

Governance, Audit, Risk Management and Standards Committee **AGENDA**

DATE: Tuesday 21 January 2020

TIME: 7.30 pm

VENUE: Committee Room 5, Harrow Civic Centre, Station
Road, Harrow, HA1 2XY

MEMBERSHIP (Quorum 3)

Chair: Councillor David Perry

Councillors:

Ghazanfar Ali	Philip Benjamin
Peymana Assad	Amir Moshenson
Kairul Kareema Marikar	Kanti Rabadia (VC)

Reserve Members:

- | | |
|------------------|------------------|
| 1. Maxine Henson | 1. Pritesh Patel |
| 2. Niraj Dattani | 2. John Hinkley |
| 3. Antonio Weiss | 3. Chris Mote |
| 4. Chloe Smith | |

Contact: Miriam Wearing, Senior Democratic Services Officer
Tel: 020 8424 1542 E-mail: miriam.wearing@harrow.gov.uk

Useful Information

Meeting details:

This meeting is open to the press and public.

Directions to the Civic Centre can be found at:
<http://www.harrow.gov.uk/site/scripts/location.php>.

Filming / recording of meetings

The Council will audio record Public and Councillor Questions. The audio recording will be placed on the Council's website.

Please note that proceedings at this meeting may be photographed, recorded or filmed. If you choose to attend, you will be deemed to have consented to being photographed, recorded and/or filmed.

When present in the meeting room, silent mode should be enabled for all mobile devices.

Meeting access / special requirements.

The Civic Centre is accessible to people with special needs. There are accessible toilets and lifts to meeting rooms. If you have special requirements, please contact the officer listed on the front page of this agenda.

An induction loop system for people with hearing difficulties is available. Please ask at the Security Desk on the Middlesex Floor.

Agenda publication date: Monday 13 January 2020

AGENDA - PART I

1. ATTENDANCE BY RESERVE MEMBERS

To note the attendance at this meeting of any duly appointed Reserve Members.

Reserve Members may attend meetings:-

- (i) to take the place of an ordinary Member for whom they are a reserve;
- (ii) where the ordinary Member will be absent for the whole of the meeting; and
- (iii) the meeting notes at the start of the meeting at the item 'Reserves' that the Reserve Member is or will be attending as a reserve;
- (iv) if a Reserve Member whose intention to attend has been noted arrives after the commencement of the meeting, then that Reserve Member can only act as a Member from the start of the next item of business on the agenda after his/her arrival.

2. CHANGE OF MEMBERSHIP

To note the appointment of Councillor Kairul Kareema Marikar as a member of the Committee and Councillor Maxine Henson as a Reserve

3. DECLARATIONS OF INTEREST

To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from:

- (a) all Members of the Committee;
- (b) all other Members present.

4. MINUTES (Pages 7 - 12)

That the minutes of the meeting held on 16 September 2020 be taken as read and signed as a correct record.

5. PUBLIC QUESTIONS *

To receive any public questions received in accordance with Committee Procedure Rule 17 (Part 4B of the Constitution).

Questions will be asked in the order in which they were received. There will be a time limit of 15 minutes for the asking and answering of public questions.

[The deadline for receipt of public questions is 3.00 pm, Thursday 16 January 2020. Questions should be sent to publicquestions@harrow.gov.uk

No person may submit more than one question].

6. PETITIONS

To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

7. DEPUTATIONS

To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

8. REFERENCES FROM COUNCIL AND OTHER COMMITTEES/PANELS

To receive references from Council and any other Committees or Panels (if any).

9. INFORMATION REPORT - EXTERNAL AUDIT REPORT ON GRANTS AND RETURNS CERTIFICATIONS 2018-19 (Pages 13 - 20)

Report of the Director of Finance

10. INFORMATION REPORT - EXTERNAL AUDIT PLANS 2019-20 (Pages 21 - 56)

Report of the Director of Finance

11. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY: MID-YEAR REVIEW 2019/20 (Pages 57 - 74)

Report of the Director of Finance

12. INFORMATION REPORT - REMOVAL OF RISK BASED VERIFICATION IN THE ADMINISTRATION OF HOUSING BENEFIT AND COUNCIL TAX SUPPORT (Pages 75 - 100)

Report of the Director of Finance

13. HEALTH AND SAFETY DELEGATIONS (To Follow)

Report of the Corporate Director Community

14. INTERNAL AUDIT AND CORPORATE ANTI-FRAUD MID-YEAR REPORT AND QUARTER 3 UPDATE (Pages 101 - 128)

Report of the Director of Finance

15. 2020/21 INTERNAL AUDIT PLANNING PROCESS (Pages 129 - 134)

Report of the Director of Finance

16. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

17. EXCLUSION OF THE PRESS AND PUBLIC

To resolve that the press and public be excluded from the meeting for the following items of business, on the grounds that it involves the likely disclosure of confidential information in breach of an obligation of confidence, or of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972:

<u>Agenda Item No</u>	<u>Title</u>	<u>Description of Exempt Information</u>
18.	Appendix A to Harrow RDV Policy	Information under paragraph 7 in that it contains information relating to any action to be taken in connection with the prevention of crime
19.	INFORMATION REPORT - Quarter 3 2019/20 Corporate Risk Register	Information under paragraph 3 in that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
20.	Red Assurance Internal Audit Reports	Information under paragraph 3 in that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

AGENDA - PART II

18. HARROW RDV POLICY (Pages 135 - 142)

Appendix to the report of the Director of Finance

19. INFORMATION REPORT - QUARTER 3 2019/20 CORPORATE RISK REGISTER (Pages 143 - 162)

Report of the Director of Finance

20. INFORMATION REPORT - RED ASSURANCE INTERNAL AUDIT REPORTS (Pages 163 - 216)

Report of the Director of Finance.

* DATA PROTECTION ACT NOTICE

The Council will audio record item 4 (Public Questions) and will place the audio recording on the Council's website, which will be accessible to all.

[Note: The questions and answers will not be reproduced in the minutes.]

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GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE MINUTES

16 SEPTEMBER 2019

Chair: * Councillor David Perry

Councillors: * Ghazanfar Ali * Kairul Kareema Marikar (1)
* Peymana Assad * Amir Moshenson
* Philip Benjamin * Kanti Rabadia

* Denotes Member present

(1) Denotes category of Reserve Member

72. Attendance by Reserve Members

RESOLVED: To note the attendance at this meeting of the following duly appointed Reserve Members:-

Ordinary Member

Reserve Member

Councillor Maxine Henson

Councillor Kairul Kareema Marikar

73. Declarations of Interest

RESOLVED: To note that the following interests were declared:

Agenda Item 12 – Information Report – Internal Audit Red Assurance Reports
Councillor David Perry declared a non pecuniary interest in that he had been Leader of the Council during part of the period covered by the update report. He would remain in the room whilst the matter was considered and voted upon.

Agenda Item 12 – Information Report – Internal Audit Red Assurance Reports
During the course of the meeting, Councillor Kanti Rabadia declared a non pecuniary interest in that he had previously appealed to the Ombudsman with regard to the subject matter. He would remain in the room whilst the matter was considered and voted upon.

74. Minutes

RESOLVED: That the minutes of the meeting held on 25 July 2019, be taken as read and signed as a correct record.

75. Public Questions, Petitions and Deputations

RESOLVED: To note that no public questions, petitions or deputations were received at this meeting.

76. References from Council and other Committees/Panels

RESOLVED: To note that there were no references from Council and other committees/panels.

RESOLVED ITEMS

77. Draft GARMS Committee Annual Report

The Committee received a report which set out the draft GARMS Committee Annual Report in compliance with the requirements of the GARMS Committee's Terms of Reference.

The Head of Internal Audit and Corporate Anti-Fraud introduced the report, highlighting that it followed a template based on the minutes of the Committee. As it was the first annual report there would be the opportunity to review the layout and content for future years, for example appending the terms of reference.

The Committee was of the view that the new process was helpful in explaining the role of the committee. The comments on the length of the contents were noted by the officer.

Resolved to RECOMMEND: (to Council)

That the GARMS Committee Annual Report be received and noted.

RESOLVED: That the Head of Internal Audit, in consultation with the Chair, be delegated to produce a foreword to be added to the report.

78. Any Other Urgent Business

The Chair informed Members that an Independent Person had resigned necessitating a recruitment process. It was noted that nominations would be

sought from the Group Offices for three members of GARMS to serve on the Interview Panel, two Labour and one Conservative.

79. Exclusion of Press and Public

RESOLVED: That in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following items for the reasons set out below:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
11.	Information Report – 2019/20 Corporate Risk Register Quarter 2	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).
12.	Information Report – Internal Audit Red Assurance Reports	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).

80. INFORMATION REPORT - 2019/20 Corporate Risk Register Quarter 2

The Committee considered a confidential report which set out the Council's 2019/20 Corporate Risk Register for Quarter 2 of the financial year to assist the GARMS Committee in monitoring progress on risk management in accordance with its terms of reference. Members noted that Quarter 1 for 2019/20 had been agreed subsequent to the last GARMS Committee meeting, therefore the information before the Committee reported on Quarter 1 and Quarter 2.

The Head of Internal Audit and Corporate Anti-Fraud introduced the report and referred to the various risks, some of which had been mitigated. The attention of the Committee was drawn to the changes made to the register to date since the previous quarter. Members asked some questions which were responded to.

A Member sought information on the link between the key corporate risks on the risk register and the governance report. Members were informed that the governance report outlined the method by which risks were managed whereas the corporate risk register highlighted the actual risks that the Corporate Strategic Board considered to be the highest risks.

In response to questions raised by Members, it was noted that:

- the Council employed a Data Protection Officer;

- once the inherent risk rating had been identified, the key controls and actions to mitigate the risk were agreed and put in place. The residual risk was the risk left once the controls and actions had been completed;
- the transformation programme would require additional capacity across all Directorates. A resource plan was currently being defined..

Arising from the discussion, the officers undertook to circulate details on the following:

- the current situation regarding the migration to cloud for key IT systems;
- the number of EU national residents who had received Council assistance in securing settled status;
- a breakdown on how the Council was spending the funding from government for Brexit.

In response to a question, the Corporate Director Resources referred to an IT survey which encouraged officer feedback on the current IT provider. A meeting was due to be held with the current provider the following day to discuss the exit strategy during which the opportunity would be taken to discuss the various projects moving forward. At its meeting on 12 September 2019, Cabinet had agreed the recommended new model for the ICT service, the report to which would be circulated to the Committee Members.

In response to a question, the Chair stated that arrangements could be made to arrange for the dissemination of the process by which information was fed into the production of the risk register if Members considered it useful.

RESOLVED: That the report be noted.

81. INFORMATION REPORT - Internal Audit Red Assurance Reports

The Committee received a confidential report of the Director of Finance which set out a final red assurance report undertaken by Internal Audit as part of the 2018/19 Internal Audit Plan and reported at a high level in the Year End report presented at the last GARMS Committee meeting in July and a follow-up of red/amber assurance report previously presented to the Committee. The reports were presented to help fulfil the Committee's purpose to provide assurance to the members of the adequacy of the Council's governance, risk management and control framework.

The Head of Internal Audit and Corporate Anti-Fraud introduced the reports. It was noted that with regard to the final red assurance report all of the recommendations had been agreed by management and a follow-up of the implementation of the recommendations would be undertaken by Internal Audit in November 2019.

Officers from the area responded to questions. With regard to the final red assurance report Members were advised of additional capacity, a review of training provision, monthly team meetings and discussions regarding resources.

RESOLVED: That the report be noted.

(Note: The meeting, having commenced at 7.30 pm, closed at 8.51 pm).

(Signed) COUNCILLOR DAVID PERRY
Chair

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**REPORT FOR: GOVERNANCE, AUDIT,
RISK MANAGEMENT AND
STANDARDS COMMITTEE**

Date of Meeting: 21 January 2020

Subject: INFORMATION REPORT -
External Audit Report on Grants and
Returns Certifications 2018/19

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: Appendix – External Audit letter on Grants
and Returns 2018/19

Section 1 – Summary and Recommendations

This report provides the Committee with the opportunity to note the External Auditor's letter on the grants and returns certifications of 2018/19.

Recommendations:

The Committee is asked to note the External Audit Report on Grants and Returns Certifications 2018/19.

Section 2 – Report

Background

External Audit Report on Grants and Returns Certifications 2018/19

1. Under the Public Sector Audit Appointments (PSAA) (formerly the Audit Commission), the Authority's external auditors had just one grant claim to audit. This was the Housing Benefits subsidy claim (value £139.7m).
2. In addition, the external auditors were required to certify two non-PSAA returns, being the Teachers' Pension Contributions (value £11.1m) and the Pooling of Capital Receipts (value £2.5m).
3. A qualification letter was issued in respect of the Housing Benefit subsidy grant claim. This highlighted to both the Authority and the Government department that audit testing of the claim identified some errors of which there was no financial impact on the subsidy granted. The identification of such errors is not out of line with other Local Authorities and for Harrow the amounts were of a very small value.
4. The audit of the Teachers' Pension return was certified (in accordance with certification instructions) with two minor issues observed (cumulative roundings and a form cell reclassification) and there was no qualification. The Pooling of Capital Receipts return (in accordance with certification instructions) will be certified by the submission deadline of 7th February 2020.

