

Merton Council

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

August 2016

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 Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. We, as appointed auditor, take no responsibility to any third party.

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

1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Standards and General Purposes Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Below are the results and conclusions on the significant areas of the audit process.

Status of the audit	<p>We have substantially completed our audit of the financial statements of Merton Council for the year ended 31 March 2016. Subject to satisfactory completion of the following outstanding items we will issue an audit opinion in the form which appears in Appendix E:</p> <ul style="list-style-type: none"> • Completion of our work on the Council's Whole of Government Accounts (WGA) return. • Completion of small amount of detailed audit testing. • Receipt of the signed management representation letter. <p>We will not be able to issue the audit certificate if our work on WGA is not fully completed or we have not received the Pension Fund Annual Report at the time we issue our audit opinion.</p> <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Council's financial statements.</p> <p>We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.</p> <p>We expect to issue the audit certificate at the same time as the audit opinion.</p>
Audit differences	<p>Subject to completion of the outstanding work there are no unadjusted or adjusted audit differences.</p>
Scope and materiality	<p>In our Audit Plan presented at the 10 March 2016 General Purposes Committee meeting, we communicated that our audit procedures would be performed using a materiality of approximately £11.2 million. We have reassessed this based on the actual results for the financial year and have decreased this amount to approximately £10.2 million based on the reduced level of gross revenue expenditure reported in the financial statements compared to the prior year.</p> <p>The threshold for reporting audit differences which impact the financial statements has also decreased from £560,000 to £512,000. The basis of our assessment is 2% of gross operating expenditure, which has remained consistent with prior years.</p> <p>We carried out our work in accordance with our Audit Plan.</p>
Significant audit risks	<p>We identified the risk of management override during the planning phase of our audit, which we reported to you in our audit plan.</p>

	The 'addressing audit risks' section of this report sets out how we have gained audit assurance over this.
Non-significant risks	We identified the following non-significant risks during the planning phase of our audit, which we reported to you in our Audit Plan: <ul style="list-style-type: none">• Payroll• Housing benefit overpayment debtors.
Other reporting issues	We have identified two matters which we set out in more detail in the 'other matters' section of this report below. Both of the matters relate to arrangements for the audit and have been raised together with associated recommendations with the intention of improving arrangements to meet the requirements of early closure and audit needed by 2017/18.
Control observations	We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

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

Paul King

Executive Director
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- Report on an exception basis on the Annual Governance Statement;
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

3. Financial statements audit

Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> • Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. • Reviewing accounting estimates for evidence of management bias. Our work in this area focused in particular on the completeness of the Minimum Revenue Provision (MRP) charged by the Council, the completeness and valuation of its bad debt provisions and the reasonableness of accounting policies applied by management. • Evaluating the business rationale for significant unusual transactions. 	<p>We have significantly progressed our planned programme of work and have identified no evidence of management override or bias to date.</p> <p>Specifically:</p> <ul style="list-style-type: none"> • Subject to a small number of residual queries our detailed testing of journal entries recorded in the general ledger has found them to be appropriate. • We are satisfied that the MRP charged by the Council for the period has been calculated in accordance with extant requirements and supported by accounting records. We have yet to fully complete our work on the bad debt provision. • We identified no significant unusual transactions in the course of our work.

We also identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Non - Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>The Council makes use of shared arrangements with other London boroughs to process its payroll.</p> <p>The Council's Midland iTrent payroll system is partly operated by Agilisys Ltd, a private company which provides similar services to three other London boroughs as part of a partnership arrangement.</p> <p>Technical support and some administrative functions mainly relating to statutory requirements are undertaken by Agilisys, but the bulk of the system's operational functions, which include payroll and HR activities, are carried out by Central Operations Teams (COT) in each of the four councils using Agilisys. For the Council COT staff are currently employed by the London Borough of Sutton Council (LBS), and the service is delivered under a shared service agreement.</p> <p>In 2014/15 LBS commissioned an independent reporting accountants' assurance report on the internal controls of the shared HR and payroll service. The reporting auditor issued a qualified opinion on the design and operating effectiveness of controls. A number of specific control weaknesses were identified as part of this qualification.</p> <p>We have considered the weaknesses identified and have concluded that the issues raised do not give rise to a significant risk of material misstatement of the Council's 2015/16 financial statements. We also note that a management action plan to address the issues identified has been devised and agreed by LBS</p>	<p>We planned to gain assurance in respect of payroll expenditure by both testing controls capable of providing material assurance and undertaking substantive tests of detail.</p> <p>We planned to consider any updated controls assurance report over the shared HR and payroll service operated by LBS and progress made against the 2014/15 management action plan as part of our continuous audit planning.</p>	<p>We have completed both our planned testing of controls and substantive tests of detail and have gained satisfactory assurance over payroll expenditure.</p> <p>We have considered the 2015/16 service auditor report for LBS and we are satisfied that no issues have been highlighted that generate a risk of material misstatement. There remain, however, a relatively large number of recommendations outstanding from the 2014/15 management action plan and management needs to continue to focus on addressing these recommendations.</p>

