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Dear Governance, Audit, Standards and Risk Management Committee Members,

London Borough of Harrow Council audit of financial statements 2021-22 Conclusion of pending matters

Following on from our attendance at the May 2023 Committee meeting and as required by International Standards on Auditing (UK and Ireland), we are writing to confirm matters arising that were marked as outstanding within our Audit Completion Report.

The outstanding matters and the conclusions reached are:

Matter	Update / Conclusion reached
Property, plant and equipment valuation	<p>We reported in our audit completion report that our work on the valuation of property, plant and equipment was ongoing. We have since completed our procedures.</p> <p>This has resulted in the Council making material adjustments to its financial statements. These amendments are detailed in appendix A 'Adjusted misstatements'. The specific errors relevant to this work are numbered 10, 11, 12, 13, 14.</p> <p>In addition, we have issued two further control recommendations. These are included within appendix C 'Additional control recommendations'.</p>
Infrastructure assets	<p>We reported in our audit completion report that the Council had considered the guidance issued by CIPFA and would be applying the statutory override in relation to infrastructure asset accounting. This has resulted in material disclosure amendments to the notes supporting the Council's financial statements.</p> <p>We have completed our procedures with respect to this amendment and have obtained the planned assurances.</p>
Income, expenditure, cash and creditors	<p>We reported in our audit completion report that we were completing several follow-up procedures in relation to the four account areas listed.</p> <p>We have completed our procedures for these areas and obtained the required assurances. This work has resulted in the Council making amendments to the accounts. We detail</p>

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	<p>these in appendix A 'Adjusted misstatements'. The specific errors relevant to this work are numbered 1, 2, 3, 4.</p> <p>We also identified misstatements that the Council has elected not to adjust on the basis that they are neither individually or collectively material. The misstatements are detailed in appendix B 'Unadjusted misstatements'. The specific errors relevant to this work are numbered 6, 7, 8, 9, 10.</p>
IAS19 – defined benefit liability valuation	<p>We reported in our audit completion report that our work regarding the valuation of the IAS19 net pension liability was incomplete in light of the need for the Council to obtain a revised IAS19 report and the subsequent additional audit work required to be completed by the auditor of the pension fund.</p> <p>We have since completed our audit procedures and received the required assurances from the pension fund auditor to conclude our work.</p> <p>This work identified the requirement for material amendments to the financial statements. These are detailed in appendix A 'Adjusted misstatements'. The specific error relevant to this work is numbered 15.</p>
Final review procedures	<p>We reported in our audit completion report that our final review procedures were underway but pending completion of other outstanding matters had not yet been completed.</p> <p>Except for the final review procedures required to draw our work on the Council's arrangements for securing value for money and the Whole of Government accounts, we have been able to conclude our procedures.</p> <p>These have identified a number of disclosure misstatements, none of which are deemed material to the accounts, that the Council have amended.</p>
Events after the reporting date	<p>We reported in our audit completion report that we would continue to review the 'events after the reporting date' disclosures up to the point at which the audit opinion is signed.</p> <p>Due to the prolonged nature of the audit, the Council have been required to amend their 'events after the reporting date' disclosure's.</p> <p>We have performed sufficient appropriate audit procedures to gain assurance that the disclosures are appropriate and free from material misstatement. This included obtained assurances from the Council that there was no risk of material impairment arising from the potential existence of reinforced autoclaved aerated concrete (RAAC) within the Council's properties.</p>
File closure procedures	<p>We reported in our audit completion report that we would be required to complete file closedown procedures. We have received the required management letter of representation and have since been able to close our file with respect to our audit opinion on the financial statements.</p> <p><i>N.B: We are yet to conclude on our work with respect to the Council's arrangements to secure value for money.</i></p>

Whole of Government Accounts (WGA)	We reported in our audit completion report that we are awaiting the list of sampled components from the National Audit Office. This guidance is still yet to be issued for 2021-22. As such, we are unable to conclude our work with respect to the Whole of Government Accounts.
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We are yet to conclude our work on the Council's value for money arrangements and will report to the Committee if further significant weaknesses in arrangements are identified. We will be issuing an interim Auditor's Annual Report for the periods ending 31st March 2021 and 31st March 2022 in due course.