The Committee is asked to note the attached letter from Mazars on the certification of the 2018/19 grant claim and returns.

Legal Implications

There are no direct legal implications arising from this report.

Financial Implications

There are no direct financial implications arising from this report.

Risk Management Implications

The completion of the grant claim and returns are included within the closure of accounts timetable to ensure that they are submitted and audited in accordance within the approved deadlines.

Equalities implications / Public Sector Equality Duty

There are no direct equalities implications

Council Priorities

The certification of the subsidy claim and the two returns provides assurance that the Council has managed its finances and delivered value for money in accordance with the Council's corporate vision and priorities.

Section 3 - Statutory Officer Clearance

Name: Sharon Daniels

On behalf of the
Chief Financial Officer

Date: 9th January 2020

Name: David Hodge

on behalf of the
Monitoring Officer

Date: 7th January 2020

Name: Charlie Stewart

Corporate Director

Date: 8th January 2020

Ward Councillors notified:

NO

Section 4 - Contact Details and Background Papers

Contact: Paul Gower (Interim Technical Accounting Manager) Tel:
020-8424-1335 Email: paul.gower@harrow.gov.uk

Background Papers:

None

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Governance, Audit, Risk Management and Standards Committee
London Borough of Harrow
Civic Centre
Station Road
Harrow
HA1 2XY

21 January 2020

Dear Members

Results of grants work 2018-19

We were appointed to review specified claims and returns for the Council. This letter reports the findings from this work, to date.

Housing Benefit Subsidy

In 2018/19 the prescribed tests for our Housing Benefits work were set out in the Housing Benefit (Subsidy) Assurance Process (HBAP) module issued by the Department for Work and Pensions (DWP).

The 2018/19 Housing Benefits return was subject to a qualification letter. Detailed findings, including the extrapolation of errors identified, were reported in our qualification letter to DWP dated 29 November 2019. The table below details our findings.

Claim	Value of claim	Amended	Qualified
Housing Benefit Subsidy	£139,666,991	No	Yes

Our sample testing is split between initial testing and additional testing. Initial testing tests a random sample of 20 cases from each headline cell on the subsidy claim form for each of the benefit types (non-HRA, rent rebates and rent allowances). Where errors are identified a further 40 cases are tested for the specific error identified. Where it is not possible to quantify the error the matter is reported as an extrapolated error in a letter to DWP.

Qualification issues

We identified the following errors in our 2018/19 initial testing and as a consequence a further sample of cases specific to the error identified were tested:

- Initial testing identified two cases where the earned income figure used in the benefit entitlement calculation of non-HRA rent rebate was incorrect. The value of the overpayment

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identified was £113. A further 40 cases were tested, identifying a further six errors. The value of these overpayments totalled £1,086. Based on these errors we reported an extrapolated error of £9,485.

- Initial testing identified one case where the earned income figure used in the benefit entitlement calculation of rent allowances was incorrect. The value of the overpayment identified was £173. A further 40 cases were tested, identifying a further four errors. The value of these overpayments totalled £37. Based on these errors we reported an extrapolated error of £22,601.

The HBAP approach instructs where initial testing does not match with cumulative audit knowledge and experience (CAKE) then additional testing must be completed. As in previous years, additional testing was completed by the Council testing a further 40 cases looking at specific issues which arose in the prior year. We then carried out our own re-performance of a sample of these cases. This testing identified errors in 2018/19 relating to:

- Four cases where the earned income figure used in the benefit entitlement calculation of rent allowances was incorrect. The value of the overpayment identified was £150. Based on these errors we reported an extrapolated error of £1,337.

Teachers' Pensions Return

In 2018/19 the prescribed tests for our Teachers' Pensions work were set out in the guidance issued by Teachers' Pensions. Detailed findings, were reported in our letter to Teachers' Pensions dated 29 November 2019. The table below details our findings.

Return	Value of return	Amended	Findings
Teachers' Pension	£11,081,327	Yes	Yes

Factual Findings

Our letter to Teachers' Pensions included a report of factual findings. The key matters in our report were:

- Our testing identified £4,895 of contributions on the return were required to be reclassified (from 'additional contributions' to 'career average contributions').
- Teachers' contributions were understated by £50 and employer's contributions were understated by £79.

Pooling of Housing Capital Receipts

Our work on this return is on-going. We are due to complete this work by the submission deadline of 7 February 2020.

Fees

This indicative fees, and the final fees charged for 2018/19, are detailed in the table below:

Claim or return	2018/19 indicative fee	2018/19 final fee
Housing Benefit Subsidy	£17,250	£17,250
Teachers' Pensions Return	£3,500	£3,500
Pooling of Capital Receipts Return	£4,000	tbc

We would like to express my thanks for the assistance of the Council's team during the grants work.

Yours faithfully

Lucy Nutley
Director, Mazars LLP

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**REPORT FOR: GOVERNANCE, AUDIT,
RISK MANAGEMENT AND
STANDARDS COMMITTEE**

Date of Meeting: 21 January 2020

Subject: INFORMATION REPORT -
External Audit Plans 2019/20

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: External Audit Plans for the Council and
the Pension Fund 2019/20

Section 1 – Summary and Recommendations

This report provides the Committee with an opportunity to consider the External Audit Plans 2019/20 from the Council's External Auditors

Recommendations:

The Committee is asked to note the External Audit Plans (Audit Strategy Memoranda for the main Council and the Pension Fund)

Section 2 – Report

Background

External Audit Plans (Audit Strategy Memoranda) for 2019/20

1. The External Audit Plans (Audit Strategy Memoranda) provides the Council with clarity about how the external audit of the Council's accounts and Pension Fund accounts for 2019/20 will be conducted. The audit plan sets out the following:-

- a. Engagement and Responsibilities Summary
- b. Audit scope, approach and timeline – the Authority will consider the need for consolidated group accounts;
- c. Significant risks and judgement areas as summarised below:-
 - i. Management override of controls (applies to both Audit Plans) – would include testing of journals, significant accounting estimates and any unusual transactions;
 - ii. Revenue and expenditure recognition - Potential for fraudulent revenue recognition in specific areas – detailed testing of transactions will be undertaken as part of the audit;
 - iii. Property, plant and equipment valuations;
 - iv. Pension Fund defined benefit valuation (from the Authority's view);
 - v. other key areas of management judgement and enhanced risks – would include accounting estimates – no specific areas have been identified during the audit planning stage;
 - vi. For the Pension Fund, valuation of unquoted investments;
- d. Value for Money conclusion - this will be reviewed in conjunction with the delivery of the Medium Term Financial Strategy;
- e. Fees for audit and other services;
- f. Auditor's commitment to independence;
- g. Materiality and misstatements – a materiality threshold of 1.5% of gross revenue expenditure for the Council's accounts and 1.5% of net assets for the Pension Fund Accounts has been set for the 2019/20 audit (1% in 2018/19 for both the Council and Pension Fund in the first year of Mazars being the Council's external auditors). This gives a overall materiality level of £9.3m (£6.2m 2018/19) for the Council and £12.75m (£8.2m 2018/19) for the Pension Fund. The materiality levels for misstatements (the level of triviality) is set at £279k (£186k 2018/19) for the Council and £382k (£245k 2018/19) for the Pension Fund. In addition there are performance materiality levels for both LBH and the Pension Fund, and a specific materiality level for the Pension Fund account.

2. The Committee is asked to consider the plans.

Legal Implications

There are no direct legal implications arising from this report.

Financial Implications

There are no direct financial implications arising from this report.

Risk Management Implications

The receipt of the audit plans is included within the closure of accounts timetable for officers to ensure the plans have been received.

Equalities implications / Public Sector Equality Duty

There are no direct equalities implications

Council Priorities

The Statement of Accounts provides assurance that the Council has managed its finances and delivered value for money in accordance with Council's corporate vision and priorities.

Section 3 - Statutory Officer Clearance

Name: Sharon Daniels	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 9 th January 2020		
Name: David Hodge	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 7 th January 2020		

Name: Charlie Stewart	<input checked="" type="checkbox"/>	Corporate Director
Date: 6 th January 2020		

Ward Councillors notified:	NO
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Section 4 - Contact Details and Background Papers

Contact: Paul Gower (Interim Technical Accounting Manager) Tel: 020-8424-1335 Email: paul.gower@harrow.gov.uk

Background Papers:
None

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Audit Strategy Memorandum

London Borough of Harrow

Year ending 31 March 2020





CONTENTS

1. Engagement and responsibilities summary
2. Your audit engagement team
3. Audit scope, approach and timeline
4. Significant risks and key judgement areas
5. Value for Money
6. Fees for audit and other services
7. Our commitment to independence
8. Materiality and misstatements

Appendix A – Key communication points

Appendix B – Forthcoming accounting and other issues

This document is to be regarded as confidential to London Borough of Harrow. It has been prepared for the sole use of the Governance, Audit, Risk Management and Standards Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Governance, Audit, Risk Management and Standards Committee
London Borough of Harrow
Civic Centre
Station Road
Harrow
HA1 2XY

21 January 2020

Dear Members

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for London Borough of Harrow for the year ending 31 March 2020.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing London Borough of Harrow which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 020 7063 4634.

Yours faithfully



Lucy Nutley
Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of London Borough of Harrow (the Council) for the year to 31 March 2020. This is our second year of appointment as external auditors. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Council for the year.

Value for Money

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Reporting to the NAO

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.

Electors' rights

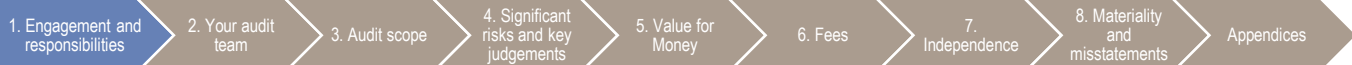
The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Governance, Audit, Risk Management and Standards Committee (GARMS) as those charged with governance.



2. YOUR AUDIT ENGAGEMENT TEAM



- **Lucy Nutley, Engagement Lead**
- Lucy.Nutley@mazars.co.uk
- 07387 242052



- **Gary McLeod, Senior Manager**
- Gary.McLeod@mazars.co.uk
- 07823 521346



- **Dylon Johannes, Assistant Manager**
- Dylon.Johannes@mazars.co.uk
- 07823 521315

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

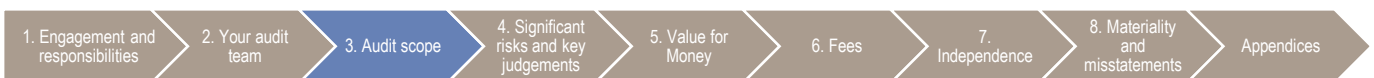
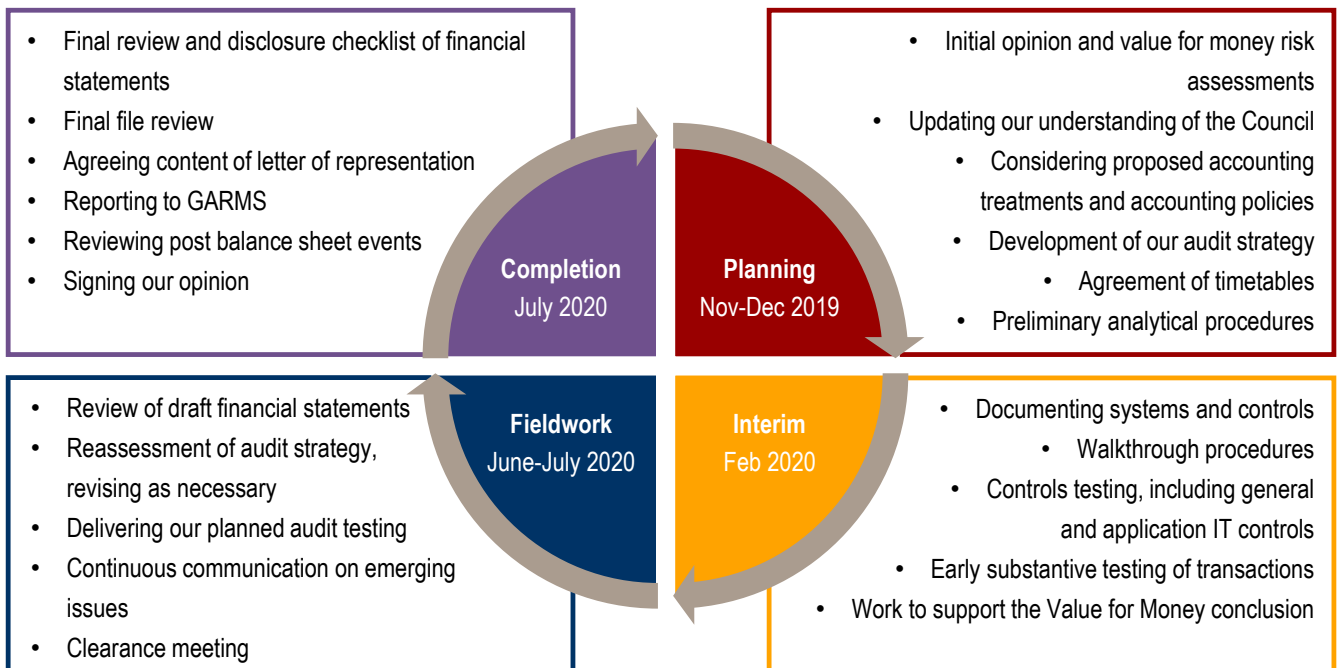
Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit liability	Hymans Robertson	We make use of PWC actuarial services who are commissioned by the NAO to review the national analysis of pension trends and assumptions of the various LGPS actuaries and consider the findings for potential impact on the values included within the financial statements.
Property, plant and equipment valuation	Internal valuer	We will review the Gerald Eve analysis of property valuation movements provided centrally by PSAA and consider the outcome of the Council's internal valuer's valuations in comparison with these, challenging conclusions as appropriate.

Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services.

The Council does not currently make use of any service organisations in relation to its financial reporting.

Group audit approach

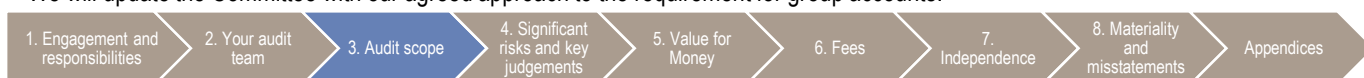
The Council has an arms length company Concilium Group Limited which has two subsidiaries, Concilium Business Services and Sancroft Community Care Limited. Concilium Business Services trades as Smart Lettings, operating as a private lettings agent managing the Council's acquired homes and other private rented sector homes. Sancroft Community Care Limited manages the Sancroft Care Home and Day Service on behalf of the Council. The Council also has a significant interest (95% shareholding) in Concilium Assets LLP. Concilium Assets LLP operates in the build-to-rent, private rental sector.

The Council has determined in previous years that consolidated group accounts were not required on the basis that these entities were not financially material to the annual accounts.

We are awaiting a final position from the Council on the expected value of the companies at 31 March 2020 and their determination of how material the entities are to the local authority accounts. If the entities are deemed to be financially material, group accounts, that consolidate the financial position of the Council and its companies will be required to be prepared.

If group accounts are produced, in auditing the accounts of the Council's Group financial statements we need to obtain assurance over the transactions in the Group relating to the Council's subsidiary companies. Our approach will reflect the size and complexity of the transactions from the subsidiary companies that are consolidated into the Council's Group financial statements.

We will update the Committee with our agreed approach to the requirement for group accounts.



4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to that risk.

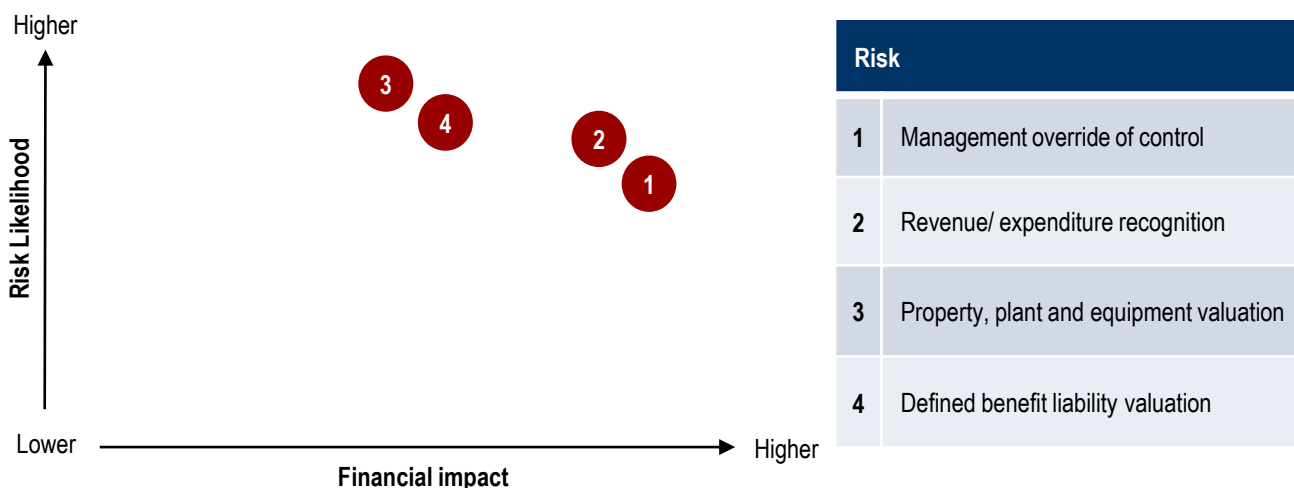
Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

In assessing the significant risks and key judgement areas we have reviewed key documents and spoken to key members of management. At this point, we have not performed a detailed review of systems. Should further significant risks arise from this work, we will update the Committee accordingly.

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process; should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to GARMS.

Significant risks

	Description of risk	Planned response
1	<p>Management override of controls</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a presumed risk of material misstatement due to fraud on all audits.</p>	<p>We will address the risk through performing audit procedures, covering a range of areas including (but not limited to):</p> <ul style="list-style-type: none"> • accounting estimates included in the financial statements for evidence of management bias; • any significant transactions outside the normal course of business; and • journals and other adjustments recorded in the general ledger in preparing the financial statements.
2	<p>Revenue recognition</p> <p>Our audit methodology incorporates revenue recognition as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable.</p> <p>Based on our initial knowledge and planning discussions we have concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Authority's revenue income. In particular we can rebut the revenue recognition risk for income derived from Council Tax, Grants and NNDR due to the low inherent risk associated with these amounts.</p> <p>We are not rebutting the income risk relating to other material income streams within the Council, such as car parking income and charges for use of Council facilities, where the level of inherent risk is higher.</p>	<p>We plan to address this risk by obtaining a detailed understanding of the Authority's processes which assure it that revenue is materially recognised in the correct accounting year.</p> <p>We will carry out:</p> <ul style="list-style-type: none"> • detailed testing of income and receivables transactions within the 2019/20 financial statements to confirm they are accounted for in the correct year; • testing from receipts around the year-end to provide assurance that there are no material unrecorded items of income in the 2019/20 accounts.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks (continued)

	Description of risk	Planned response
3	<p>Property, plant and equipment valuation</p> <p>Where a Council's assets are subject to revaluation, the Code requires that the year end carrying value should reflect the appropriate fair value as at that date. The Council has adopted a rolling revaluation model which sees other land and buildings revalued over a five year cycle, which may result in individual assets not being revalued for four years. This creates a risk that the carrying value of those assets that have not been revalued in year is materially different from the year end fair value.</p> <p>In respect of Council Dwellings, these are reviewed using a beacon valuation methodology, which values Council stock by grouping assets into type and using a nominated beacon asset for each group. The assessed value is uplifted based on an open market assessment then amended for an adjustment factor provided by MHCLG.</p> <p>Due to the high degree of estimation uncertainty associated with these valuations, we have determined there is a significant risk in this area.</p>	<p>We will address this risk by reviewing the approach adopted by the Council to assess the risk that assets not subject to valuation at year end are not materially misstated, and consider the robustness of that approach.</p> <p>We will also assess the risk of the valuation changing materially in year, considering the movement in market indices between revaluation dates and the year end, in order to determine whether these indicate that fair values have moved materially.</p> <p>In addition, for those assets which have been revalued during the year we will:</p> <ul style="list-style-type: none"> • assess the valuer's qualifications; • assess the valuer's objectivity and independence; • review the methodology used; and • perform testing of the associated underlying data and assumptions.
4	<p>Defined benefit liability valuation</p> <p>The last triennial valuation of the Harrow Pension Fund was completed as at 31 March 2019. As an admitted body within the Fund, the valuation provides the basis of the associated net pension liability for the Council as at 31 March 2020.</p> <p>The valuation of the Council's net liability includes use of discount rates, inflation rates, mortality rates etc., all of which should reflect the profile of the Council's employees and other appropriate data.</p> <p>Due to the high degree of estimation uncertainty associated with these valuations, we have determined there is a significant risk in this area.</p>	<p>As the Council is the Fund administrator, we will address this risk by reviewing the controls that the Council has in place over the information sent to the Scheme Actuary Hymans Robertson.</p> <p>We will also:</p> <ul style="list-style-type: none"> • assess the skill, competence and experience of the Fund's actuary; • challenge the reasonableness of the assumptions used by the actuary as part of the annual IAS 19 valuation; • carry out a range of substantive procedures on relevant information and cash flows used by the actuary as part of the annual IAS 19 valuation.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Other key areas of management judgement and enhanced risks

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

We have not identified any other key areas of management judgement or enhanced risks at the planning stage of the audit.

5. VALUE FOR MONEY

Our approach to Value for Money

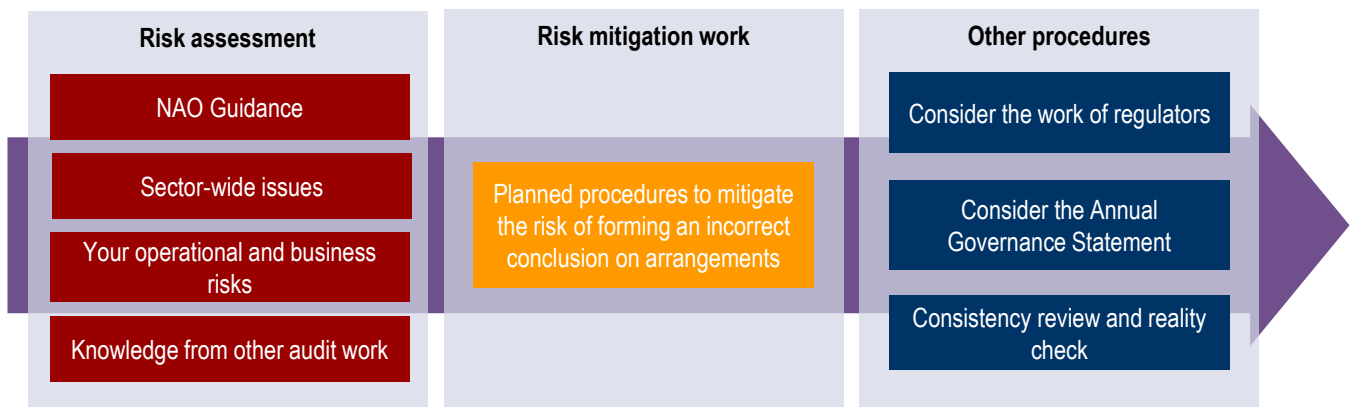
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below:



Significant Value for Money risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

For the 2019/20 financial year, we have identified the following significant risk(s) to our VFM work:

Description of significant risk	Planned response
The Authority's Medium Term Financial Plan has identified the need to make significant savings.	<p>We will review the controls put in place by the Authority to ensure financial resilience, including the development and implementation of the Medium Term Financial Plan, and that this has taken into consideration factors such as funding reductions, salary and general inflation and demand pressures.</p> <p>We will specifically review management actions and mitigations to deliver the budgeted position.</p>



6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA.

Service	2018/19 fee (actual)	2019/20 fee (expected)
Code audit work	£117,057	£116,057

An additional £1,000 was charged in 2018/19 as a consequence of additional work required regarding the late valuation of pension liabilities to account for the McCloud judgement.

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Service	2018/19 fee (actual)	2019/20 fee (expected)
Other services - Housing Benefits Subsidy Assurance	£17,250	£17,250
Other services - Teachers' Pensions	£3,500	£3,500
Other services - Pooling Capital Receipts	£4,000	£4,000

7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Lucy Nutley in the first instance.

Prior to the provision of any non-audit services Lucy Nutley will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. Included in this assessment is consideration of Auditor Guidance Note 01 as issued by the NAO, and the PSAA Terms of Appointment.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial threshold (£000)
Overall materiality	£9,300
Performance materiality	£6,510
Trivial threshold for errors to be reported to GARMS	£279

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of gross revenue expenditure. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to GARMS.

We consider that gross revenue expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.



8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

We expect to set a materiality threshold at 1.5% of gross revenue expenditure. This is a change to the benchmark used in 2018/19 which was 1.0% of gross revenue expenditure, reflecting our first year of appointment.

