

Merton Council

Standards and General Purposes Committee Progress Report

June 2016



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

20 June 2016

Audit Progress Report

We are pleased to attach our Audit Progress Report.

The purpose of this report is to provide the Committee with an overview of our progress with the Council's 2015/16 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

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

Yours faithfully

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

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

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This progress update is prepared in the context of the Statement of responsibilities. It is addressed to the Governance & Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

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

Audit Progress 2015/16

Fee letter

We issued our 2015/16 fee letter to the Council on 2 April 2015.

Financial Statements

Our detailed approach to the 2015/16 audit, including our assessment of risks impacting on our responsibilities, was set out in our Audit Plan which was reported to the 10 March 2016 meeting of the General Purposes Committee.

We adopt a risk based approach to the audit and, as part of our ongoing continuous planning, we have continued to meet key officers regularly to ensure the 2015/16 audit runs as smoothly as possible and to identify any further risks and technical accounting issues that require our consideration at the earliest opportunity.

Planning and interim visit

We have completed our initial planning work for both the main Council and Pension Fund, including the walkthrough of the key financial systems and processes, and the majority of our planned work to test financial controls for the main Council audit.

There are no significant issues that we wish to draw to your attention at this stage.

Housing Benefit

We have been asked by the Department for Work and Pensions (DWP) and by the Council to undertake two discrete reviews related to our qualification of the Council's 2014/15 Housing Benefit Grant claim. First, in April 2016, we reviewed work performed by the Council to show that a small number of high value errors detected as part of our original certification work, and reported as part of our qualification letter, were not representative of the whole population tested. We re-performed in detail a sample of the cases tested by the Council in its review. We concluded that based on the sample tested the Council's findings were correctly stated and reported our conclusion to the DWP at the end of April.

Second, in response to the results of the Council's additional work, and our testing of it, the DWP asked us to quantify the impact on the value of the extrapolated cell adjustments reported in our original qualification letter if the small number of high value errors considered in the Council's additional work were removed from our results. We performed the requested re-calculations which significantly reduced the value of the extrapolated errors. We reported the revised extrapolations to the DWP on 13 June.

We commenced our detailed testing in support of the Council's 2015/16 grant claim in April. Work has progressed well and our initial testing is almost complete. As a result of errors found in the initial testing undertaken we have identified four lots of 40+ additional testing which is being undertaken by the Council. We will review and re-perform a sample of the testing undertaken by the Council with the intention of placing reliance on it.

Post statements visit.

Our post-statement visit for the audit of the main Council and Pension Fund accounts is currently scheduled between August and September. Both the timing of our visit and our detailed working papers requirements have been communicated to officers and agreed. We are currently seeking to finalise timings for the 2015/16 audit of CHAS Ltd which we are expecting to schedule for November.

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

We will also review and report to the National Audit Office, to the extent and in the form required by them, on your whole of government accounts return.

Our audit results report, setting out the findings of our detailed work and overall conclusions, will be presented to the Standards and General Purposes Committee on 8 September 2016.

Value for money

The NAO has consulted on a draft Auditor Guidance Note (AGN) in respect of auditors' work on value for money (VFM) arrangements. The guidance has now been issued and sets out the proposed overall approach to work on VFM arrangements which apply to audits from 2015/16 onwards.

A copy of the final AGN, and the supporting information for local government bodies, can be viewed on the NAO website: <http://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>.

We are required to reach our statutory conclusion on arrangements to secure value for money based on the overall evaluation criterion, supported by sub-criteria as set out below.

The overall criterion for 2015/16 is:

- ▶ In all significant respects, you had proper arrangements to ensure you took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

And the sub criteria are:

- ▶ informed decision making;
- ▶ sustainable resource deployment; and
- ▶ working with partners and other third parties.

The risks we have identified for the Council's 2015/16 value for money conclusion, and associated work we will carry out, were reported as part of our Audit Plan to the March 2016 meeting of the General Purposes Committee.

Local appointment of auditors

The Department of Communities and Local Government (DCLG) has announced that it has decided not to extend the existing arrangements for external audit contracts beyond the end of 2017/18. From 2018/19 onwards, local authorities will be responsible for appointing their own auditors, and directly managing the resulting contract and the relationship.

Although the new approach to local audit does not come into play until 2018/19, bodies will need to start putting in place the mechanism required to deliver this. As part of the process, bodies will need to set up auditor panels to advise on the selection, appointment and removal of external auditors, and on maintaining an independent relationship with them. These will need to be in place by early 2017, with the procurement process taking place in spring 2017 and external auditors being appointed by December 2017.

One option that is being considered by DCLG, and by the LGA, is for a 'sector led' body to make audit appointments for those authorities that decide to 'opt in' to such arrangements. The LGA wrote to authorities in March 2016 inviting expressions of interest in such an 'opt in' arrangement. Individual authorities will need to consider whether to do so, or whether to adopt other arrangements, for example running their own appointment and procurement exercise, either individually or collectively with other authorities.

Existing external audit arrangements will remain unchanged for the 2015/16, 2016/17 and 2017/18 years.

Accelerating your financial close arrangements

On 17 February 2015 the Accounts and Audit Regulations 2015 were laid before Parliament, having been made under the Local Audit and Accountability Act 2014 on 12 February 2015.

A key area of the regulations is that, from the 2017/18 financial year, the timetable for the preparation and approval of accounts will be brought forward to a draft accounts deadline of 31 May and an audit deadline of 31 July. These changes provide challenges for both the preparers and the auditors of the financial statements. The good news is that with good planning, communication and joint working, those deadlines are highly attainable.

The majority of local authorities are on the right trajectory, having met the current reporting deadlines consistently for the last few years; the challenge now is upping the speed of that trajectory to achieve the faster deadlines. We have included below some suggestions which will help achieve this new statutory deadline. We will continue to engage with officers to ensure that the Council is well placed to meet these new statutory deadlines.

As with any project, the key to success is in the planning, together with timely engagement and collaboration between the preparers of the financial statements and the auditors of those statements. We appreciate that each client starts from a slightly different base position. Therefore, there is no one size fits all solution. However, there are areas where consideration can be given now:

- ▶ revisit the current project timetable;
- ▶ carry out an early in-year financial hard close;
- ▶ review the format of your accounts;
- ▶ review your approach to estimates;
- ▶ review your year-end journal process;
- ▶ review the operation of your ledger system; and
- ▶ consider how fit for purpose is your current financial reporting system.

Over the coming year, we will organise regular meetings with your finance team and use this as a mechanism to discuss options for early close and early substantive testing. We will continue to provide the Committee with regular updates on our progress in this area. We are also happy to discuss the wider process with you in more detail when we next meet.

Other issues of interest

In addition to our formal reporting and deliverables we provide practical business insights and updates on regulatory matters through our Sector Briefings. We attach the latest briefing to this progress report.

Timetable 2015/16

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2015/16 Standards and General Purposes Committee cycle. We will provide formal reports to the Committee throughout our audit process as outlined below.

Audit phase	EY Timetable	Deliverable	Associated General Purposes / Standards and General Purposes Committee	Status
Notification of audit fee	April 2015	Audit Fee Letter	June 2015	Completed
Risk assessment and setting of scope of audit	Nov 2015 – Feb 2016	Audit Plan	March 2016	Completed
Testing of routine processes and controls	Feb – April 2016	Audit results report to those charged with governance	September 2016	Largely complete
Year-end audit	Aug - Sept 2016	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	September 2016	-
Annual Reporting	October 2016	Annual Audit Letter	TBC	-
Grant Claims	September – November 2016	Annual certification report	TBC	-

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