Non-significant risks	Audit procedures performed	Assurance gained and issues arising
<p>Housing benefit overpayment debtors</p> <p>In the course of our documentation and walk through of the Council's housing benefit system (Civica) we found the value held in the housing benefit system for overpaid benefit to claimants where recovery is being made by deduction from ongoing entitlement did not agree to the equivalent debtor figure in the general ledger as at 31 December 2015.</p> <p>Errors in the design of the reconciliation process for this debtor balance between the housing benefit system and general ledger mean that the Council is not able to explain and support this difference. Officers are aware of this and are reviewing the approach taken to the reconciliation to address the errors. This may also require some input from Civica.</p>	<p>Although the difference between the value of relevant debtors on the housing benefit system and general ledger is not material to our responsibilities, we reviewed the progress made in this area as part of our continuous audit planning. It is important that the Council is able to fully support the value of year-end housing benefit debtors where recovery is being made by deduction from ongoing entitlement appearing in its general ledger and balance sheet by a full reconciliation to the value held in the housing benefit system.</p>	<p>We are satisfied that the year-end housing benefit debtor for amounts being recovered by deduction from ongoing entitlement included in the financial statements and general ledger has been reconciled to relevant output from the housing benefit system subject to an immaterial difference. Work has been done by the Council with its housing benefit provider to clarify the reports that should be used for the reconciliation.</p>

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to you oversight of the Council's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest

There are two matters we wish to bring to your attention.

As planned we used our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools are designed to both 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. They are becoming an increasingly essential audit tool that allow us to complete our work more quickly and efficiently and are important to us in being able to respond to the challenge of early closure and audit by 2017/18. We originally requested analytics data from the Council at the end of the interim stage of the audit in April 2016. Data was not made available to us until the start of our on-site visit in July 2016 and significant further work was required to make the data usable for our purposes. It is important that we

obtain the data more promptly for 2016/17 and that there is a better shared understanding of what is needed. This is an area we plan to work with the Council to address. The successful implementation of the Council's new general ledger system and a simplified and more logical coding structure in 2016/17 should also help to facilitate this.

See **Recommendation 1**

We undertook early substantive testing of transactions processed by the accounts payable, accounts receivable and payroll systems at the interim stage of the audit. We asked the Council to provide evidence to support the transactions tested in April and agreed a delivery date of 30 June 2016 for this. A significant proportion of this evidence was not available by 30 June, and subsequent progress in July and August was slow. Although we recognise this approach is new to the Council, to meet the requirements of earlier closure in 2017/18 we will need to gain more assurance from substantive testing earlier in the year. This is an area where we will work with you to improve the speed of response to requests for supporting evidence and appropriate escalation procedures.

See **Recommendation 2**

Recommendation 1

Work with us to ensure that usable analytics data is available as quickly as possible after closedown of the general ledger at the end of 2016/17. This will require a collaborative approach and a clear shared understanding of what is needed and how we intend to use the data to support our programme of testing.

Recommendation 2

Ensure that evidence to support substantive testing undertaken during the year is made available by the agreed date.

Control themes and observations

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements.

We have reviewed the Annual Governance Statement and can confirm that it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

Request for written representations

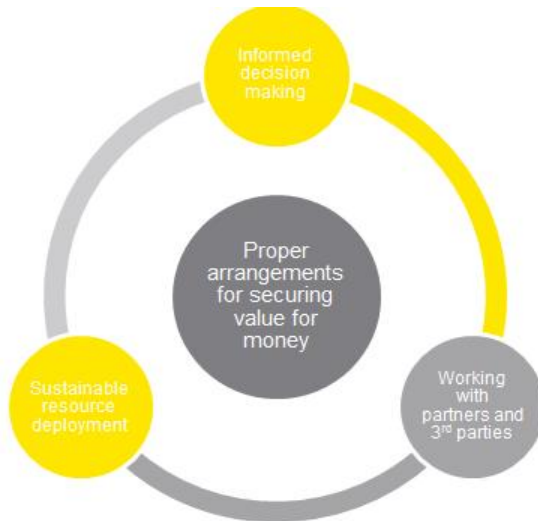
We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix F.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

We have not yet undertaken our work in this area and will report any matters that arise to the Standards and General Purposes Committee.