Based on the 2018/19 financial statements we anticipate the overall materiality for the year ending 31 March 2020 to be in the region of £9.3m (£6.2m in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 70% of overall materiality as performance materiality.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to GARMS that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £279,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Lucy Nutley.

Reporting to GARMS

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to GARMS:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Financial reporting changes relevant to 2019/20

There are no significant changes in the Code of Practice on Local Authority Accounting for the 2019/20 financial year.

Financial reporting changes in future years

Accounting standard	Year of application	Commentary
IFRS 16 – Leases	2020/21	<p>The CIPFA/LASAAC Code Board has determined that the Code of Practice on Local Authority Accounting will adopt the principles of IFRS 16 Leases, for the first time from 2020/21.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes to the way bodies account for leases, which will have substantial implications for the majority of public sector bodies.</p> <p>The most significant changes will be in respect of lessee accounting (i.e. where a body leases property or equipment from another entity). The existing distinction between operating and finance leases will be removed and instead, the new standard will require a right of use asset and an associated lease liability to be recognised on the lessee's Balance Sheet.</p> <p>In order to meet the requirements of IFRS 16, all local authorities will need to undertake a significant project that is likely to be time-consuming and potentially complex. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed at an early stage of the project.</p>

New Code of Audit Practice and Value for Money Arrangements

The National Audit Office (NAO) plan to finalise a new Code of Audit Practice in January 2020. The new Code will apply from audits of local bodies' 2020/21 financial statements onwards.

Currently, the auditor reports against a single overall criterion as to whether: "In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people." Under the new Code, auditors are likely to need to report their findings having regard to the following specific reporting criteria:

- financial sustainability;
- governance; and
- Improving economy, efficiency and effectiveness.

We will further update the Audit Committee once the NAO have published the new Code and the audit requirements are finalised.



Audit Strategy Memorandum

London Borough of Harrow

Pension Fund

Year ending 31 March 2020





CONTENTS

1. Engagement and responsibilities summary
2. Your audit engagement team
3. Audit scope, approach and timeline
4. Significant risks and key judgement areas
5. Fees for audit and other services
6. Our commitment to independence
7. Materiality and misstatements

Appendix A – Key communication points

This document is to be regarded as confidential to London Borough of Harrow Pension Fund. It has been prepared for the sole use of the Governance, Audit, Risk Management and Standards Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Governance, Audit, Risk Management and Standards Committee
London Borough of Harrow
Civic Centre
Station Road
Harrow
HA1 2XY

21 January 2020

Dear Members,

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for the London Borough of Harrow Pension Fund for the year ending 31 March 2020.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 6 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Harrow Pension Fund which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07387 242052.

Yours faithfully,



Lucy Nutley
Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Harrow Pension Fund (the Fund) for the year to 31 March 2020. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Fund for the year.

Consistency report

We are required to form and express an opinion on the consistency of the financial statements within the Fund's annual report and the Fund's financial statements included in the Statement of Accounts of the London Borough of Harrow.

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the London Borough of Harrow and consider any objection made to the accounts. This would include an objection made to the accounts of the Fund included in the administering authority's financial statements. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Fund is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Governance, Audit, Risk Management and Standards Committee (GARMS) as those charged with governance.



2. YOUR AUDIT ENGAGEMENT TEAM



- **Lucy Nutley, Engagement Lead**
- Lucy.Nutley@mazars.co.uk
- 07387 242052



- **Gary McLeod, Senior Manager**
- Gary.McLeod@mazars.co.uk
- 07823 521346



- **Dylon Johannes, Assistant Manager**
- Dylon.Johannes@mazars.co.uk
- 07823 521315

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

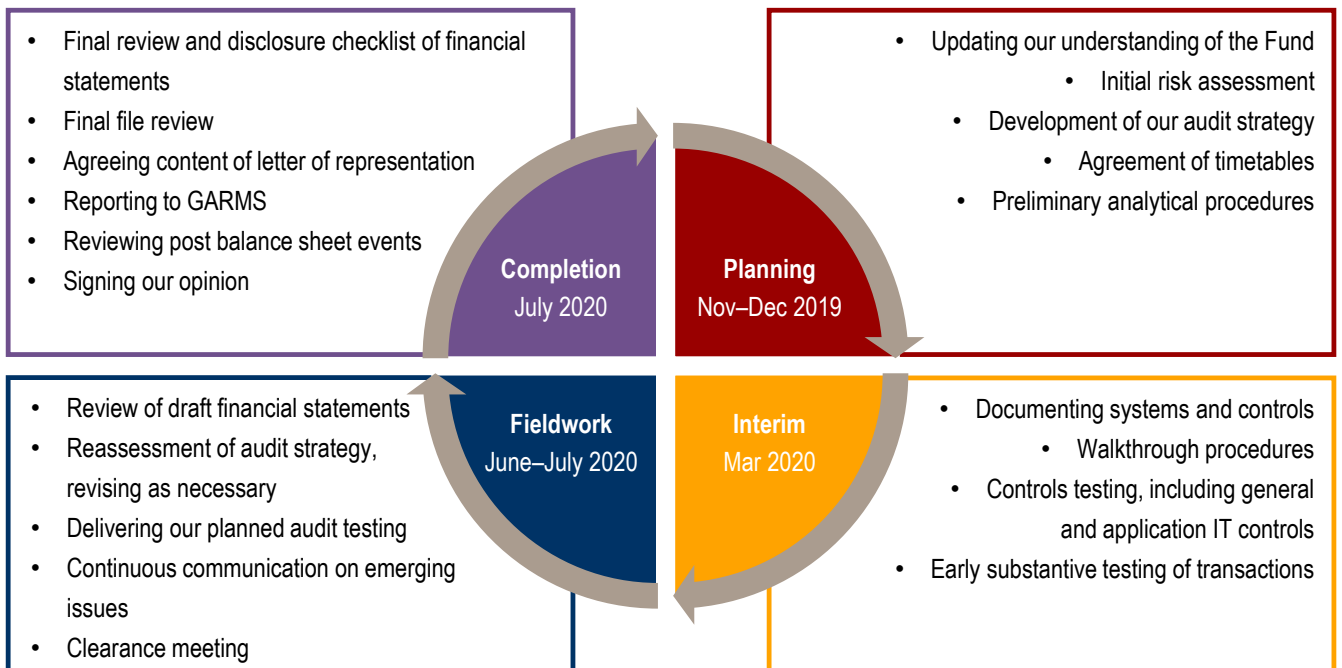
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Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 7.

The diagram below outlines the procedures we perform at the different stages of the audit.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Management's and our experts

Management makes use of experts in specific areas when preparing the Fund's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Disclosure notes on funding arrangements and actuarial present value of promised retirement benefits.	Hymans Robertson	We make use of PWC actuarial services who are commissioned by the NAO to review the national analysis of pension trends and assumptions of the various LGPS actuaries and consider the findings for potential impact on the values included within the financial statements.

Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Fund that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Fund and our planned audit approach.

Items of account	Service organisation	Audit approach
The calculation and payment of pension benefits, assessment of funding levels based on existing pensioner data.	Harrow Council	We will seek appropriate confirmation that the Council's controls and procedures have operated as designed throughout the year and that no weaknesses have been identified that would have a material impact on the information they provide to the London Borough of Harrow Pension Fund.
Investment valuations and income and all related disclosures	Fund managers	Obtain direct confirmations from the fund managers and substantively test transactions occurring in the year and the valuations applied to investments at the year end.
Investment valuations and income and all related disclosures	Custodians	Obtain direct confirmations from the custodians and substantively test transactions occurring in the year and the valuations applied to investments at the year end.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to that risk.

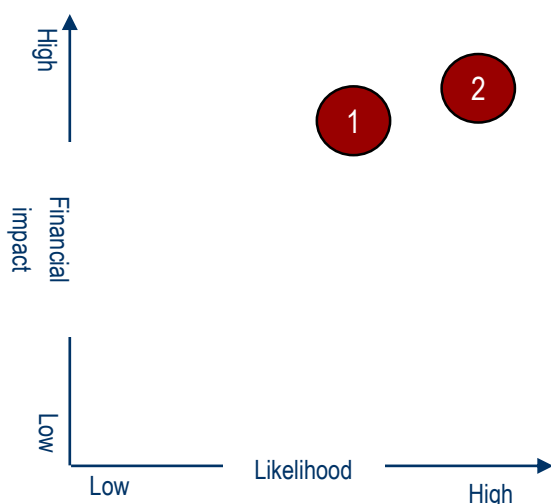
Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

In assessing the significant risks and key judgement areas we have reviewed key documents and spoken to key members of management. At this point, we have not performed a detailed review of systems. Should further significant risks arise from this work, we will update the Committee accordingly.

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



Risk	
1	Management override of control
2	Valuation of unquoted investments

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to GARMS.

Significant risks

	Description of risk	Planned response
1	<p>Management override of controls</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a presumed risk of material misstatement due to fraud on all audits.</p>	<p>We will address the risk through performing audit procedures, covering a range of areas including (but not limited to):</p> <ul style="list-style-type: none"> • accounting estimates included in the financial statements for evidence of management bias; • any significant transactions outside the normal course of business; and • journals and other adjustments recorded in the general ledger in preparing the financial statements.
2	<p>Valuation of unquoted investments</p> <p>As at 31 March 2019, the Pension Fund held investments which were not quoted on an active market with a fair value of £79.7million, accounting for 9.4% of the Fund's net investment assets.</p> <p>Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end.</p> <p>As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.</p>	<p>We plan to address this risk by completing the following additional procedures:</p> <ul style="list-style-type: none"> • agree holdings from fund manager reports to the custodian's report; • agree the valuation to supporting documentation including investment manager valuation statements and cashflows for any adjustments made to the investment manager valuation; • agree the investment manager valuation to audited accounts or other independent supporting documentation, where available; and • where audited accounts are available, check that they are supported by a clear opinion.

Revenue recognition

We have considered the presumed risk in relation to revenue recognition, and have assessed that due to the low inherent risk associated with revenue in the pension fund, we can rebut the presumed risk.



5. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Fund's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA.

Service	2018/19 fee (actual)	2019/20 fee (expected)
Code audit work	£16,170	£16,170

Fees for non-PSAA work

We confirm that we have not been separately engaged by the Fund to carry out additional work for the London Borough of Harrow Pension Fund. Further information about our responsibilities in relation to independence is provided in section 6.



6. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Lucy Nutley in the first instance.

Prior to the provision of any non-audit services, Lucy Nutley will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. Included in this assessment is consideration of Auditor Guidance Note 01 as issued by the NAO, and the PSAA Terms of Appointment.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.



7. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial threshold (£000)
Overall materiality	12,750
Performance materiality	8,925
Specific materiality – Fund Account	3,700
Trivial threshold for errors to be reported to GARMS	382

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of net assets. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to GARMS.

We consider that net assets remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark. We expect to set a materiality threshold at 1.5% of Net Assets. This is a change to the benchmark used in 2018/19 which was 1.0% of Net Assets, reflecting our first year of appointment.



7. MATERIALITY AND MISSTATEMENTS (CONTINUED)

We consider that net assets remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark. We expect to set a materiality threshold at 1.5% of Net Assets. This is a change to the benchmark used in 2018/19 which was 1.0% of Net Assets, reflecting our first year of appointment.

Based on the 2018/19 financial statements we anticipate the overall materiality for the year ending 31 March 2020 to be in the region of £12.750 million (£8.200 million in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 70% of overall materiality as performance materiality.

Specific materiality

If, in specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular transactions, account balances or disclosures. We have therefore assessed a specific materiality for the following transactions, account balances or disclosures:

- Contributions receivable
- Benefits payable

Specific materiality has been assessed as the higher of 10% of contributions receivable or benefits payable. Based on the 2018/19 financial statements we anticipate a specific materiality of £3.700 million. We will continue to monitor materiality through the audit to ensure it is set at an appropriate level.

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to those charged with governance that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £382,000 based on 3% of overall materiality. If you have any queries about this, please do not hesitate to raise these with Lucy Nutley.

Reporting to the GARMS

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to GARMS:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).



APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓



REPORT FOR: **Governance, Audit, Risk Management and Standards Committee (GARMS)**

Date of Meeting: 21 January 2020

Subject: Treasury Management Strategy Statement and Annual Investment Strategy: Mid-year Review 2019/20

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: Appendix 1 – Economic Update
Appendix 2 Cabinet referral of Treasury Management Strategy Statement and Annual Investment Strategy: Mid-year Review 2019/20 to GARMSC.

Section 1 – Summary and Recommendations

This report sets out the mid-year review of Treasury Management activities for 2019/20.

Cabinet considered this report on Treasury Management activities and referred it to the Governance, Audit, Risk Management and Standards Committee for review.

