting any material which could not lawfully be printed by the Council. In considering those issues members should seek the views of officers above if there is doubt."*

- 1.4 The Local Government Act 1986 imposes a prohibition on local authorities from publishing any material which, in whole or part, appears to be designed to affect public support for a political party.
- 1.5 This provision is to some extent mirrored in the Code of Conduct for Members which the Council adopted in July 2021, paragraph 7.2.b of which requires councillors to ensure they do not use council resources for party political purposes unless that use could reasonably be regarded as likely to facilitate, or be conducive to the discharge of the functions of the authority or the office to which they have been elected.
- 1.6 In order to ensure that letters sent by councillors do not breach the above requirements, they are sent to the Monitoring Officer or her deputy for approval

(although the format of welcome letters had been previously agreed and are therefore not cleared on a case-by-case basis).

## **2 DETAILS**

### **CURRENT PRACTICE - WELCOME LETTERS**

- 2.1 For a number of years the group offices representing Merton Conservative Councillors and Merton Park Ward Independent Residents Councillors have been sending welcome letters to new residents that have recently moved into their wards. Councillors receive the information from Electoral Services on request, which they are legally entitled to. The purpose of the letters is to introduce the councillors to the new residents and to offer any assistance if required. The letters are not party political.
- 2.3 Since the 2022 elections, Liberal Democrat councillors have also started to send welcome letters to residents.
- 2.4 In wards which are represented by Councillors from different political parties, the letters do not reference the Councillors from the other parties that represent the ward.
- 2.5 The council has historically paid for the postage for the sending of welcome letters.

### **LETTERS ON WARD BUSINESS**

- 2.6 For a number of years most political groups have sent letters to residents on different ward matters covering a wide variety of subjects, such as planning applications, crime and disorder, safer neighbourhoods, street lighting, flooding, overgrown trees, leaf fall and the holding of ward surgeries.
- 2.7 These letters are cleared by the monitoring officer before they are sent out, who checks for any party-political references.
- 2.8 Letters on ward business have usually been hand delivered by the Conservative group and Merton Park Ward Independent group. When sent by the Liberal Democrat group these letters are sometimes hand delivered and sometimes sent via the council, depending on numbers. When occasionally sent by the Labour Group the council has paid for the postage.

## **3 PROPOSED FUTURE OPTIONS**

Councillors are asked to consider the following options:

### **Option 1:**

- 3.1 Political groups can continue sending welcome letters to residents on Merton letterhead so long as they comply with a template agreed by the Monitoring Officer. The council will continue to pay for postage. Letters on ward business must be cleared by the Monitoring Officer, and postage will also be paid for if not hand delivered.

**Option 2:**

- 3.2 Political groups can continue sending welcome letters to residents on Merton letterhead so long as they comply with a template agreed with Monitoring Officer. Letters on ward business must be cleared by the Monitoring Officer. The council will not pay for postage and letters must be hand delivered.

**Option 3:**

- 3.3 Political groups are permitted to send letters to residents on ward business only, welcome letters are no longer permitted. Letters on ward business must be cleared by the Monitoring Officer. The council will pay for postage if the letters are not hand delivered.

**Option 4:**

- 3.4 Political groups are permitted to send letters to residents on ward business only, welcome letters are no longer permitted. Letters on ward business must be cleared by the Monitoring Officer and must be hand delivered.

**Option 5:**

- 3.5 Political groups are permitted to send any letter to residents on Merton letterheads so long as it has been cleared by the Monitoring Officer. However, all letters must be hand delivered.

**Option 6:**

- 3.6 Political groups are no longer permitted to send any letters to residents from Councillors on Merton letterheads. The council will also not pay for postage.

**Supplementary:**

- 3.7 In wards which are represented by Councillors from different political parties, consideration could be given to requiring reference also to be made to councillors from the other parties representing the ward.

**4 CONSULTATION UNDERTAKEN OR PROPOSED**

- 4.1 All political group offices have been asked for their input on what letters they have been sending to residents.

**5 TIMETABLE**

- 5.1 The recommendations made by SGP Committee will be implemented immediately.

