



London Borough of Merton

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

4 May 2022



EY

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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
Opinion on the Council and Pension Scheme:	
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.
Area of work	
Conclusion	
Reports by exception:	
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

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

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

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

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>Misstatements due to fraud or error - management override of controls</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">• material weaknesses in controls or evidence of material management override;• instances of inappropriate judgements being applied; or• any other transactions during our audit which appear unusual or outside the Council's normal course of business.
<p>Inappropriate capitalisation of expenditure</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">• tested capital additions to ensure that the expenditure incurred and capitalised is clearly capital in nature; and• 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. <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>Valuation of land and buildings</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">• The incorrect application of amenity land value for undeveloped land in non-school assets; and• 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. <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">• At the end of 2018/19 the total net book value of PPE increased by approximately £47.5million;• At the end of 2019/20 the total net book value of PPE increased by a further £2.2million; and• At the end of 2020/21 the total net book value of PPE increased by a further £5.2million
<p>Pension Asset and Liability valuation</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>Going concern disclosures</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>Accounting for Covid-19 related grant funding</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>

Continued over.

Financial Statement Audit – London Borough of Merton (continued)

Other area of audit focus	Conclusion
<p>National Non-Domestic Rates (NNDR) Appeals Provision</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
Planning materiality	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.
Reporting threshold	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>Misstatements due to fraud or error 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>Valuation of private debt and infrastructure investments 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>Going Concern 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.

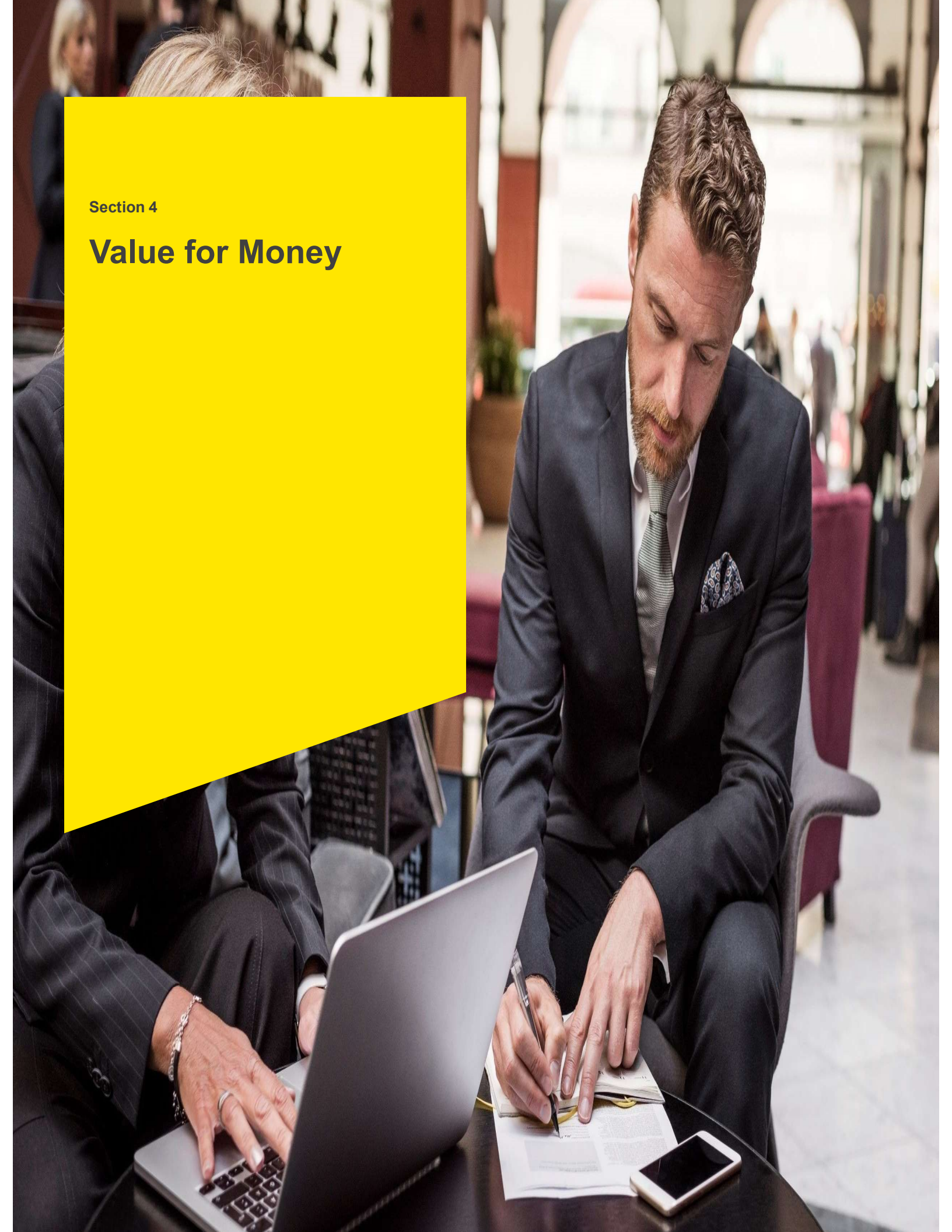
Our application of materiality

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
Planning materiality	We determined planning materiality to be £9.0m as 1% of net assets reported in the accounts which is consistent with the prior year.
Reporting threshold	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)

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.

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.

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.

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.

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

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.

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.

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.

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.

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

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.

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



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.

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

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).

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

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.

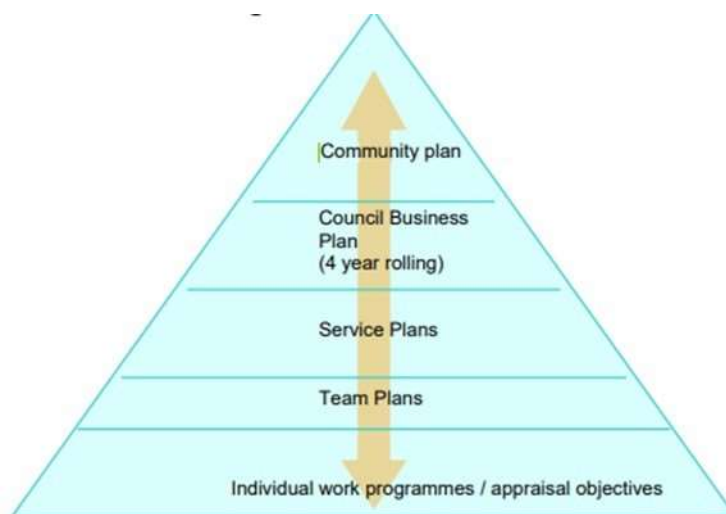
The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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

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.

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.

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.

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.



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 £
Scale Fee – Code work	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	-	-
Total Fee – Code Work	269,991	TBC	192,934

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 £
Scale Fee – Code work	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
Total Fee – Code work	55,270	TBC	37,970

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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