Recommendation

The Committee are asked to:

Review the mid-year position for treasury management activities for 2019/20.

Section 2 – Report

1.1 Background

- 1.1 The purpose of this report is to present the Council's Annual Treasury Management Mid-Year Report for 2019/20 in accordance with the Council's treasury management practices and in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management. The Council has complied with all elements of the Treasury Management Strategy Statement (TMSS) as the treasury management function has operated within the Treasury Limits and Prudential Indicators as set out in the TMSS and set out in this report.
- 1.2 Treasury management comprises:
- Managing the Council's borrowing to ensure funding of the Council's current and future Capital Programme is at optimal cost;
 - Investing surplus cash balances arising from the day-to-day operations of the Council to obtain an optimal return while ensuring security of capital and liquidity.
- 1.3 The annual revenue budget includes the revenue costs that flow from capital financing decisions. Under the Treasury Management Code, increases in capital expenditure should be limited to levels whereby increases in interest charges and running costs are affordable within the Council's revenue account.
- 1.4 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation to ensure the security and liquidity of the Council's treasury investments.
- 1.5 The Council recognises that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of the Treasury Management Code.

2 Reporting Requirements

- 2.1 The Council and/or Cabinet are required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Treasury Management Strategy Statement report - The first, and most important report is presented to the Council in February and covers:

- The Treasury Management Strategy Statement (TMSS), which details how the investments and borrowings for capital expenditure are to be organised, including Treasury Limits and Prudential Indicators.
- The Annual Investment Strategy which forms part of the TMSS, (the parameters on how investments are to be managed).
- the MRP Policy (how capital expenditure is charged to revenue over time).

Mid-year Review report (this report) – This is presented to Cabinet in December and updates Members on the progress of the Capital Programme, reporting on Prudential Indicators to give assurance that treasury management function is operating within the Treasury Limits and Prudential Indicators set out in the TMSS.

Treasury Management Outturn report – This is presented to Cabinet in June and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the TMSS.

Scrutiny - The above reports are required to be adequately scrutinised, normally before being recommended to Cabinet / Council, with the role being undertaken by the Governance, Audit, Risk Management and Standards Committee (GARMS). The Council has complied with the Code to the extent that all Treasury Management reports have been scrutinised though the efficient conduct of the Council's business may require consideration by GARMS subsequent to consideration by Cabinet/Council.

- 2.2 The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Section 151 Officer. The Section 151 Officer chairs the Treasury Management Group (TMG), which monitors the treasury management activity and market conditions monthly.

3. Matters covered in report

- 3.1 This report covers the following:
- Treasury Management Strategy Statement and Annual Investment Strategy Review
 - Treasury Position as at 30 September 2019
 - Review of the Council's Investment Portfolio for 2019/20
 - Review of the Council's Borrowing Portfolio for 2019/20
 - Compliance with Treasury Limits and Prudential Indicators
 - Economic update for 2019/20 (Appendix 1)

4. Options considered

- 4.1 The report is in accordance with the reporting requirements of the CIPFA Treasury Management Code.

5. Treasury Management Strategy Statement and Annual Investment Strategy Review

- 5.1 The Treasury Management Strategy Statement, (TMSS), for 2019/20 was approved by Council on 28 February 2019. It stated that for the next three years the Capital Programme would continue to be funded from grants and revenue resources but that substantial borrowing would also be required.
- 5.2 The approved TMSS has been updated to reflect the approval for additional £100m Capital Programme borrowing to finance long term commercial investments. This was approved by Council in July 2019 as part of the 2 Year Budget Strategy 2021/22 to 2021/22.
- 5.3 The TMSS approved borrowing strategy requires revision following an unexpected 1% increase in the cost of new PWLB borrowing. This decision was made by HM Treasury with immediate effect from 9th October 2019. The Council is now seeking other sources of affordable funding to be able to deliver the Capital Programme within current budget provision. Cabinet will be updated as this area evolves.

6. Treasury Position as at 30 September 2019

- 6.1 The Council's borrowings and investments (cash balances) position as at 30 September 2019 is detailed below:

Table 1: Investments and Borrowings

	As at 31 March 2019			As at 30 September 2019		
	Principal £'000	Rate %	Life	Principal £'000	Rate %	Life
Total Investments	26,328	0.40	2 days	57,904	0.54	6 Days
Total Borrowing						
Public Works Loan Board	248,461	4.01	33.2 Years	348,461	3.46	37.5 Years
Market Loans	65,800	4.27	39.7 Years	53,800	3.93	48.0 Years
Temporary Borrowing	32,000	0.97	0.6 Years	0	0.00	0.0 Years
Total	346,261	4.08	34.6 Years	402,261	3.53	39.0 Years

- The increase in cash held, reflects the net increase in new borrowing after repaying temporary debt.
- £100m new PWLB long term borrowing taken to finance the Capital Programme and to refinance maturing debt.
- Temporary borrowing taken in Q4 2018/19 repaid by Q2 2019/20.
- The reduced average cost of borrowing reflects the repayment of a higher coupon £12m market loan on maturity and new PWLB borrowing of £100m taken at lower rates.

Review of the Council's Investment Portfolio for 2019/20

- 6.2 The Council is a prudent investor placing security and liquidity considerations ahead of income generation. The Council has reduced cash balances and a cash management strategy focused on minimising the net cost of borrowing. Therefore it has not been appropriate to commit investments to periods beyond one month with a consequent effect on investment return.
- 6.3 The table below sets out the counterparty position as at 30 September 2019:

Table 2 - Investment Balances

	2018/19		2019/20	
	Mar-19		Sep-19	
	£'000	%	£'000	%
Specified Investments				
Banks & Building Societies	0	0.00	0	0.00
Money Market Funds	1,604	6.09	1,610	2.78
Local Authorities	0	0.00	10,000	17.27
Non –Specified Investments				
Banks & Building Societies	24,724	93.91	46,294	79.95
Enhanced Money Market Funds	0	0.00	0	0.00
Total	26,328	100.00	57,904	100.00

- 6.4 The Council held £57.904m of investments as at 30 September 2019 compared with £26.328m at 31 March 2019. The investment portfolio yield for the first six months of the year is 0.54% The Council's investment income budget is £1.4m and the forecast outturn is £1.44m. This includes the loan income from the £15m loan to the West London Waste Authority which the Council approved in July 2013 to finance the cost of a new energy from waste plant. The term of the loan is 25 years at an interest rate of 7.604% on a reducing balance. The loan balance at the 31 March 2019 was £16.17m which includes interest accrued to date. For the financial year 2019/20, the outturn forecast on the interest accrued is £1.26m which is included as part of the investment income budget.
- 6.5 During the period cash investments have been held with Lloyds, Royal Bank of Scotland PLC, Svenska Handelsbanken and with other local authorities .Counterparty use has been with consistent with previous years and in accordance with the credit criteria set out in the TMSS.

Review of the Council's Borrowing Portfolio for 2019/20

- 6.6 At 30 September 2019 the Council held £402.261m of external borrowing after taking £100m new borrowing from the PWLB. It is forecast that up to £42.3m new borrowing will be required to finance capital expenditure before the end of the financial year.
- 6.7 Table 3 below analyses the maturity profile of borrowing as at 30 September 2019.

Table 3: Borrowing Maturity Profile

Maturity structure of borrowing	upper limit %	lower limit %	LOBO interest reset date	
			£'000	%
under 12 months	30	0	20,800	5
12 months and within 24 mths	20	0	0	0
24 months and within 5 years	30	0	5,000	1
5 years and within 10 years	40	0	20,000	5
10 years and above	90	30	356,461	89
Total			402,261	100

- 6.8 The forecast outturn on borrowing costs is £8.3m, a favourable variance of £1.8m on the budget of £10.1m, reflecting slippage on the Capital Programme. The repayment of £12m higher coupon debt and £100m new borrowing taken at a lower than budgeted rate of 2.31% further reduced the cost of borrowing.
- 6.9 Debt rescheduling opportunities have been very limited in the current economic climate given the structure of interest rates and the high cost of restructuring, further limited by the unexpected 1% increase in the cost of new borrowing from PWLB. This decision was made by HM Treasury with immediate effect from 9th October 2019. The Council will need to consider other sources of affordable funding to be able to deliver the capital programme within current budget constraints. Cabinet will be updated as this area evolves.

7. Economic and Interest Rates Updates

- 7.1 An economic update for the first part of the 2019/20 financial year along with the interest rate forecast and commentary provided by Link Treasury Services as at 30th September 2019 is included as Appendix 1.

8. Compliance with Prudential Indicators

Capital Expenditure and Funding

- 8.1 The Council's Capital Programme is the key driver of Treasury Management activity. The output of the Capital Programme is reflected in the statutory prudential indicators, which are designed to assist Members' overview and confirm the capital expenditure programme. The table below summarises the capital expenditure and funding for the current financial year.

Table 4 Capital Expenditure

	2018/19	2019/20	2019/20
	Actual	Estimate	Forecast
	£'000	£'000	£'000
Capital Expenditure			
Non - HRA	47,690	97,674	117,800
HRA	7,091	26,586	21,471
TOTAL	54,781	124,260	139,271
Funding:-			
Grants	9,011	20,845	18,399
Capital receipts	4,820	1,277	4,783
Revenue financing	6,386	6,135	11,988
Section 106 / Section 20	337	200	5,825
TOTAL	20,554	28,457	40,995
Net financing need for the year	34,227	95,803	98,276

- 8.2 In July 2019 Council approved an addition of £100m in borrowing approval to the Capital Programme to finance long term commercial investments.
- 8.3 The 2019/20 forecast borrowing requirement (the net financing need) reflects brought forward slippage and underspending in year on the capital programme.

Capital Financing Requirement (CFR)

- 8.4 The CFR as set out in Table 5, is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any new capital expenditure, which has not immediately been paid for, will increase the CFR.

Table 5: Capital Financing Requirement

	2018/19	2019/20	2019/20
	Actual	Estimate	Forecast
	£'000	£'000	£'000
CFR as at 31 March			
Non – HRA	367,486	504,688	432,211
HRA	150,046	162,622	161,218
TOTAL	517,532	667,310	593,429
Movement in CFR	23,309	149,778	75,897

- 8.5 Debt outstanding, including that arising from PFI and leasing schemes, should not normally exceed the CFR. As the Council has historically funded a substantial amount of capital expenditure from revenue resources, as shown in Table 6 below, current forecast gross debt of £459.3m is below the forecast CFR of £593.4m.

Table 6: Changes to Gross Debt

	2018/19	2019/20	2019/20
	Actual	Estimate	Forecast
	£'000	£'000	£'000
External Debt			
Debt at 1 April	324,261	439,745	346,261
Expected change in Debt	22,000	95,803	98,277
Other long-term liabilities (OLTL) 1st April	16,175	14,704	15,501
Actual/ Forecast gross debt at 31 March	362,436	550,252	460,039
Capital financing requirement	517,532	667,310	593,429
Under / (Over) borrowing	155,096	117,058	133,390

Operational Boundary and Authorised Limit

- 8.6 Operational Boundary – This limit is based on the Council’s programme for capital expenditure, capital financing requirement and cash flow requirements for the year.
- 8.7 Authorised Limit – This represents a limit beyond which external debt is prohibited. The Council’s policy is to set this rate at the Capital Financing Requirement. The Government retains an option to control either the total of all councils’ programmes, or those of a specific council, although this power has not yet been exercised.

Table 7: Boundaries

	2018/19	2019/20	2019/20
	Actual	Estimate	Forecast
	£'000	£'000	£'000
Authorised Limit for external debt (CFR)			
Borrowing and finance leases	517,532	667,310	667,310
Operational Boundary for external debt			
Borrowing	346,261	630,000	630,000
Other long term liabilities	16,175	16,000	15,501
Total	362,436	646,000	645,501
Upper limit for fixed interest rate exposure			
Net principal re fixed rate borrowing	346,261	630,000	630,000
Upper limit for variable rate exposure			
Net principal re variable rate borrowing	0	0	0
Upper limit for principal sums invested over 364 days	60,000	60,000	60,000

9. IMPLICATIONS OF THE RECOMMENDATIONS

- 9.1 The recommendations are asking the committee to review the mid-year position for treasury management activities for 2019/20. They do not affect the Council’s staffing / workforce and have no equalities, procurement, data protection or community safety impact.

10. PROCUREMENT IMPLICATIONS

10.1 There are no procurement implications arising from this report.

11. LEGAL IMPLICATIONS

11.1 The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. These are contained within this report. The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. This report assists the Council in fulfilling its statutory obligation under the Local Government Act 2003 to monitor its borrowing and investment activities.

12. FINANCIAL IMPLICATIONS

12.1 In addition to supporting the Council's revenue and capital programmes the Treasury Management interest budget is an important part of the revenue budget. Any savings achieved, or overspends incurred, have a direct impact on the financial performance of the budget. There is no direct financial impact of paying the London living Wage (LLW) arising from treasury management activity.