4. 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. This is known as our value for money conclusion.

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

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

Overall conclusion

We did not identify any significant risks in relation to these criteria.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements.

We considered a variety of information sources at the planning stage and updated our understanding of your arrangements at the conclusion stage of the audit, including:

- *Our understanding of your business and entity level controls.* We identified no significant issues to bring to your attention.
- *The Council's own risk management arrangements.* Although we identified no significant issues the Council has considered matters relevant to our value for money conclusion responsibilities in its risk management reports during the year. In particular the Council continues to recognise a level of continued uncertainty affecting Children, Schools and Families services regarding changes to funding regimes and external grants including the Dedicated Schools Grant, together with concurrent additional statutory duties and further demand for services brought about by demographic pressures. In light of this the Council recognises the need to balance competing and increasing demands at a time of contracting resources and major change, and to make significant recurrent savings over the next three to four years.
- *The Council's current and prior year annual governance statements.* No issues were disclosed of which we were not otherwise aware or which we considered to be a significant risk to our VFM conclusion responsibilities.
- *Financial and budgetary control information including disclosures in the narrative statement contained in the Council's 2015/16 draft financial statements.* The Council's reported financial performance against budget improved considerably during the course of the year, and outturn performance was better than the £3 million general fund budget deficit forecast at the

planning stage of the our audit. At the end of 2015/16 net service expenditure was overspent by approximately £4.5 million compared to budget. The main causes of this were £2.7 million overspend in Adult Social Care, a £3.8 million shortfall in parking income and a £0.6 million overspend within social care, youth inclusion and commissioning. These were offset by a £2.6 million net underspend across all other services. Corporate provisions, including earmarked reserve transfers, underspent by £2.8 million and grant income exceeded the budgeted figure by £1 million. This reduced the overall net overspend to approximately £0.7 million, against the Council's planned bet budget which was broadly to breakeven. The resulting approximate £0.694 million net expenditure was met by an appropriation from earmarked reserves.

- *The medium term financial planning of the Council and its overall financial resilience.* We specifically considered the Council's updated medium term financial strategy (MTFS) set out in its 2016/20 business plan. Based on this, and after considering the impact of potentially uncertain grant funding and its planned call on earmarked reserves in its financial projections, we have concluded there is no significant risk to the Council's financial resilience over a three year period. We note, however, that the Council, in common with other public bodies, continues to face significant future financial challenges. At the time the MTFS was set the Council forecast a budget gap of approximately £3.5 million by 2019/20, with service departments still needing to identify approximately £7.8 million of target savings. The 2016/17 Local Government Finance Settlement includes figures for the four years 2016-17 to 2019-20. The Government have presented this as an offer to local government for the four year period. To qualify for the offer councils will have to publish an efficiency plan covering the same period of time. It is the Council's current intention to take up this offer.
- *The work of internal audit and other external regulators.* Although there has been some deterioration in the overall internal control environment based on the work of Internal Audit, as reported to Standards and General Purposes Committee members previously, with 72 per cent of Internal Audit reviews rated as satisfactory or above levels of assurance compared to 82 per cent in the previous year, we are satisfied that this is not a significant risk for the purposes of our VFM conclusion work.
- *The Public Sector Audit Appointment Limited (PSAA) value for money profiles.* We have used the profiles tool to assess Council spending against its statistical nearest neighbours and all other London Boroughs. The council tax financing requirement and net level of spending are low in absolute terms. Although the relative level of net spending increases when viewed on a per capita basis, it remains no higher than average against the comparative groups. The level of service spending at the Council is also average in relation to both comparative groups used. Our analysis in this area has not therefore highlighted a significant value for money risk.

Although not material to our value for conclusion responsibilities we have also considered the Council's developing arrangements for the Better Care Fund (BCF) as part of our work to inform the value for money conclusion. The BCF is a major policy initiative between local authorities, clinical commissioning groups (CCGs) and NHS providers. Its primary aim is to drive closer integration of care services and to improve outcomes for patients, service users and carers. In 2015/16, the Council commenced a partnership agreement, under Section 75 of the National Health Service Act 2006, with Merton CCG in respect of the BCF. The CCG receives the full BCF allocation from NHS England and transfers a proportion of this, approximately £5.5 million in 2015/16, into a pooled fund to be spent on services which is hosted by the Council. The Council makes a nominal contribution to the pool. Although the BCF partnership with Merton CCG has been established as a joint operation with joint governance arrangements and decision making, there is currently no sharing of financial risk or significant other changes in practice from previous years, for example the renegotiation of contracts with providers, that demonstrate evidence of further integration. It is not clear therefore that the arrangement is yet operating as a joint operation in substance.