Due to the NAO's delay in confirming its WGA requirements and the status of our work on the Councils value for money arrangements being 'incomplete' we do not expect to issue the certificate until these matters are concluded.

As a result of the additional procedures required in response to the difficulties encountered during the audit, we have provided a schedule of our revised fees for 2021/22 in Appendix D. We will be seeking agreement with the Interim Director of Finance and Assurance prior to submitting to PSAA for their approval.

If you wish to discuss the points above, or any other points then please do not hesitate to contact me.

Yours faithfully,

Suresh Patel
For and on behalf of Mazars LLP

Appendix A: Adjusted misstatements

Details of adjustment		Assets	Liabilities	Reserves	Income statement
A) Misstatements found in 2021-22 (current year) and corrected in the 2021-22 (current year) accounts by management during the audit:					
1	DR Expenditure (community) CR Income (community)				8,794,000 -8,794,000
	Description of adjustment A selection of nominal ledger codes had been misclassified within the CIES and resulted in the netting off depreciation charges against income instead of being charged to expenditure.				
2	DR Income (resources) CR Expenditure (resources)				5,959,000 -5,959,000
	Description of adjustment A singular cost centre was incorrectly mapped as an agency arrangement and incorrectly grossed out of the CIES.				
3	DR Expenditure (Adult services) DR Expenditure (Children and families)				489,000 620,000
	DR Expenditure (Community)				2,363,000
	DR Expenditure (Resources)				787,000
	CR Income (Adult services)				-489,000
	CR Income (Children and families)				-620,000
	CR Income (Community)				-2,363,000
	CR Income (Resources)				-787,000
	Description of adjustment Incorrect subjective analysis resulted in the misallocation of several codes in the CIES, resulting in the netting off income and expenditure.				
4	DR Expenditure (CIES - HRA) CR Income (CIES - HRA)				983,000 -983,000
	Description of adjustment The HRA income and expenditure figures are based on data in Northgate. To align to these figures, the CIES and subjective analysis are manually adjusted to align to these figures, with the difference being driven by time lags between Northgate and the general ledger.				
5	DR PPE additions CR PPE re-classifications	7,626,000 -7,626,000			
	Description of adjustment Disclosure amendment - Inventory balances to be re-classified were netted off against additions				
6	DR Pension reserve CR Long term liabilities			2,278,000 -2,278,000	
	Description of adjustment Amendment to IAS19 disclosures as a result of initial schedule being based on 31/12/21 asset valuations plus roll forward.				
7	DR PPE CR Intangibles	3,951,000 -3,951,000			
	Description of adjustment				

	miss classification of tangible assets within intangibles		
8	DR Expenditure (Resources) CR Income (Resources)		593,000 -593,000
	Description of adjustment Incorrect classification of a cost centre as agency that should have been included within the financial statements of the council		
9	DR Held for sale DR Assets under construction (PPE) CR Inventories	3,989,000 7,661,000 -11,650,000	
	Description of adjustment Re-classification of inventories to be split between assets under construction and assets held for sale.		
10	DR Expenditure (CIES - HRA) DR Reserves (CAA / revaluation) CR Property, plant and equipment (HRA) CR CIES (adjustments to resources)		28,980,370 28,980,370 -28,980,370 -28,980,370
	Description of adjustment Application of incorrect index resulting in misstated HRA valuations.		
11	DR investment property CR Finance and investment income	527,600	-527,600
	Description of adjustment Amendment for incorrect investment property valuations.		
12	DR Property plant and equipment (surplus assets) CR Property plant and equipment (other land and buildings)	6,100,000 -6,100,000	
	Description of adjustment re-classification of surplus assets from other land and buildings		
13	DR Revaluation reserve DR CIES expenditure CR Property plant and equipment		11,118,321 6,554,770 -17,673,091
	Description of adjustment Application of inappropriate valuation methodologies		
14	DR Revaluation reserve CR Property plant and equipment		25,729,794 -25,729,794
	Description of adjustment failure to revalue to Harrow hub on re-classification		
15	DR Pension reserve CR Net defined benefit pension liability		27,600,000 -27,600,000
	Description of adjustment Amendment to IAS19 liability following re-run of report to accounted for updated membership data		
16	DR Property plant and equipment (Historic cost)	4,972,000	

