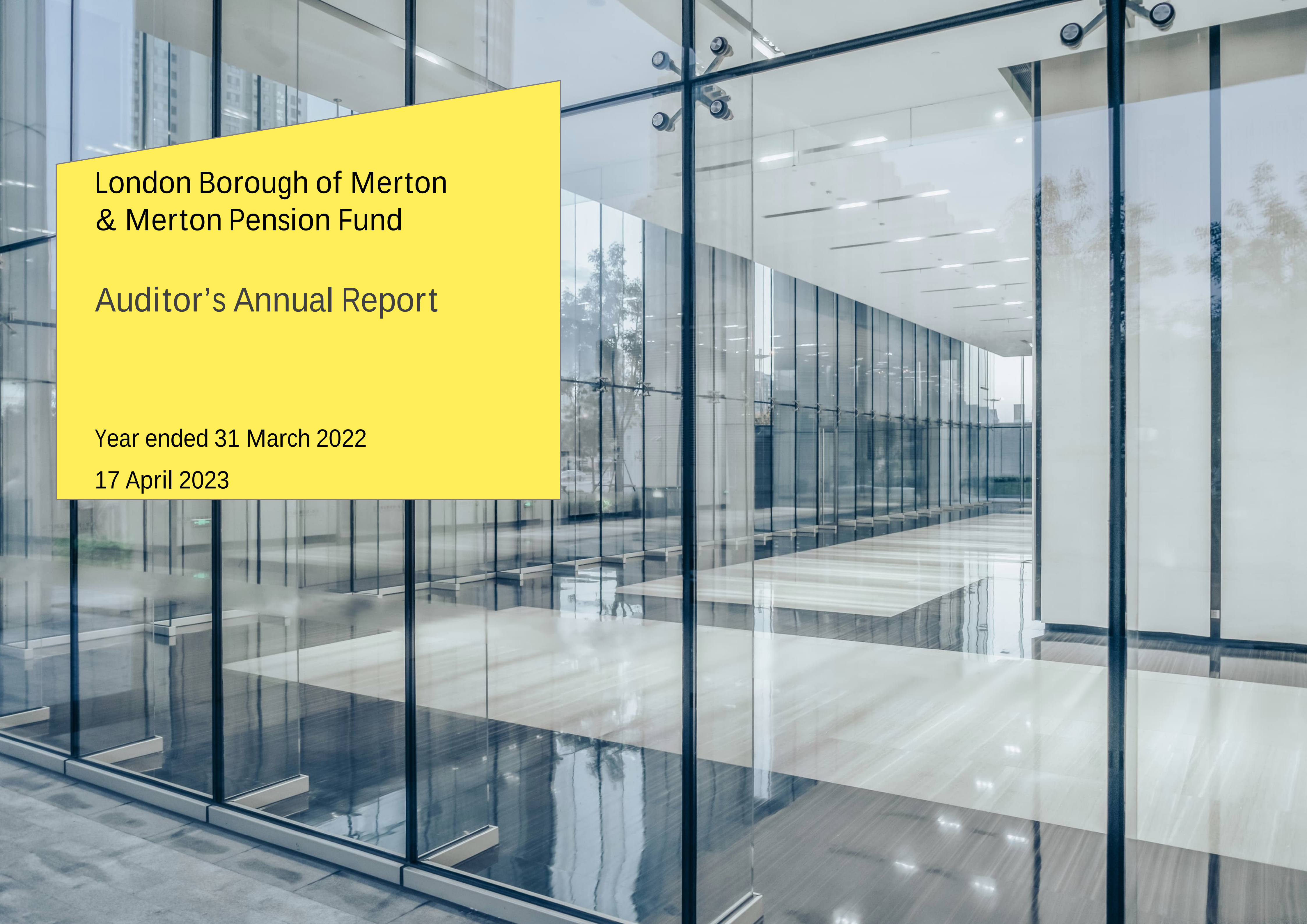

London Borough of Merton & Merton Pension Fund

Auditor’s Annual Report

Year ended 31 March 2022

17 April 2023

Contents

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.psaa.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 July 2021)” 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 London Borough of Merton and Merton Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the London Borough of Merton and Merton Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the London Borough of Merton and Merton Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

Introduction

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 value for money (VFM) arrangements, which aims to draw to the attention of the Authority, 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 2021/22 audit work in accordance with the Audit Plan that we issued on 9 June 2022. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2021/22 group financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the London Borough of Merton;
- If we identify a significant weakness in the 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 Authority