**6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

- 6.1 There is a financial implication in that the council has historically been paying for postage when sending welcome letters to residents. Since the beginning of the year, there have been over 8000 additions to the register of electors, which averages out at around 400 people per ward. In that time Conservative Councillors have sent 1361 welcome letters to residents, which works out at a cost of £694.11. Merton Park Ward Independent Residents Councillors have

sent 14 welcome letters at a cost of £7.14. Since the elections, Liberal Democrat Councillors have sent 394 welcome letters at a cost of £200.94. The Labour group does not currently send welcome letters to residents.

- 6.2 Since the elections Liberal Democrat Councillors have also posted 601 letters on planning matters at a cost of £306.51.

## **7 LEGAL AND STATUTORY IMPLICATIONS**

- 7.1 As a result of a complaint received by the Monitoring Officer concerning welcome letters that have been sent out by Ward Councillors, it is considered prudent to review the types of letters that can be sent out by political parties on Merton Council headed paper, the process for doing so and a consistent approach to the delivery of these types of letters.
- 7.2 Ward Councillors are legally entitled to request electoral register updates and to use it for the purposes of their elected office and so are able to send welcome letters to new residents in their ward. However, welcome letters, letters on ward business or any type of letter, if on Merton headed paper should not be seen to be party political and falling foul of the prohibition in section 2 of the Local Government Act 1986 and Part 5E of the Council's Constitution (Protocol on the Use of Council Resources and Facilities).
- 7.3 The current practice and options described above do not in themselves fall foul of the Act and the Constitution. The requirement of the sign off the Monitoring Officer provides a safeguard to ensure that letters sent by ward councillors are not using Council resources for political purposes.

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

- 8.1 None

## **9 CRIME AND DISORDER IMPLICATIONS**

- 9.1 None

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

- 10.1 None

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

- 11.1 None

## **12 BACKGROUND PAPERS**

- 12.1 None

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

**Date: 21 July 2022**

Wards: All

## **Subject: Freedom of the Borough**

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

Lead member: Councillor Eleanor Stringer, Cabinet Member for Civic Pride

Contact officer: Louise Round: [louise.round@merton.gov.uk](mailto:louise.round@merton.gov.uk)

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### **Recommendations:**

- A. To agree the nomination of Ex-Councillor Mark Allison for Freeperson of the Borough Status.
  
  - B. To note that a special Council meeting will be held on 5 September to confer that status on Ex-Councillor Allison and Ex-Councillor Williams and to awarded honorary alderman status on the ex-councillors listed in paragraph 2.1.5 below.
- 

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

- 1.1. Members will be aware that the Council has the power under section 249 of the Local Government act to admit “persons of distinction” as freemen or freewomen of the Borough. A similar power exists to confer the title of honorary aldermen and alderwomen on persons who in the opinion of the Council have rendered eminent services to the council while members of the Council.

## **2 DETAILS**

- 2.1.1 This Committee has previously agreed that in order to award freedom of the borough status nominations should be sent to the Monitoring Officer and this Committee may then convene a cross party working group for the purpose of considering such nominations.
- 2.1.2 This Committee has previously agreed the nomination of ex-councillor David Williams for freeperson status. In that instance agreement was reached without the need for a cross party working party. Since that nomination was agreed, a further nomination has been received in respect of ex councillor Allison and a copy of that nomination is attached as appendix A. Discussions have taken place with the group leaders and it is understood that a consensus has been reached that ex councillor Allison’s nomination is also agreed.
- 2.1.3 It is therefore proposed that the special meeting take place on 5 September for the purposes of conferring freeperson status on both ex councillors. At that meeting Council will also be invited to confer honorary alderman and woman status on the ex councillors listed below.
- 2.1.4 Under the Local Government Act 1972, Honorary Alderman and woman status can be conferred on persons who have, in the opinion of the Council.

Rendered eminent services to the Council as past members of that Council, but who are not then members of the Council. The practice in Merton is that all Councillors who have 15 or more years cumulative service will be automatically given Honorary Alderman or woman status once they are no longer Councillors.