DR Property plant and equipment (Revaluation increases)	2,591,000		
CR Expenditure (CIES - Community)			-7,563,000
CR Reserves (CAA)		-7,563,000	
DR CIES (adjustments to Community)			7,563,000
Description of adjustment			
This is a correction in the current year of prior period errors in applying the correct accounting treatment for community assets			

Appendix B: Unadjusted misstatements

Details of adjustment		Assets	Liabilities	Reserves	Income statement
B) Current Year 2021-22 unadjusted (=not corrected) audit misstatements:					
1	DR PPE (assets under construction)	128,000			
	CR Capital accruals		-128,000		
Description of adjustment					
Cut-off error where £9k of items in additions have been recognised in the current year and not the prior year					
2	DR Capital accruals		155,000		
	CR PPE (furniture)	-155,000			
Description of adjustment					
Invoices of £8k were accrued for but related to 21-22 and should have been included in additions					
3	Dr Other Creditors		145,260		
	CR General Fund			-145,260	
Description of adjustment					
Cut-off error in which S106 application has been recognised in the current year and not in the prior year					
4	DR Expenditure				343,000
	CR Intangibles	-343,000			
Description of adjustment					
Inclusion of items within intangibles that should have been written off to revenue					
5	DR OCI				474
	CR Short term investments	-474			
Description of adjustment					
Trivial cut off error in relation to Deutsche money market investment					
6	DR Payable		8,000		
	CR HRA Expenditure (Supervision and management)				-8,000
Description of adjustment					
Trivial difference where goods were over-receipted (expenditure over-recognised)					
7	DR ST Debtors	79,109			
	CR Expenditure - Employee benefits expenditure				-79,109
Description of adjustment					
Ring-fenced error relating to agency cut-off (expenditure being recognised from 2022/23 in 2021/22)					

8	DR Other operating income 701,000 CR Financing and investment income -701,000 Description of adjustment Incorrect classification of property disposals	
9	DR Income - Grants within CIES 1,013,000 CR Short Term Debtors -1,013,000 Description of adjustment Cut-off error where Grant for activities in period 2021/22 was recorded in 2022/23 (as received in 2022/23) but not accrued for at year end of 2021/22.	
10	DR - Income 3,394,000 CR - Expenditure -3,394,000 Description of adjustment Misstatements within the D365 fees and service charges income population whereby re-charges have been incorrectly journalled and overstated both income and expenditure. There is no impact on the net position.	
11	DR - Cash and cash equivalents 539,177 CR - Creditors -539,177 Description of adjustment Cash balances within the bank letter not included within the accounts that are owed to other entities	

Appendix C: Additional control recommendations

Property, Plant and Equipment: Council Dwelling Groupings – Level 1

Description of deficiency

Per the Code and in line with the Stock valuation guidance for resource accounting, the Council apply a 'beacon' approach to valuing in council dwellings. This approach requires the Council to group dwellings based on high level characteristics such as location as applied by the Council. The methodology then allows valuers to assign one property in each group to be a 'beacon'. This is then formally valued, with the valuation applied to all other individual properties within the group.

Per the guidance, 'variants' are then identified within groupings based on more detailed characteristics such as age, build type, bedrooms etc. Standard adjustments are then made to the valuation of the beacon property and applied to all of the properties within this variant grouping.

Our work identified that the Council were not applying this methodology appropriately. We noted instances where dwellings displaying different characteristics were in the same variant group.

