

Annual Audit Letter

Merton Council

Audit 2008/09

December 2009



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Key messages

This report summarises the findings from my 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit opinion

- 1 I issued an unqualified opinion on the financial statements on 29 September 2009.
 - 2 Following my review of the 2008/09 Pension Fund Annual Report I issued my audit certificate on 8 December 2009, thereby formally concluding my 2008/09 audit.
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Financial statements

- 3 The Council's draft financial statements and supporting working papers were submitted for audit in accordance with the agreed timetable.
 - 4 In my September Annual Governance report I highlighted that my audit identified errors, all of which management agreed to adjust. As a result the Council's available revenue reserves reduced by £395,000.
 - 5 These amendments were considered and approved by members of the General Purposes Committee on 24 September 2009.
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Pension Fund

- 6 My audit opinion on the Council's financial statements included an unqualified opinion on the Pension Fund's financial statements. The Pension Fund financial statements submitted for audit were complete but contained two material errors identified during the audit.
 - 7 These errors were amended by management with no impact on the total net assets reported in the financial statements and considered and approved by members of the General Purposes Committee on 24 September 2009.
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Value for Money

- 8 I issued an unqualified value for money conclusion on 29 September 2009 stating that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources.
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- 9 I also assessed how well the Council used its resources in 2008/09 against the Audit Commission Use of Resources framework. Overall the Council is performing well (level 3) with regard to managing its finance and governing the business and demonstrated adequate performance (level 2) in managing its natural resources. These scores were formally published by the Audit Commission on 9 December 2009.

Audit fees

- 10 The planned and actual fees for the opinion audit are shown in the table below.

Table 1 Audit fees

	Actual	Proposed	Variance
Audit	£324,188	£324,188	nil
Pension fund	£44,000	£38,000	£6,000
Total audit fees (excluding grant certification)	£368,188	£362,188	£6,000

- 11 The increase in the pension fund fee reflects the additional work I was required to carry out. This related to delays encountered in receiving information and the quality of evidence provided to support specific balances in the accounts, which I considered inadequate. The fee increase was agreed with the Council at the time of my audit.

Grants

- 12 Central Government grants are a significant source of income for the Council and are paid to cover the cost of specific activities. My certification work on grants is now complete and I will be reporting the detailed findings of this work to officers. Key issues arising are expected to be reported to the Audit Committee on 23 February 2010.
- 13 The Council receives £74 million in income from its Housing Benefit and Council Tax Benefit claim and this is the largest claim we certify. Compared to the previous year in 2008/09 we identified additional issues. I have therefore increased the audit fee to reflect the additional work carried out.

National Fraud Initiative (NFI)

- 14 As part of a national exercise, in September 2009 I reviewed the Council's progress in following up data matches identified from the 2008/09 NFI exercise. Following this the Audit Commission NFI team met with officers in December 2009 and I am pleased to report that the Council has made good progress in following up data matches. The NFI team also identified some good practice examples at the Council which it hopes to share elsewhere.

Key messages

Actions

- 15** Recommendations have been raised in my reporting throughout the year and all have been agreed with the Council.
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Independence

- 16** I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Significant issues arising from the audit

- 17** I issued an unqualified opinion on the financial statements on 29 September 2009. In my September Annual Governance Report I reported that my audit identified one material error and five further errors in the financial statements, all of which management agreed to amend. As a result of one of these errors, relating to debtors, the Council's available revenue reserves reduced by £395,000.
- 18** Other errors largely related to the valuation of the Council's fixed assets, reflecting the impact of the economic climate on land and property valuations during the year.
- 19** I reported in the Pension Fund Annual Governance Report in September 2009 two material errors where the Council had incorrectly analysed its investments. These errors had no effect on the net assets total. I also identified five further errors arising from my audit of the Pension Fund, all of which management agreed to amend.
- 20** The Council submitted its whole of government accounts return in line with the national timetable and I was able to issue an unqualified opinion by the deadline of 1 October 2009.

Material weaknesses in internal control

- 21** I did not identify any significant weaknesses in your internal control arrangements.

Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

VFM conclusion

- 22** My value for money conclusion was informed by the work I had undertaken on use of resources. I issued an unqualified value for money conclusion stating that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. The criteria used for this assessment and my findings against each one were reported in the Annual Governance Report.
- 23** Under the new Comprehensive Area Assessment (CAA) framework, the CAA Lead is responsible for making an Organisational Assessment of the Council. This is formed of two elements, Use of Resources and Managing Performance.
- 24** The Council has been scored as a level 3 (performing well) for both elements and therefore combined these give an overall organisational assessment score of level 3 on a scale from 1 (lowest) to 4 (highest).
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Use of resources judgements

- 25** In forming my scored use of resources judgements, I used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2 and level 4 is characterised by strong arrangements that have led to demonstrably excellent value for money outcomes throughout the year under review.
- 26** Overall the Council is performing well and scored a level 3. The individual use of resources theme scores were:
- Managing finances - level 3, performing well;
 - Governing the business - level 3, performing well; and
 - Managing resources - level 2, performing adequately.
- 27** Table 2 shows the key finding for each KLOE.
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28 In addition to the use of resources assessment under CAA the Audit Commission has published two other reports relating to the Council - the Organisational Assessment and Area Assessment. These have been published on the Oneplace website.

Table 2 Use of resources theme scores

Use of resources theme and score	KLOE descriptor	Key finding
Managing finances		
1.1 level 3	Financial planning	Good arrangements in place to manage finances effectively and deliver strategic priorities with good outcomes
1.2 level 3	Understanding costs and efficiencies	Value for money services delivered with good understanding of relative performance and costs
1.3 level 3	Financial reporting	Effective reporting of financial and performance information
Governing the business		
2.1 level 3	Commissioning and procurement	Clear strategies in place which demonstrate understanding of stakeholder needs
2.2 level 3	Data quality and use of information	Good understanding and management of data quality, aligned to priorities and targets
2.3 level 3	Good governance	Good governance arrangements extended to partnership arrangements
2.4 level 2	Risk management and internal control	Effective risk management and sound system of internal control but currently insufficient evidence of outcomes
Managing resources		
3.1 level 2	Use of natural resources	Some good arrangements in place but more strategic approach required to use of natural resources going forward
3.2 level 2	Strategic asset management	Comprehensive asset information held but scope to integrate this further for informing decisions on future asset management plans

29 Further detail on my findings and conclusions were set out in the Annual Governance Report issued in September 2009.

30 Along with other public sector bodies, the Council faces significant challenges in the year ahead. The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. There are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams.

Value for money and use of resources

- 31** The Council will need to develop robust plans and effectively manage these to safeguard its financial position and quality of its services in the immediate future and longer term. The Council is forecasting that for 2009/10 its revenue reserves will fall from £11 million to £9.93 million, however, it has also begun to identify some increases to income in areas such as building control.
- 32** The Council is responding to the longer term financial uncertainty by initiating its Transformation Programme, identifying areas where efficiencies and savings can be achieved. Alongside this the Council is currently implementing its workforce reduction programme.
- 33** There are further challenges for policy priorities where patterns of financial reporting will change. The government announced in 2007, its intention to adopt International Financial Reporting Standards (IFRS) for all public sector bodies. The implementation date for Local Government is set for 2010/11 however the Council will be required to take action in the current financial period.
- 34** I note officers have made a start in assessing the IFRS impact across the Council and I will continue to monitor progress. The Council will need to ensure that it manages its project plan for delivery of IFRS and assigns adequate resources to respond to emerging issues.

Closing remarks

- 35** I have discussed and agreed this letter with the Director of Corporate Services and Chief Executive. I will present this letter at the Audit Committee on 5 January 2010 and will provide copies to all members.
- 36** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Table 3 Audit Reports issued during 2008 and 2009

Report	Date issued
Audit Plan 2008/09	June 2008
Supplementary Audit Plan 2008/09	April 2009
Annual Governance Report (main audit)	September 2009
Annual Governance Report (pension fund audit)	September 2009
Opinion signed	September 2009
Final accounts memorandum	October 2009
Annual Audit Letter	December 2009

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- 37** The Council has taken a positive and constructive approach to the audit and I wish to thank officers for their support and co-operation during the year.

Lindsey Mallors
 District Auditor
 December 2009

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

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