2.1.5 It is therefore recommended that the following ten Ex-Councillors who have 15 or more years of cumulative service on the Council are conferred with this status:

- Geraldine Stanford
- Nick Draper
- Russell Makin
- David Chung
- Oonagh Moulton
- David Simpson CBE
- Peter Southgate
- John Dehaney
- David Dean
- James Holmes

### **3 ALTERNATIVE OPTIONS**

3.1. Members could choose not to agree the nomination for freeperson status at this time.

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

4.1. In relation to conferring freedom of the borough status, all councillors have been invited to make nominations and the final decision will rest with full Council. There is no requirement for public consultation.

### **5 TIMETABLE**

5.1. If the Committee agrees the proposals set out in this report, a Special Council on 5 September to confer freedom of the borough status along with the previously agreed award for David Williams and honorary alderman and woman status on a number of other ex-councillors.

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

6.1. There are no significant implications although a modest amount of expenditure will be required to hold the special council referred to above.

### **7 LEGAL AND STATUTORY IMPLICATIONS**

7.1. The power to confer freedom of the borough and honorary alderman status is contained in section 249 of the Local Government Act 1972 and includes the ability to incur reasonable expenditure in connection with the same. In order to confer such status, it is necessary for a resolution to be passed by a two thirds majority at a special council meeting convened for that purpose, as will be the case in respect of the meeting on 5 September.

- 8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**
- 8.1. None
- 9 CRIME AND DISORDER IMPLICATIONS**
- 9.1. None
- 10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**
- 10.1. None
- 11 BACKGROUND PAPERS**
- 11.1. None.

**NOMINATION FOR FREEDOM OF THE BOROUGH**

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

MARK ALLISON

2. Freedom of the Borough is a high honour which should only be awarded in exceptional circumstances where the prospective recipient is an individual or organisation of distinction and has rendered eminent services to the borough.

Candidates should have a strong and continuing connection with and commitment to Merton or have made a major contribution to national life and in doing so have enhanced the reputation of the borough.

Candidates should have made a substantial contribution to the borough in any area of activity, which could include:

- artistic and cultural endeavours
- business, economic growth and prosperity
- charitable work
- improvement to the built and natural environment
- religious and spiritual life
- sports activities
- civic service

The award may be granted posthumously.

3. The award of the Freedom of the Borough requires support of 2/3 of Council. Nominations should therefore first be discussed within your political group and, where appropriate, with other group leaders. In your opinion, is the nomination likely to achieve the required 2/3 support at Council?

YES

NO

4. Please use the box below to outline your nominee's outstanding achievements in the Borough or on the international stage which have brought pride and satisfaction to the Borough. Continue on a separate sheet if necessary.

Mark Allison has made a major contribution to the borough ever since he was elected as a councillor in 2002. Mark has held many positions on the council. While on these he made a substantial contribution to the borough especially in enhancing businesses, economic growth and prosperity in the borough and in protecting those more vulnerable and on low incomes and supporting charities in the Borough.

**Executive Positions on the Council:**

2002 – 2003 Cabinet Member for Special Projects

2003 – 2006 Cabinet Member for Customer Services

2010 - 2014 Cabinet Member for Finance

2014 – 2020 Deputy Leader and Cabinet Member for Finance

2020 – Deputy Leader and Cabinet Member for Finance and Environment

2021 – Leader

**Committees/Forums/External Bodies:**

2006 –OSC (substitute); The Way We Work OSP, Better Healthcare Closer To Home, Staff Consultative Committee,

2007 – OSC, Regeneration and the Public Realm OSP

2008 – Merton Sutton Surrey JHSC

2009 – Merton Sutton Surrey JHSC

2010 – Pension Fund Advisory Committee, Greater London Employment Forum, London Council Transport and Environment Committee,

2011 – Pension Fund Advisory Committee, Greater London Employment Forum,

2012 – Pension Fund Advisory Committee, Greater London Employment Forum, London Councils Transport and Environment Committee