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

Introduction (continued)

2021/22 Conclusions	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Group and Council as at 31 March 2022 and of the Group and Council 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 2021/22. The 'financial statements' set out the Group, Council and Pension Fund accounts. We issued our auditor's report on 7 February 2023.
Going concern	We have concluded that the Interim Executive Director of Finance and Digital's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts and was consistent with our understanding of the Authority.
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.
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 03.
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.
Whole of government accounts	We have not yet completed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is because we are awaiting confirmation from the NAO of any additional procedures to be performed by auditors for bodies which fall below the reporting threshold.
Certificate	We are not currently able to issue our certificate due to the outstanding work required for whole of government accounts as explained above.

Audit of the financial statements – London Borough of Merton

Key findings

The Narrative Statement and 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 07 February 2023, we issued an unqualified opinion on the group financial statements. We reported our detailed findings to Standards & General Purposes Committee. 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 and the new significant risk included in the Audit Results Report. We reported two internal control recommendations in the Audit Results Report.

Significant risk	Conclusion
Misstatements due to fraud or error	There is a risk that the financial statements as a whole are not free of material misstatements whether caused by fraud or error. 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. Our work did not identify any material weaknesses in the design or operation of controls or evidence of material misstatements, whether due to fraud or error. Our work did not identify any other transactions during our audit which appeared unusual or outside the organisation's normal course of business.
Risk of fraud in revenue and expenditure recognition – Inappropriate capitalisation of revenue expenditure	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. In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position. We assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure which is funded from Council Tax. This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing. Our work did not identify any material misstatements from inappropriate capitalisation of revenue expenditure and we did not identify any material weaknesses in controls or evidence of material management override in relation to capitalisation of revenue expenditure. We did not identify any instances of inappropriate judgements being applied.

Audit of the financial statements – London Borough of Merton

Significant risk	Conclusion
Risk of fraud in revenue and expenditure recognition – Covid 19 Grants	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 considered the income and expenditure streams of the Council and our assessment is that the risk is most prominent with regards to inappropriate recognition of Covid-related grant funding, including incorrect identification of whether the Council is acting as the principal or an agent and whether any associated terms and conditions were met prior to recognition. Our work highlighted a number of issues with the reconciliation of grants received as per the financial statements and the underlying working papers and also identified a number of instances where the Council incorrectly recorded if they are acting as principal or agent. As a result of our testing both income and expenditure were amended by £1.5m and this adjustment has been made to the revised financial statements. There was no overall impact on the net expenditure of the Council.
Valuation of Land and Buildings – PPE valued under Depreciated Replacement Cost (DRC) and Existing Use Value (EUV)/Fair Value (FV)	The fair value of land and buildings represents a significant balance in the Authority's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. 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. Our testing highlighted one immaterial unadjusted judgmental difference, no other issues were noted.
Infrastructure Assets	An issue was raised through the National Audit Office's Local Government Technical Group that some local authorities were not writing out the gross cost and accumulated depreciation on highways infrastructure assets when a major part / component has been replaced or decommissioned. As a result of not writing out gross cost and accumulated depreciation where components are replaced, there is a risk that, if this is the case for elements not fully depreciated, assets in the balance sheet could be overstated. The Council took the option to apply the statutory instrument to their 2021/22 financial statements, they amended the presentation of infrastructure assets, included the required disclosure note and updated their accounting policy as required by the statutory instrument. We have agreed the opening balances to the prior year accounts and tested the in year movements, including additions, reclassifications and depreciation in line with our risk assessment. No exceptions were noted as a result of this testing.