Potential effects

We performed mitigation testing to confirm that the Council had only placed properties into variant groupings of other dwellings with different characteristics when they considered the valuation for these differing property types to be the same. We are therefore satisfied there is no material impact on the 2021/22 financial statements.

However, properties displaying different characteristics may be subject to different market movements year on year and the Council may incorrectly determine two groups of properties to have the same individual value. This may result in a material misstatement within the Council's financial statements.

Recommendation

2021-22 represented year 2 of the Council's 5-year HRA valuation programme. We recommend the Council reviews the variant groupings it has applied. Where 2022-23 valuations are underway and variant groupings include properties with different characteristics, we recommend the Council gains adequate assurance that these properties of differing characteristics have the same value.

For future years where valuation work is yet to commence, we recommend the Council reviews its variant groupings and ensures only properties that have the same characteristics are in variants groups.

Management response

We note this and will discuss this finding with our external valuers and ensure that they review the variants applied to the groupings, to ensure consistency.

Property, Plant and Equipment: Assets not formally revalued during the year – Level 1

Description of deficiency

In line with the Code and per the Council's internal policies on revaluing property contained within the general fund, not all items of property are subject to full formal valuation every year.

However, our audit work identified a number a small number of properties that had not been revalued, even though the Council's own internal policies, and in one instance, the Code, dictated a full formal valuation was required. Once such instance identified resulted in a material misstatement that has since been amended in the 2021-22 financial statements.

We also noted the Council was not undertaking any procedures to assure itself that the potential aggregate movement in valuation of non-revalued properties year on year, had they been formally revalued, was likely immaterial.

Potential effects

Failure to adhere to requirements for revaluation dictated by the code and per the Council's own internal policies has resulted in material misstatement in the 2021-22 financial statements and could lead to further material misstatements in future sets of accounts.

Failure to undertake any procedures to gain assurance that potential movements on non-revalued items are likely immaterial may result in the failure to detect material market movements in aggregate, resulting in material misstatement of the financial statements.

Recommendation

We would recommend the Council ensures its annual valuation programme is compliant with the Code. We also recommend the Council ensures its own internal policies for valuations are adhered to.

We would recommend the Council ensures adequate assurance exercises are undertaken on those assets not subject to revaluation, to ensure any individual or aggregate potential valuation movements are not material.

Management response

We will review the 5-year plan with our external valuers to ensure it is compliant with the Code and our own internal policies.

Appendix D: Fee schedule

Area of work	2020/21 agreed fees	2021/22 proposed fees
Planned fee in respect of our work under the Code of Audit Practice	£116,057	£116,057
Additional fees for additional work in respect of:		
1. Property, plant and equipment valuations	£11,200	£57,470
2. Pension liability valuations (including revision arising from availability of updated membership data)	£4,853	£7,290
3. Data migration	-	£30,100
4. Intangibles valuation	-	£13,015
5. Inventory valuation	-	£19,555
6. Infrastructure assets	-	£9,520
7. Code changes to value for money and additional risks and recommendations	£14,200	£65,205
8. Revised auditing standard on accounting estimates	£3,488	£5,547
Total fees	£152,624	£323,760

Commentary on the additional work:

1. As reflected in the extent of audit adjustments identified we carried out significant additional work on the valuation of the Council's PPE.
2. As we reported to GARMS the Council was required to request a revised actuarial report in light of the triennial valuation. We were required to carry out testing on the revised report and updated accounts.
3. The additional work was required to obtain assurance over the migration of data that underpins the statement of accounts and involved our IT specialist auditors.
4. The additional work was required to understand the Council's accounting treatment and disclosures, which has led to amendments in the financial statements.
5. Our additional work was required to understand and challenge the Council's accounting treatment, which has led to a change in treatment and disclosure in the final statements.
6. As we reported to GARMS the Council was required to comply with the revised CIPFA Code and we were required to audit the Council's consideration and revised accounting entries.
7. For 2021/22 we identified 4 risks of significant weakness and reported actual significant weakness in 3 areas.
8. The change in the auditing standard has increased the audit input on auditing accounting estimates.