Based on all of this we therefore expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

Appendix A – Uncorrected audit differences

There are no uncorrected misstatements greater than our nominal amount of £512,000 subject to completion of our outstanding work.

Appendix B – Corrected audit differences

A number of corrections to the financial statements have been made a result of our audit. There are no corrections which we specifically wish to draw to your attention subject to the completion of our outstanding work.

Appendix C – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 10 March 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Standards and General Purposes Committee on 8 September 2016.

We confirm that we have met the reporting requirements to the Standards and General Purposes Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 10 March 2016.

Appendix D – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £
Total Audit Fee – Code work	143,498	143,498
Certification of claims and returns	41,242	41,242
Non-audit work – Teachers’ Pensions	8,500	N/A

Our actual fee in in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

The proposed non-audit work relates to the certification of the Council's Teachers' Pension return which is outside of claim certification work covered by the PSAA contract.

Appendix E – Draft audit report

Independent auditor's report to the members of the London Borough of Merton

Opinion on the Authority's financial statements

We have audited the financial statements for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement, and the related notes 1 to 44.
- The Collection Fund, and the related notes 1 to 5.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the London Borough of Merton, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Corporate Services and auditor

As explained more fully in the Statement of Responsibilities set out on pages 151 to 152, the Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's] circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Corporate Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the London Borough of Merton as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Conclusion on the London Borough of Merton’s arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor’s responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether the London Borough of Merton had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the London Borough of Merton put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the London Borough of Merton had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, the London Borough of Merton put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the London Borough of Merton in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Paul King

for and on behalf of Ernst & Young LLP, Appointed Auditor

Reading

xx September 2016

Appendix F – Management representation letter

[To be prepared on the Council's letterhead]

xx September 2016

Ernst & Young LLP

Apex Plaza,

Forbury Road,

Reading

RG1 1YE

This representation letter is provided in connection with your audit of the financial statements of the London Borough of Merton ("the Council") for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of the London Borough of Merton as of 31 March 2016 and of its expenditure and income for the year then ended in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations (England) 2015 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, and of its expenditure and income of the Council in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. We believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC

Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 that are free from material misstatement, whether due to fraud or error.

5. We believe that the effects of any unadjusted audit differences, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because;
 - a. ***At this stage of the audit we do not expect there to be any unadjusted audit differences***

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
 - Additional information that you have requested from us for the purpose of the audit and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council’s related parties and all related party relationships and transactions of which we are aware, including

sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed all guarantees that we have given to third parties.
4. No other claims in connection with litigation have been or are expected to be received.

F. Subsequent Events

1. Other than described in Note 33 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. For accounting estimates recognised or disclosed in the financial statements:
 - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
 - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
 - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
 - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement

benefits and all settlements and curtailments have been identified and properly accounted for.

I. Comparative information – corresponding financial information

1. Prior year adjustments have only been included in the financial statements to correct material prior year errors.

J. Use of the Work of an Expert

1. We agree with the findings of the experts engaged to evaluate the valuation of property, plant and equipment, and the pension fund liability and have adequately considered the qualifications of the experts in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

Yours Faithfully,

Caroline Holland
Director of Corporate Services

I confirm that this letter has been discussed and agreed at the Standards and General Purposes Committee on 8 September 2016

Councilor Peter McCabe
Chair, Standards and General Purposes Committee

Appendix H – Required communications with the Standards and General Purposes committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
<p>Planning and audit approach Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan.
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report.
<p>Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about the London Borough of Merton's ability to continue as a going concern for the 12 months from the date of our report.
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit Results Report
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit.
<p>Related parties Significant matters arising during the audit in connection with</p>	We have not matters we wish to report.

Required communication	Reference
the entity's related parties including, when applicable: <ul style="list-style-type: none">▶ Non-disclosure by management▶ Inappropriate authorisation and approval of transactions▶ Disagreement over disclosures▶ Non-compliance with laws and regulations▶ Difficulty in identifying the party that ultimately controls the entity	

Required communication	Reference
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management’s refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	We have received all requested confirmations.
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have not identified any material instances of non-compliance with laws and regulations.
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY’s objectivity and independence</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Plan and Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	None identified
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<p>Audit Plan and Audit Results Report</p> <p>Our final fee will be confirmed in the Annual Audit Letter if considered necessary</p>
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	Annual Certification Report

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