Audit of the financial statements – London Borough of Merton

Inherent risk	Conclusion
National Non-Domestic Rates (NNDR) Appeals Provision	Statistics compiled by the Department for Levelling Up, Housing and Communities (DLUHC), reveal that councils are forecasting net additions to appeal in the coming years. The reason behind the forecast increase is that, due to the impact of Covid-19, businesses are likely to seek reductions based on a decrease in rental prices on which rateable values are based. We reviewed the assumptions made by the Council in calculating its NNDR appeals provision, including the local adjustments made and concluded that they were reasonable.
Going concern disclosures	Covid-19, together with the political and economic turmoil in the external environment creates a number of financial pressures and risks across local government. It is creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is a presumption that the Council will continue as a going concern for the foreseeable future. The Council is required to carry out a going concern assessment that is proportionate to the risks it faces. To address the requirement of the ISA, the auditor must review management's assessment of the going concern basis. The auditor's report in respect of going concern covers at least a 12-month period from the date of the report, therefore the Council's assessment also needs to cover this period. We are satisfied that the going concern disclosure of the Council is an adequate reflection of management's assessment and that it remains appropriate to prepare the financial statements on a going concern basis.
Valuation of defined benefit pension scheme	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. The Council's pension liability is a material estimated balance and is required to be disclosed on the Council's balance sheet. Our work highlighted that due to a late adjustment to the valuation of level 3 asset investments there is an uncorrected misstatement of £1.6m in relation to the pension fund liability. Management chose not to amend for this late adjustment.

Audit of the financial statements – Merton Pension Fund

Key findings

On 7 February 2023, we issued an unqualified opinion on the Pension Fund accounts. We reported our detailed findings to the Standards and General Purposes Committee. 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
Misstatements due to fraud or error	There is a risk that the financial statements as a whole are not free of material misstatements whether caused by fraud or error. 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. We have considered where this risk manifests and we consider this to be in the manipulation of Investment income and valuation of assets. We have not identified any material weaknesses in controls or evidence of material management override. 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.
Risk of manipulation of investment income and valuation (misstatements due to fraud or error)	There is a risk that the financial statements as a whole are not free of material misstatements whether caused by fraud or error. 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. Our work did not identify any material weaknesses in the design or operation of controls or evidence of material misstatements, whether due to fraud or error. Our work did not identify any other transactions during our audit which appeared unusual or outside the organisation's normal course of business.
Valuation of Level 3 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. Valuation of these assets involves a high degree of estimation from the fund manager as audited accounts supporting the valuation are only produced up to Quarter 3 of the financial year and may also be made more difficult because of current market volatility. Management made a late adjustment to the financial statements to increase the value of Level 3 investments by £4.4m. This was to ensure the financial statements agreed to updated information received from Private market investments. No other issues were noted.

Audit of the financial statements – Merton Pension Fund

Inherent risk	Conclusion
IAS26 disclosure	We consider the valuation of IAS 26 to be of a higher degree of inherent risk because of the level of estimation uncertainty resulting from the calculation using a number of underlying assumptions. The actuary is required to make assumptions on salary increases, discount rates, pension rates, scheme member longevity and other variables. While IAS 26 does not inform the primary statements, there is stakeholder interest in this disclosure due to it's nature. Our testing of the IAS26 calculation approach did not highlight any matters to bring to your attention.
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 it's going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive. 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.

Value for Money

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2021/22.

Our VFM commentary highlights relevant issues for the London Borough of Merton and the wider public.

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

Scope

We are required to report on whether London Borough of Merton has put in place proper arrangements to secure economy, efficiency and effectiveness in it use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the 10 November Standards & General Purposes Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of committee reports, meetings with the Council and evaluation of associated documentation through our regular engagement with management and the finance team

Reporting

We completed our risk assessment procedures in September 2022 and did not identify any risk of significant weakness in the Council's VFM arrangements from our detailed planning.

Our commentary for 2021/22 is set out on page 11. The commentary on these pages summarises specific observations over the arrangements at the London Borough of Merton in relation to our reporting criteria (see below) throughout 2021/22. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Annual Auditors Report and have been updated for 2021/22 where appropriate.

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

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weaknesses identified
Governance: How the council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weaknesses identified
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	No significant risks identified	No significant weaknesses identified

Value for Money (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

The Council is required to have arrangements in place to ensure proper resource management and the primary responsibility for these arrangements, and reporting on the design and operation of these arrangements via the annual governance statement, rests with management. In accordance with the NAO's Code the focus of our work should be on the arrangements that the audited body is expected to have in place during the year ended 31 March 2022. Our risk assessment did not identify any risk of significant weakness in arrangements to secure financial sustainability.

For 2021/22, £10.8m was transferred to earmarked reserves. The main driver for this was the settlement of negotiations with the DfE and subsequent safety valve agreement for the DSG deficit. Additionally general fund reserves were kept above minimum levels and the Council continues to hold earmarked reserves for future spending plans, with total usable reserves totalling £102m.

The Council has continued to set a balanced budget for the coming year and is not anticipating any significant budget pressures in the medium term.