13. PERFORMANCE ISSUES

13.1 The Council meets the requirements of the CIPFA Code of Practice for Treasury Management and therefore is able to demonstrate best practices for the Treasury Management function.

13.2 As part of the Code the Council must agree a series of prudential indicators and measure its performance against them. These indicators and performance are detailed in the report and reported to Council

14. ENVIRONMENTAL IMPACT

14.1 There are no direct environmental impacts.

15. RISK MANAGEMENT IMPLICATIONS

15.1 Risk included on Directorate risk register? Yes. Risk 9: Loss of an investment/deposit

15.2 The identification, monitoring and control of risk are central to the achievement of the treasury objectives. Potential risks are identified, mitigated and monitored in accordance with treasury practice notes approved by the Treasury Management Group.

16. EQUALITIES IMPLICATIONS/PUBLIC SECTOR EQUALITY DUTY

16.1 There is no direct equalities impact.

17. CORPORATE PRIORITIES

17.1 This report deals with the Treasury Management Strategy which plays a significant part in supporting the delivery of all the Council's corporate priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 9 th January 2020		

Name: David Hodge	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 6 th January 2020		

Name: Charlie Stewart	<input checked="" type="checkbox"/>	Corporate Director
Date: 9 th January 2020		

Ward Councillors notified:	NO
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Section 4 - Contact Details and Background Papers

Contact: Iain Millar, Treasury and Pensions Manager 0208 424 1432

Background Papers: None

Economic update for 2019-20

UK. 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October, with or without a deal. However, MPs blocked leaving on that date and the EU has agreed an extension to 31 January 2020. In addition, a general election has been called for December. At the time of writing (30 October), the whole Brexit situation could still change at any time. Given these circumstances and the uncertainty about the result of the general election, any interest rate forecasts are subject to material change as the situation evolves. If Parliament fully approves the Withdrawal Bill, then it is possible that growth could recover relatively quickly. The MPC could then need to address the issue of whether to raise Bank Rate at some point in the coming year when there is little slack left in the labour market that could cause wage inflation to accelerate; this would then feed through into general inflation. On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could weaken even further than currently: the MPC would then be likely to cut Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, the MPC has relatively little room to make a big impact and it would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction.

The first half of 2019 saw UK economic growth falling to -0.2% in quarter 2 as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The MPC meeting of 19 September reemphasised their concern about the downturn in world growth and also expressed concern that prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that since Boris Johnson became Prime Minister, the government has made significant statements on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

As for inflation itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August and September. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the labour market, despite the contraction in quarterly GDP growth of -0.2% q/q, (+1.3% y/y), in quarter 2, employment continued to rise, but at only a muted rate of 31,000 in the three months to July after having risen by no less than 115,000 in quarter 2 itself. However, in the three months to August, employment swung into negative with a fall of 56,000, the first fall for two years. Unemployment duly rose from a 44 year low of 3.8% on the Independent Labour Organisation measure in July to 3.9%. Wage inflation also edged down slightly from a high point of 3.9% to 3.8% in August, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The quarter 2 GDP statistics also included a revision of the savings ratio from 4.1% to 6.4% which provides reassurance that consumers' balance sheets are not over stretched and so will be able to support growth going forward. This would then mean that the MPC will need to consider carefully at what point to take action to raise Bank Rate if there is an agreed Brexit deal, as the recent pick-up in wage costs is consistent with a rise in core services inflation to more than 4% in 2020.

In the political arena, a general election could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. Growth in 2019 has been falling back after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2. Quarter 3 is expected to fall further. The strong growth in employment numbers during 2018 reversed into a falling trend during 2019, indicating that the economy is cooling, while inflationary pressures are also weakening.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc). It then cut rates again in September to 1.75% - 2.00% and is thought likely to cut another 25 bps in December. At its September meeting it also said it was going to start buying Treasuries again, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy \$60bn, whereas it had been reducing its balance sheet by \$50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt).

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This trade war is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1 and then fell to +0.2% q/q (+1.0% y/y) in quarter 2; there appears to be little upside potential to the growth rate in the rest of 2019. German GDP fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels “at least through the end of 2019”, but that was of little help to boosting growth in the near term. Consequently, it announced a third round of TLTROs; this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank’s eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a resumption of quantitative easing purchases of debt; (at its October meeting it said this would start in November at €20bn per month - a relatively small amount compared to the previous buying programme). It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments will need to help stimulate growth by ‘growth friendly’ fiscal policy.

On the political front, Austria, Spain and Italy have been in the throes of forming coalition governments with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of two German state elections will put further pressure on the frail German CDU/SDP coalition government.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are

increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH. Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support (i.e. subsidies) to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates.

The trade war between the US and China is a major concern to financial markets due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in government bond yields in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. On this basis, while GDP growth is likely to be subdued in 2019 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement is likely to lead to a boost to the rate of growth in subsequent years which could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus. However, there would appear to be a majority consensus in the Commons against any form of non-agreement exit so the chance of this occurring has diminished.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Brexit – if it were to cause significant economic disruption and a major downturn in the rate of growth.

- Bank of England takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis. In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some European banks, particularly Italian banks.
- German minority government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The SPD has done particularly badly in state elections since then which has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.
- Other minority EU governments. Austria, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- Austria, the Czech Republic, Poland and Hungary now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was potential for a rerun of the 2008 financial crisis, but this time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on some \$19trn of corporate debt in major western economies, if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is \$15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- Geopolitical risks, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- Brexit – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too

strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Appendix 2

Referral from Cabinet 9 January 2020

Minute 279. Treasury Management Strategy Statement and Annual Investment Strategy: Mid-year Review 2019/20

RESOLVED: That

(1) The Treasury Management Mid-Year review for 2019/20 be noted.

(2) The report be referred to the Governance, Audit, Risk Management and Standards Committee for review.

Reason for Decision: To promote effective financial management and comply with the Local Authorities (Capital Finance and Accounting) Regulations 2003 and relevant guidance. To keep Cabinet informed of treasury management activities and performance.

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REPORT FOR: Governance, Audit, Risk Management and Standards Committee

Date of Meeting: 21 January 2020

Subject: Information Report: Removal of Risk Based Verification in the Administration of Housing Benefit and Council Tax Support

Responsible Officer: Dawn Calvert, Director of Finance, Resources Directorate

Exempt: No, except for Appendix A: Risk Based Verification Policy is exempt under paragraph 7 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended) in that it contains information relating to any action to be taken in connection with the prevention of crime

Wards affected: All

Enclosures: Appendix A – Risk Based Verification Policy - Restricted
Appendix B – Equality Impact Assessment

Section 1 – Summary

This report sets out the proposal to remove Risk Based Verification from the administration of Housing Benefit and Council Tax Support.

It is being brought to Governance, Audit, Risk Management and Standards Committee to:

- Consider and comment on the proposal to remove Risk Based Verification from the administration of Housing Benefit and Council Tax Support with effect from 1st April 2020

FOR INFORMATION

Reason: The reduction in the number of new claims for Housing Benefit as a result of the rollout of Universal Credit and the level of complexity of a high proportion of residual claims makes the Risk Based Verification process less effective in the administration of Housing Benefit. Furthermore, the implementation of a revised Council Tax Support scheme that uses the Universal Credit notification as a claim for Council Tax Support for the working age and allows validation of most working age claims from Universal Credit, also nullifies the need for using Risk Based Verification for Council Tax Support assessments

The Department of Work and Pensions require any changes to Risk Based Verification to be made at the start of the financial year. The proposal is therefore to remove the use of RBV with effect from 1st April 2020.

Section 2 – Report

Introductory paragraph

2.1 Risk Based Verification was introduced into the administration of Housing Benefit and Council Tax Support new claims in Harrow in 2015 following agreement by Department of Work and Pensions (DWP) for whom the Council administer Housing Benefit on behalf of. In April 2015 the current Policy, Appendix A, was agreed by Cabinet and taken to GARMS for information. GARMS requested a six month pilot be carried out after which a report was taken back to the Committee and confirmed that, while the Policy was still in its infancy and needed more time to fully understand the outcomes, it was meeting the expected outcomes.

Since that time Universal Credit has started to rollout in the borough resulting in a 69% reduction in the number of Housing Benefit new claims. The Council now only receives Housing Benefit claims for pensioners, people in Supported Accommodation or Temporary Accommodation and, for the short term, people who are entitled to a Severe Disability Premium.

2.2 Furthermore the Council is in the process of changing its Council Tax Support scheme from April 2020 to ensure it remains fit for purpose in response to the rollout of Universal Credit. The changes to the scheme include using the Universal Credit notification as a claim for Council Tax Support and to verify the majority of information required to assess the claim directly from DWP rather than requesting it from the claimant.

2.3 Both of these changes will reduce the number of claims that can be risk assessed by the Risk Based Verification tool. This makes the tool financially unviable for the number of claims it could be used for, but could also increase the level of subsidy risk in Housing Benefit.

Options considered

2.4 There are only two options available:

- Keep Risk Based Verification in the administration of Housing Benefit and Council Tax Support
- Remove Risk Based Verification in the administration of Housing Benefit and Council Tax Support

This report sets out the reason for proposing to remove Risk Based Verification by considering the risk and impacts of keeping it.

Background

2.5 Risk Based Verification is an automated process that risk assesses new claims to target those at higher risk of fraud and error. By incorporating it into the electronic new claim process claims receive a classification of low, medium or high. Verification of evidence to support the claim is based upon the risk classification as below:

Low risk	Medium risk	High risk
Original evidence of identity and proof of national insurance number required All other information declared by the claimant is accepted without further evidence	Original evidence of identity and proof of national insurance number required Copies of all other evidence	Original evidence of all information declared and invited to attend an interview where further clarification is required

2.6 Risk Based Verification was implemented in Harrow in 2015 to reduce the level of evidence requests on low risk claims and allow resources to be directed to high risk claims. The Risk Based Verification policy is audited by Department of Work and Pensions (DWP) as part of the annual Housing Benefit subsidy audit. The authority is required to ensure that the overall level of fraud and error detected using Risk Based Verification does not fall below the baseline level of detection prior to Risk Based Verification implementation. The application of Risk Based Verification for CTS claims is not audited in the same way.

2.7 The effectiveness of Risk Based Verification in Harrow has been limited due to the caseload make-up. Monitoring following its introduction has identified that the complexity of the Harrow Housing Benefit caseload has impacted how successful the Risk Based Verification tool is in respect to faster processing for low risk claims to allow resources to be diverted to high risk claims. For example claims from Persons from Abroad, of which Harrow has a disproportionately high number, were required to have the risk allocation increased e.g. to obtain evidence of the right to access public funds. Claims from people

in employment also frequently result in additional verification requests due to the high level of error made by claimants when providing earning information in the claim form. As Harrow has such a high proportion of low earners, this has impacted on the effectiveness of Risk Based Verification in Harrow compared to some other boroughs.

Reasons for change

2.8 Universal Credit

Working age claimants are now required to claim assistance with housing costs from Universal Credit instead of Housing Benefit. This has resulted in a 69% reduction in the number of new claims received for Housing Benefit and is expected to reduce further when Severe Disability Allowance claims also transfer into Universal Credit.

2.9 The working age claims that remain with the local authority in the long term are Supported and Temporary Accommodation. In most instances these claimant's personal evidence can be validated directly from DWP, however because of the complexity of these claims verification of the rent and support provided is required and consequently these claims cannot go through the risk assessment. Pensioner claims account for a much smaller proportion of new claims received, with 71 received in quarter 2 of 2019/20, approx. 24 a month.

2.10 Access to real time earnings and private pension data

Since the introduction of Risk Based Verification, Councils have been given access to more information by DWP/HMRC. Earnings and private pension details can now be viewed directly through an online system and alerts are issued where there is a mismatch between Council and HMRC data. This allows more accurate assessments without the need to contact claimants to verify their claim.

2.11 Subsidy risk

Housing Benefit is administered by the Council on behalf of the DWP and the Council is therefore subject to an annual audit of the subsidy claim which is submitted to reclaim the benefit paid out to residents. The current Housing Benefit expenditure is around £127 million p.a. If an error is found in the audit it is extrapolated and the subsidy payment reduced accordingly. Part of the audit is to check that the Council is applying its Risk Based Verification policy accurately. An error in this respect could have an impact of millions of pounds on the Council. The level of risk must be balanced against the benefits of using the Risk Based Verification tool. As the benefits of the tool have reduced, the subsidy risk has become unjustifiable.

The Risk Based Verification tool costs the Council £15,000 a year. Given that the residual Housing Benefit working age claims are too complex to be risk assessed and there are only a small number of pensioner claims received, there is no business case for retaining the tool for the purposes of Housing Benefit.