2013 – Pension Fund Advisory Committee, Greater London Employment Forum,

2014 – Appointments Committee (Vice Chair), Appeals Committee, Pension Fund Advisory Committee, Greater London Employment Forum

2015 – Appointments Committee (Vice Chair), Appeals Committee, Pension Fund Advisory Committee, Greater London Employment Forum

2016 – Appointments Committee (Vice Chair), Appeals Committee, Pension Fund Advisory Committee, Greater London Employment Forum

2017 – Appointments Committee (Vice Chair), Appeals Committee, Pension Fund Advisory Committee, Greater London Employment Forum

2018 – Appointments Committee (Vice Chair), Appeals Committee, Pension Fund Investment Advisory Panel, Greater London Employment Forum

2019 – Appointments Committee, Pension Fund Investment Advisory Panel, Greater London Employment Forum

2020 – Appointments Committee, Joint Regulatory Services Committee, Pension Fund Investment Advisory Committee, Greater London Employment Forum

2021 – Appointments Committee (Chair), Appeals Committee (Chair), Joint Regulatory Services Committee, Newable Ltd, LGIU, London Councils Leaders' Committee

## **A substantial contribution to the borough**

As a councillor, be it on a committee, in the Cabinet as Finance Lead, as Deputy Leader and as the Leader, Mark led on, contributed to and achieved the following for the 200,000+ residents of Merton living in 80,000+ households, served by over 8,000+ businesses:

Protected residents from the cost of living crisis by keeping Council Tax low: Maintained one of Britain's most generous council tax rebate schemes; Protected services for the most vulnerable, through a funding ratio ensuring budget cuts are lower for children's services and adult social care; Announced a climate emergency, established a climate action plan and put in place a fossil fuel divestment process for Merton's pension fund; Planted more trees and launched the borough's first ever tree strategy; Maintained good quality universal services, with high satisfaction for parks and green spaces; Invested in young people with special educational needs and disabilities; Massively improved education results, with Merton's state school pupils in the country's top five for progress rates, and 95% of our schools rated Good and Outstanding; Reinstated free school meals after the government scrapped them; Delivered food to isolating older and vulnerable residents during lockdown; Kept residents safe throughout the pandemic, helped care homes to reduce virus rates and ensured patients leaving hospital got support fast; Distributed Covid-19 grants to 4,000 struggling households during the pandemic, and gave financial support to foodbanks and other local charities; Been among the fastest councils to get financial support to local businesses; Approved thousands of social and affordable homes – including the regeneration of High Path; Taken action against rogue landlords, including fines and court cases; Supported sport and brought AFC Wimbledon home again after 30 years in the wilderness – and attracted the London Broncos to Plough Lane too; Prevented library closures, and built a new library at Colliers Wood; Opened a new leisure centre and swimming pool at Morden; Introduced wheeled bins that have reduced the level of split bag litter and resulted in record recycling rates; Issued more fines to people who leave litter or fly-tipping than any other council in the country; Introduced [Fix My Street](#) to make it easier to report rubbish on the street, with 95% of fly-tips now being removed within 24 hours of a report; Invested in modern CCTV to keep our residents safe and reduce the fear of crime; Reduced crime, with Merton now among the lowest crime boroughs in London; Ensured all staff are paid the living wage, and introduced bereavement leave for staff who miscarry.

## **Standards and General Purposes Committee Forward work plan**

### September

- Internal Audit progress report on annual audit plan
- Final Accounts
- Update on RIPA authorisations (March and September)
- Complaints against Members
- Recruitment of Independent Person
- Temporary and Contract Staff update
- 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
- Risk management
- Appointment of Independent Person
- Complaints against Members
- Work programme

### March

- External Audit Certification of Claims report
- External Audit progress report
- External Audit Plans for Council and Pension Fund accounts
- Internal Audit Plan
- Internal Audit progress report
- Update on RIPA authorisations (March and September)
- Temporary and Contract Staff update
- Complaints against Members
- Work programme

## June

- 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
- 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.
- Revisions to Contract Standing Orders (July '23)
- Freedom of the Borough (recommendations from working group)