Conclusion: Based on the work performed, the London Borough of Merton had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

The London Borough of Merton is required to have arrangements in place to ensure proper risk management and the primary responsibility for these arrangements and reporting on the design and operation of these arrangements via the annual governance statement rests with management. In accordance with the NAO's Code the focus of our work should be on the arrangements that the audited body is expected to have in place during the year ended 31 March 2022. In 2021/22 we did not identify a risk of significant weakness in arrangements in place to ensure sound governance.

The Council has an effective Internal Audit function who undertook 43 audits during 2021/22 and on the basis of their work gave reasonable assurance regarding the effectiveness of the internal control environment of the Council. Where priority one recommendations are made, progress against implementation the actions is monitored and reported as part of the regular updates provided to the Standards & General Purposes Committee.

The Council provides sufficient oversight of the subsidiaries to understand the trading and management of the companies.

Conclusion: Based on the work performed, the London Borough of Merton had proper arrangements in place in 2021/22 to enable it to make informed decisions and properly manage its risks

Value for Money (continued)

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

The London Borough of Merton is required to have arrangements in place to ensure economy, efficiency and effectiveness, and the responsibility for these arrangements and reporting on the design and operation of these arrangements via the annual governance statement, rests with management. In accordance with the NAO's Code the focus of our work should be on the arrangements that the audited body is expected to have in place during the year ended 31 March 2022. In 2021/22 we did not identify a risk of significant weakness in arrangements in place to ensure economy, efficiency and effectiveness.

In 2021/22 OFSTED undertook an inspection of Merton's Children's Services, in three of the four areas assessed they assessed the Council as outstanding, with an assessment of good in the final area. The report stated "Children in the London Borough of Merton benefit from good and outstanding services. Highly aspirational and committed senior managers and political leaders place children and their families at the centre of their decision-making".

Conclusion: Based on the work performed, the London Borough of Merton had proper arrangements in place in 2021/22 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Appendices

Building a better working world

Appendix A – Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria	Findings
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. 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 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.
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
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	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, which takes place in February each year. 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 the coming year.
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. 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.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
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 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.
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. 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.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
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 quarterly 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.
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.
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 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. 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.

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement	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 spend 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
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.
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. Most of the Partnership Boards meet at least quarterly and all have clear governance arrangements. As part of the Business Plan process, in accordance with statute, a consultation is run with ratepayers each year. This consultation gathers information form 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.
Where the body commissions or procures services, how the body ensures that this 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 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.

Appendix B – Summary of recommendations

Recommendations

The table below sets out all the recommendations arising from the financial statements and value for money audits in 2021/22. All recommendations have been agreed by management.

Issue	Recommendation	Management Response
Financial statements: Collection Fund	*There were a significant number of errors in the underlying workings for the collection fund. These resulted in material changes to not only the collection fund but also the primary statements, The errors were generally clerical in nature and included the mis-posting of journals which had an impact of £5.6m on the impairment provision for national non domestic rates debtors and incorrect signage within the underlying working papers and accounts disclosures.* *There had been staff changes in the preparation of the collection fund in the current year. Management should ensure sufficient support and review is provided to ensure any detectable errors are identified before the draft accounts are issued for audit.*	Management agree with the recommendation.
Financial Statements: Infrastructure Assets	*CIPFA provided an update to the Code and specifications for future Codes for infrastructure Assets in November 2022. The publication is an update to the 2021/22 Code, but it also updates the 2022/23 Code and will apply to subsequent years until the 2024/25 Code.* *Amendments to Section 4.1 of the Code include a temporary relief so that local authorities are not required to report the gross book value and accumulated depreciation for infrastructure assets. This temporary relief is applied from the 2021/22 Code up to and including the Code applicable to the 2024/25 financial year.* *As this is only a temporary relief we recommend the Council utilise the time available to review the underlying records it holds for infrastructure assets to be able to support the gross book value and accumulated depreciation balances going forward.*	Management agree with the recommendation.

Appendix C – Fees
Relationships, services and related threats and safeguards – London Borough of Merton

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and London Borough of Merton, and its senior management, including all services provided by us and our network to the London Borough of Merton and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

We have identified two relationships to report to you in respect of additional services provided by EY LLP. The firm is the auditor of one of the subsidiaries of the Council in 2021/22 (see page 20) and we perform non-audit services as set out below. We have concluded that there is no impact on our independence and objectivity as the external auditor of the Council and Pension Fund.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted other than those disclosed below.