2.12 Introduction of new Council Tax Support scheme

Council Tax Support is funded by the Council and is not subject to the same requirements by DWP or DHCLG as Housing Benefit, giving the Council greater autonomy over how it administers the scheme. Harrow's Council Tax Support scheme is changing from April 2020 to ensure it remains fit for purpose as residents transfer onto Universal Credit. From April 2020 the number of working age new claims that can be risk assessed will reduce as the Council starts to use the Universal Credit notification issued by DWP as a claim. Furthermore the new scheme will require less verification as it is a simpler scheme which can obtain the majority of information required directly from Universal Credit.

89% of Council Tax Support claims are made by working age people. It is therefore not viable to retain the Risk Based Verification tool for pensioner only claims (approx. 22 a month).

A survey of London Councils in Jan 2019 found that of the 23 respondents, 14 had implemented Risk Based Verification at some time. 4 of the 14 had stopped using it and 1 was proposing to stop using it. The rollout of Universal Credit was given stated as the reason for ceasing to use the tool where a reason was provided.

Replacement verification process

2.13 DWP guidance circular S11/2001 states:

"LAs have to take into account HB Regulation 86 when verifying claims. Reg. states:

"a person who makes a claim, or a person to whom housing benefit has been awarded, shall furnish such certificates, documents, information and evidence in connection with the claim or the award, or any question arising out of the claim or the award, as may reasonably be required by the relevant authority in order to determine that person's entitlement to, or continuing entitlement to housing benefit and shall do so within one month of being required to do so or such longer period as the relevant authority may consider reasonable."

These Regulations do not impose a requirement on authorities in relation to what **specific** information and evidence they should obtain from a claimant. However, it does require an authority to have information which allows an **accurate assessment** of a claimant's entitlement, both when a claim is first made and when the claim is reviewed. A test of reasonableness should be applied."

The following verification process will be implemented for the administration of new claims in place of Risk Based Verification:

2.14 Housing Benefit

Original evidence of all required documentation to be obtained for all new Housing Benefit claims.

Where evidence can be obtained from services within the Council e.g. Housing, or from DWP, then this will always be the first point of contact before requesting information from the claimant.

Proof of identity will always be requested from the claimant in original format.

Housing Associations are trained as verification officers by the Council. They will therefore use the evidence upload form (when available) to provide all information they have available to support a tenant's claim.

2.15 Council Tax Support:

Proof of identity will always be requested from the claimant in original format.

All other evidence to follow the procedure set out below.

Evidence will be obtained from sources other than the claimant e.g. DWP/HMRC or copies accepted unless stated otherwise. The term 'copies' is used to mean photocopies or evidence submitted electronically e.g. from a photograph on a mobile phone, self-scanned or received by the claimant electronically e.g. bank statements. Customers will be encouraged to provide evidence electronically whenever viable.

2.16 Universal Credit

When the claimant is in receipt of Universal Credit:

- When claimants are in receipt of Universal Credit then all evidence that can be obtained from DWP will be accepted through this route.
- Evidence of non-dependant income will need to be obtained from the claimant if it is not available from Universal Credit

2.17 VEP (WURTI) – DWP/HMRC online system

- Earnings and private pension information should always be obtained from VEP in the first instance.
- If information is not going to be available until a point in the future, e.g. next months pay slip, then a template letter will be sent to the claimant informing them of this and that if the information is not available from VEP they will be required to provide proof. Letter to state they do not need to do anything now unless they believe their information won't be available in VEP

- If earnings/private pension information not available in VEP either for known reasons or unknown reasons:
 - Obtain original payslips/letter from employer
 - Request additional verification e.g. bank statements to show transactions
 - Contact employer to confirm employment
 - Check Companies House
 - Speak to claimant and potentially invite them in to discuss if still have concerns
 - Consent will need to be obtained before contacting employers directly. This should be requested from the claimant if it is not already held.

2.19 Other income

Copies are acceptable in all other scenarios unless there is cause for concern or conflicting information is provided. 'Cause for concern' will be decided upon by the assessment officer based on their experience, information available to them and procedures. Examples would include:

- Concern that documents have been falsified. All Benefits staff are verification trained to identify documents that could have been falsified and will therefore be able to request further evidence if they are not satisfied that information held is genuine
- Where cross checks don't substantiate information provided, for example checking self-employed information against Companies House database

Types of other income that will be accepted as copies include:

- Student finance
- Self-employed
- Annuities
- Dividends
- Miscellaneous e.g. support from friends/family
- Income from lodgers
- Child benefit
- Tax Credit for more than 2 children
- Non-dependant income

2.20 Capital

Proof of capital is to be accepted as copies unless there is cause for concern or conflicting information is provided

Rent

Proof of rent is to be accepted as copies unless there is cause for concern or conflicting information is provided.

2.21 Expenditure

Proof of expenditure is to be accepted as copies unless there is cause for concern or conflicting information is provided.

2.22 Clarification and additional information sought

- Where any clarification is sought a telephone conversation must be held by making an outbound call and by leaving a voicemail message and a note in Northgate that claimant can be put through to assessor.
- The type of scenarios that would require additional clarification, but not exclusively, are:
 - Any discrepancies over information provided
 - Earnings should be in VEP but aren't
 - Living off income below applicable amount
 - Declare nil income but expenses indicate otherwise e.g. regular travel across London
- Original documents may be requested in these scenarios if it is believed that this will help to clarify the claimants circumstances

Implications of this proposal

The impacts of this proposal are expected to be minimal. Requests for information from customers are not forecast to increase as they are either already made or the information can be obtained from other sources. Pensioners will be required to provide information where some may not currently be asked to do so, but the numbers impacted will be low (under 10 a month).

There is no expectation of an increase in customer contact because of the low numbers who will be asked to provide evidence compared to now and the fact that this proposal coincides with the change to the Council Tax Support scheme will also reduce customer contact relating to evidence provision.

Risk Management Implications

No risks have been identified in the removal of the Risk Based Verification tool in the administration of Housing Benefit and Council Tax Support. However, there are potential risks to retaining the tool following the rollout of Universal Credit:

- The rollout of UC in the borough has meant that there are relatively few Housing Benefit claims that can now be fully risk assessed due to the complexity of a number of the residual claims. Retaining the tool costs £15,000 p.a. for a product that has very limited use in the administration of the residual Housing Benefit new claims.
- Using the Risk Based Verification tool carries a subsidy risk. While the Council sets out to ensure it is compliant with the DWP's requirements when applying the tool in the administration of Housing Benefit, should the authority be found to be non-compliant the financial implications could be very high with DWP potentially requesting a subsidy

repayment into millions of pounds. The level of risk is no longer offset by the level of gain from using the tool.

Procurement Implications

There are no procurement implications due to the removal of this check.

Legal Implications

There is no legal requirement to use Risk Based Verification in the administration of Housing Benefit or Council Tax Support. The proposed procedure to replace Risk Based Verification complies with Regulation 86 of the Housing Benefit Regulations 2006 and Paragraph 7 of Schedule 8 of The Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012

Financial Implications

The only financial implications identified in this proposal are to reduce the risk to the Housing Benefit subsidy audit. DWP set very tight controls in respect to the processes that must be followed by the LA when using RBV. If these processes cannot be demonstrated as having been met by the organisation there will be a risk to the subsidy claimed from DWP. Given that RBV will potentially affect every Housing Benefit claim made, the value of subsidy at possible risk is very high.

As the number of new claims now received has reduced and those that are made are largely more complex and require additional verification irrespective of RBV, the benefits of using the tool no longer outweigh the risks. Given that a level of verification will be carried out on all claims once RBV is stopped, it is not anticipated that any additional fraud risk will be able to enter the system.

Equalities implications / Public Sector Equality Duty

Appendix B sets out the Equality Impact Assessment that has been carried out to understand the potential impacts of this proposal. Due to the rollout of Universal Credit and the proposed changes to the Council Tax Support scheme, the number of claims that will be impacted by the proposal to remove Risk Based Verification is low. As pensioners are not affected by either Universal Credit or the change to Council Tax Support, they are more likely to be impacted by the removal of Risk Based Verification.

It is estimated that of the estimated 25 pensioner Housing Benefit and Council Tax Support claims received a month, 10 may be required to provide more information than they do currently (25 claims includes HB and CTS claims of which there are approx. 22 and 24 respectively, most of which are joint claims for both benefits). As a high proportion of evidence for this group can be obtained from alternative sources (DWP/HMRC/social landlord) and the more complex claims are already classified as medium or high risk and therefore required to provide more evidence under Risk Based Verification, the impact will be low. Furthermore, the implementation of a new online evidence upload tool will allow claimants to submit information electronically in most instances where they are able to do so. Should there be exceptional situations where

evidence is required and the claimant's vulnerable status makes it difficult for them to provide the information to substantiate their claim, a home visit will be arranged.

Council Priorities

This proposal will continue to support those most in need by having minimal impact to residents claiming Housing Benefit and Council Tax Support. It will however reduce risk to the Housing Benefit subsidy claim, therefore protecting the Council's finances.

Section 3 - Statutory Officer Clearance

Name: Sharon Daniels	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 8 th Jan 2020		
Name: Andrew Lucas	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 4 th Dec 2019		
Name: Nimesh Mehta	<input checked="" type="checkbox"/>	on behalf of the Head of Procurement
Date: 20 Jan 2020		
Name: Charlie Stewart	<input checked="" type="checkbox"/>	Corporate Director
Date: 20 December 2019		
MANDATORY		
Ward Councillors notified:		NO
EqIA carried out:		Yes
EqIA cleared by:		Alex Dewsnap

Section 4 - Contact Details and Background Papers

Contact: Fern Silverio (Head of Service – Collections & Housing Benefits), Tel: 020 8736 6818 / email: fern.silverio@harrow.gov.uk

Background Papers:

Appendices, as attached to the main report
Appendix B is exempt

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Equality Impact Assessment (EqIA)



You will need to produce an Equality Impact Assessment (EqIA) if:

- You are developing a new policy, strategy, or service
- You are making changes that will affect front-line services
- You are reducing budgets, which may affect front-line services
- You are changing the way services are funded and this may impact the quality of the service and who can access it
- You are making a decision that could have a different impact on different groups of people
- You are making staff redundant or changing their roles

Guidance notes on how to complete an EqIA and sign off process are available on the Hub under Equality and Diversity. You must read the [guidance notes](#) and ensure you have followed all stages of the EqIA approval process (outlined in appendix 1). Section 2 of the template requires you to undertake an assessment of the impact of your proposals on groups with protected characteristics. Equalities and borough profile data, as well as other sources of statistical information can be found on the Harrow hub, within the section entitled: [Equality Impact Assessment](#) - sources of statistical information.

Equality Impact Assessment (EqIA)		
Type of Decision:	[REDACTED]	
		<input type="radio"/> Portfolio holder <input checked="" type="radio"/> Other (state)
Title of Proposal	Removal of Risk Based Verification in the administration of Housing Benefit and Council Tax Support	Date EqIA created 22/11/19
Name and job title of completing/lead Officer		
Directorate/ Service responsible		
Organisational approval		
EqIA approved by Directorate Equalities Lead	Name Alex Dewsnap	Signature <input type="checkbox"/> Tick this box to indicate that you have approved this EqIA Date of approval

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1. Summary of proposal, impact on groups with protected characteristics and mitigating actions

(to be completed **after** you have completed sections 2 - 5)

a) What is your proposal?

To remove the use of Risk Based Verification in the administration of Housing Benefit and Council Tax Support with effect from 1st April 2020.

Risk Based Verification is an automated process that risk assesses new claims to target those at higher risk of fraud and error. By incorporating it into the electronic new claim process claims receive a classification of low, medium or high. Verification of evidence to support the claim is based upon the risk classification as below:

Low risk	Medium risk	High risk
Original evidence of identity and proof of national insurance number required All other information declared by the claimant is accepted without further evidence	Original evidence of identity and proof of national insurance number required Copies of all other evidence	Original evidence of all information declared and invited to attend an interview where further clarification is required

It is proposed to replace Risk Based Verification with the following evidence verification procedure for new claims:

Housing Benefit

Original evidence of all required documentation to be obtained for all new Housing Benefit claims.

Where evidence can be obtained from services within the Council e.g. Housing, or from DWP, then this will always be the first point of contact before requesting information from the claimant.

Proof of identity will always be requested from the claimant in original format.

Housing Associations are trained as verification officers by the Council. They will therefore use the evidence upload form (when available) to provide all information they have available to support a tenant's claim.

Council Tax Support:

Proof of identity will always be requested from the claimant in original format.

All other evidence to follow the procedure set out below.

Evidence will be obtained from sources other than the claimant e.g. DWP/HMRC or copies accepted unless stated otherwise. The term 'copies' is used to mean photocopies or evidence submitted electronically e.g. from a photograph on a mobile phone, self-scanned or received by the claimant electronically

e.g. bank statements. Customers will be encouraged to provide evidence electronically whenever viable.