Services provided by Ernst & Young

	Planned fee 2021/22	Scale fee 2021/22	Final Fee 2020/21
Audit Fees	£'s	£'s	£'s
Total Fee – Code work	110,493	110,493	110,493
Final 2020/21 scale fee variation determined by PSAA (see Note 1)	-	-	99,821
Additional work:	-	-	-
Scale fee rebasing (Note 2)	120,539	133,276	-
Total audit fees	TBC	243,769	210,314
Non Audit Fees			
Fee in relation to certification of Teachers Pension return	15,000	N/A	10,000
Fee in relation to certification of Housing Benefit subsidy claim (Note 3)	N/A	N/A	60,000
Total non audit fees	15,000	N/A	70,000

* All fees exclude VAT

Note 1 - The 20/21 final fee includes a scale fee variation which has been determined by PSAA of £99,821.

Note 2 - Given the number of significant risks and areas of audit focus that we highlighted in our audit plan as areas of additional work and in order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we undertook additional work at a fee of £120,539 to deliver the audit in 2021/22 and we expect to reoccur in subsequent years. This also includes the impact of amended auditing standards, and the changing requirements for our VFM responsibilities. PSAA has provided outline amounts to charge for the work required to address these latter areas.

Note 3 – This is an indicative fee as our work to certify the 2020/21 housing benefit subsidy claim is yet to commence.

Appendix C – Fees
Relationships, services and related threats and safeguards – London Borough of Merton

Group accounts arrangement

EY LLP is the appointed auditor of CHAS 2013 Ltd for their 2021/22 accounts. The fee charged by EY LLP for the CHAS 2013 Ltd audit was £21k.

We were the auditor of Merantun Ltd in 2020/21 but the Company was dissolved during June 2022. The company did not trade during the 2021/22 financial year so applied for an audit exemption.

Non audit services – Grant claims

As set out in the fee table on page 19, we carried out the Teachers' Pensions return for 2021/22. As part of our independence procedures required under Ethical Standard 1 we assessed the six statements and concluded that there were no threats to our independence and objectivity as the external auditor of the Council and therefore no safe guards were required:

- *Self-interest; A self-interest threat arises when the auditor has financial or other interests which might cause the auditor to be reluctant to take actions that would be adverse to the interests of the audit firm or any individual in a position to influence the conduct or outcome of the audit*
- *Self-review; A self-review threat arises when the results of a non-audit service performed by the auditor or by others within the audit firm are reflected in the amounts included or disclosed in the financial statements*
- *Management; prohibits partners and employees of the audit firm from taking decisions on behalf of the management of the audited entity. A management threat can also arise when the audit firm undertakes an engagement to provide non-audit services in relation to which management are required to make judgments and take decisions based on that work*
- *Advocacy; An advocacy threat arises when the audit firm undertakes work that involves acting as an advocate for an audited entity and supporting a position taken by management in an adversarial context*
- *Familiarity; A familiarity (or trust) threat arises when the auditor is predisposed to accept, or is insufficiently questioning of, the audited entity's point of view*
- *Intimidation; An intimidation threat arises when the auditor's conduct is influenced by fear or threats.*

Note: we are not the auditor for the Housing Benefit claim in 2021/22.

Appendix C – Fees
Relationships, services and related threats and safeguards – Merton Pension Fund

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and Merton Pension Fund, and its senior management, including all services provided by us and our network to Merton Pension Fund and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from the 01 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted other than those disclosed below.

Services provided by Ernst & Young

	Planned fee 2021/22	Scale fee 2021/22	Final Fee 2020/21
Audit Fees	£'s	£'s	£'s
Total Fee – Code work	16,170	16,170	16,170
Final 2020/21 scale fee variation determined by PSAA (see Note 1)	-	-	16,078
Scale fee rebasing (Note 2)	40,425	35,397	-
Additional fee for IAS19 assurance work on behalf of admitted bodies	8,500	8,500	8,000
Total audit fees	TBC	TBC	210,314

** All fees exclude VAT*

Note 1 - The 20/21 final fee includes a scale fee variation which has been determined by PSAA of £16,078.

Note 2 - In order to meet regulatory and compliance audit requirements not present in the market at the time of our bid to PSAA for this contract, we assessed that the recurrent cost of additional requirements to carry out our audit should increase by £40,425. We remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to complete

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ED None

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