Universal Credit

When the claimant is in receipt of Universal Credit:

- When claimants are in receipt of Universal Credit then all evidence that can be obtained from DWP will be accepted through this route.
- Evidence of non-dependant income will need to be obtained from the claimant if it is not available from Universal Credit

VEP (WURTI) – DWP/HMRC online system

- Earnings and private pension information should always be obtained from VEP in the first instance.
- If information is not going to be available until a point in the future, e.g. next months pay slip, then a template letter will be sent to the claimant informing them of this and that if the information is not available from VEP they will be required to provide proof. Letter to state they do not need to do anything now unless they believe their information won't be available in VEP
- If earnings/private pension information not available in VEP either for known reasons or unknown reasons:
 - Obtain original payslips/letter from employer
 - Request additional verification e.g. bank statements to show transactions
 - Contact employer to confirm employment
 - Check Companies House
 - Speak to claimant and potentially invite them in to discuss if still have concerns
 - Consent will need to be obtained before contacting employers directly. This should be requested from the claimant if it is not already held.

Other income

Copies are acceptable in all other scenarios unless there is cause for concern or conflicting information is provided. This will include:

- Student finance
- Self-employed
- Annuities
- Dividends
- Miscellaneous e.g. support from friends/family
- Income from lodgers
- Child benefit
- Tax Credit for more than 2 children
- Non-dependant income

Capital

Proof of capital is to be accepted as copies unless there is cause for concern or conflicting information is provided

Rent

Proof of rent is to be accepted as copies unless there is cause for concern or conflicting information is provided.

Expenditure

Proof of expenditure is to be accepted as copies unless there is cause for concern or conflicting information is provided.

Clarification and additional information sought

- Where any clarification is sought a telephone conversation must be held by making an outbound call and by leaving a voicemail message and a

note in Northgate that claimant can be put through to assessor.

- The type of scenarios that would require additional clarification, but not exclusively, are:
 - Any discrepancies over information provided
 - Earnings should be in VEP but aren't
 - Living off income below applicable amount
 - Declare nil income but expenses indicate otherwise e.g. regular travel across London
- Original documents may be requested in these scenarios if it is believed that this will help to clarify the claimants circumstances

As Universal Credit has rolled out in Harrow, the number of new claims has reduced over the last year. The Council now only receives Housing Benefit claims for pensioners, supported or temporary accommodation and, in the short term, claimants who receive a Severe Disability Premium. Due to the complexity of the supported and temporary accommodation cases they are normally treated as being medium or high risk and therefore do not benefit from the Risk Based Verification process. It is only pensioners who after risk assessment would fall into one of the categories above. There are around 20 new claims for Housing Benefit received from pensioners each month. Approximately half of these are in receipt of a passported benefit so the majority of information will be obtained directly from Department of Work and Pensions. Around 10 claimants a month would therefore currently see a difference to how their claim is verified under the current system compared to the proposed new system.

Harrow's Council Tax Support scheme is due to change from April 2020. This change will mean that new majority of new Council Tax Support claims made by people on Universal Credit will be made using the Universal Credit notification issued to the Council by Department of Work and Pensions. These claims will therefore not go through the Risk Based Verification process. Due to the simplification of the working age Council Tax Support scheme for Universal Credit claimants, most verification will be carried out directly with DWP. It is therefore only Pensioners who could be impacted by this proposal. As with Housing Benefit as a high proportion of these claims are on passported benefits, verification can largely be carried out with no additional contact with the claimant than under the current Risk Based Verification process. There are approximately 10 claims a month from pensioners who are not passported and may need to provide more evidence than they do currently, although due to the access to the online HMRC system, private pensions can also be verified directly

b) Summarise the impact of your proposal on groups with protected characteristics

As this proposal is in respect to new claims, the data of who the new claimants are is not available until the point at which they make the claim. It is therefore difficult to understand any impacts on groups with protected characteristics. It is known however that this proposal is expected to be low impact across all households for the following reasons:

- Majority of working age claims for housing costs are now made to Universal Credit, not Housing Benefit
- The Risk Based Verification process is often not applicable to the complex residual working age Housing Benefit claims (supported and temporary accommodation)
- Most working age Council Tax Support claims will be made using the Universal Credit notification from April 2020, so will not go through the Risk Based Verification process
- More information can be obtained directly from DWP/HMRC using online systems and data matching schemes than when Risk Based Verification was implemented in 2014
- Around half of the pensioner claims received are in receipt of passported benefits allowing information to be obtained from DWP/HMRC

It is estimated there will be 10 claims a month from pensioners who may be required to provide more evidence to verify their Housing Benefit/Council Tax Support claim than under the current procedure.

c) Summarise any potential negative impact(s) identified and mitigating actions

Approximately 10 new claims a month from pensioners are expected to be required to provide more information than they do currently. Most of these will already need to provide some evidence e.g. identification.

The proposed new evidence procedure sets out a minimum standard which mitigates the risk to fraud and error while not making the task of providing the information too onerous for the claimant. In the first instance the Council will always seek to obtain the information required directly from DWP/HMRC systems where it is available. Where possible electronic provision will be accepted, assisting those pensioners who are willing and able to use this channel either independently or with the support of friends/family. This group of claimants often live in social housing where additional support with the claim process is available and evidence is already verified by the landlord on behalf of the Council. The Benefits service is aware that there are some vulnerable residents who are unable to provide evidence independently and do not have access to any additional support to do so. In these instances a home visit will be arranged to assist.

2. Assessing impact					
You are required to undertake a detailed analysis of the impact of your proposals on groups with protected characteristics. You should refer to borough profile data , equalities data , service user information, consultation responses and any other relevant data/evidence to help you assess and explain what impact (if any) your proposal(s) will have on each group. Where there are gaps in data, you should state this in the boxes below and what action (if any), you will take to address this in the future.		What does the evidence tell you about the impact your proposal may have on groups with protected characteristics? Click the relevant box to indicate whether your proposal will have a positive impact, negative (minor, major), or no impact			
Protected characteristic	For each protected characteristic, explain in detail what the evidence is suggesting and the impact of your proposal (if any). Click the appropriate box on the right to indicate the outcome of your analysis.	Positive impact	Negative impact		No impact
			Minor	Major	
Age	Approximately 10 pensioner claimants a month are forecast to need to provide more information to support their claim than they do under the Risk Based Verification process. This is expected to be low impact for the majority of claimants as the Council will obtain the information from DWP/HMRC wherever viable and is aware that there is already a lot of support available to this group to support them in providing evidence. In exceptional circumstances where this support is not available the Benefits service will arrange a home visit to assist	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Disability	No impact identified	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Gender reassignment	No impact identified	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Marriage and Civil Partnership	No impact identified	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Pregnancy and Maternity	No impact identified	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Race/ Ethnicity	No impact identified	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Religion or belief	No impact identified	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Sex	No impact identified	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Sexual Orientation	No impact identified	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<p>2.1 Cumulative impact – considering what else is happening within the Council and Harrow as a whole, could your proposals have a cumulative impact on groups with protected characteristics?</p> <p><input type="checkbox"/> Yes No <input checked="" type="checkbox"/></p>					
<p>If you clicked the Yes box, which groups with protected characteristics could be affected and what is the potential impact? Include details in the space below</p>					
<p>2.2 Any other impact - considering what else is happening nationally/locally (national/local/regional policies, socio-economic factors etc), could your proposals have an impact on individuals/service users, or other groups?</p>					

Yes No

If you clicked the Yes box, Include details in the space below

3. Actions to mitigate/remove negative impact

Only complete this section if your assessment (in section 2) suggests that your proposals may have a negative impact on groups with protected characteristics. If you have not identified any negative impacts, please complete sections 4 and 5.

In the table below, please state what these potential negative impact (s) are, mitigating actions and steps taken to ensure that these measures will address and remove any negative impacts identified and by when. Please also state how you will monitor the impact of your proposal once implemented.

State what the negative impact(s) are for each group, identified in section 2. In addition, you should also consider and state potential risks associated with your proposal.	Measures to mitigate negative impact (provide details, including details of and additional consultation undertaken/to be carried out in the future). If you are unable to identify measures to mitigate impact, please state so and provide a brief explanation.	What action (s) will you take to assess whether these measures have addressed and removed any negative impacts identified in your analysis? Please provide details. If you have previously stated that you are unable to identify measures to mitigate impact please state below.	Deadline date	Lead Officer
Approximately 10 pensioner households a month will be required to provide more evidence than they are currently	<ul style="list-style-type: none"> • Seek to obtain information required directly from DWP/HMRC systems where it is available. • Where possible electronic provision will be accepted • Ensure social registered landlords verification training is up to date • In exceptional circumstances where no assistance is available, 	<p>Monitor the number of claims closed due to no response to information requests</p> <p>Monitor complaints in respect to the evidence provision procedure</p>	6 months	Jenny Townsley

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	a home visit will be arranged			

4. Public Sector Equality Duty

How does your proposal meet the Public Sector Equality Duty (PSED) to:

1. Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010
2. Advance equality of opportunity between people from different groups
3. Foster good relations between people from different groups

Include details in the space below

The procedures already in place in the service ensure that the Public Sector Equality Duty is met e.g. through changes to the Council Tax Support scheme which makes claiming Council Tax Support easier for working age people. Risk Based Verification is virtually redundant and removal of it is very low impact

5. Outcome of the Equality Impact Assessment (EqIA) click the box that applies

Outcome 1

No change required: the EqIA has not identified any potential for unlawful conduct or disproportionate impact and all opportunities to advance equality of opportunity are being addressed

<input checked="" type="checkbox"/> Outcome 2 Adjustments to remove/mitigate negative impacts identified by the assessment, or to better advance equality, as stated in section 3&4
<input type="checkbox"/> Outcome 3 This EqIA has identified discrimination and/ or missed opportunities to advance equality and/or foster good relations. However, it is still reasonable to continue with the activity. Outline the reasons for this and the information used to reach this decision in the space below.
Include details here



**REPORT FOR: GOVERNANCE, AUDIT,
RISK MANAGEMENT &
STANDARDS COMMITTEE**

Date of Meeting: 21 January 2020

Subject: **INFORMATION REPORT – Internal
Audit and Corporate Anti-fraud
Mid-Year Report and Quarter 3
Update 2019/20**

Responsible Officer: Dawn Calvert – Director of Finance

Exempt: No

Wards affected: ALL

Enclosures: Appendix 1 – Internal Audit Mid-Year and
Quarter 3 Update Report 2019/20
Appendix 2 – Corporate Anti-Fraud Team
Mid-Year and Quarter 3 Update Report
2019/20

Section 1 – Summary and Recommendations

This report sets out progress against the 2019/20 Internal Audit and Corporate Anti-Fraud Plan.

FOR INFORMATION

Section 2 – Report

Background

- 2.1. Annually the GARMS Committee considers a mid and full year report from Internal Audit and Corporate Anti-Fraud covering progress against the agreed plans.

Internal Audit Mid–Year and Quarter 3 Update (Appendix 1)

- 2.2. In summary at mid-year Internal Audit have achieved 44% of the 2019/20 annual internal audit plan with a further 16% in progress. This included 100% achievement of the core financial systems reviews all of which were given an amber, amber/green or green assurance rating. 97% of recommendations made to management to improve internal control were agreed for implementation exceeding the 95% target and at the time of follow-up 62% of recommendations previously agreed by management were implemented/substantially implemented, 20% were in progress and 18% were planned.
- 2.3 Appendix 1 details the key factors at mid-year for the 2019/20 Head of Internal Audit Opinion, provides a summary of all the work undertaken at mid-year and Quarter 3 and the performance of Internal Audit against the agreed key performance indicators at mid-year.

Corporate Anti-Fraud Report (Appendix 2)

- 2.4 Of the 17 work streams contained within the plan, 1(6%) has been achieved, 12 (71%) have commenced and 4 (24%) have yet to commence. In terms of the five 2019/20 performance indicators, 4 (80%) are being achieved with 1 (20%) ongoing.

Legal Implications

- 2.5 The Accounts & Audit Regulations 2015:

Internal audit

5.—(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

Financial Implications

- 2.6 There are no financial implications to this report. The Internal Audit Service and the Corporate Anti-Fraud Service are provided within the set service budgets.

Risk Management Implications

2.7 There are no risk management implications to this report. Both the Internal Audit Plan and the Corporate Anti-Fraud Plan and any reactive work undertaken are risk based.

Equalities implications / Public Sector Equality Duty

2.8 There are no equalities implications to this report.

Council Priorities

2.9 Both the Internal Audit Service and Corporate Anti-Fraud Service contribute to all the corporate priorities by enhancing the robustness of the control environment and governance mechanisms that directly or indirectly support these priorities.

Section 3 - Statutory Officer Clearance

3.1 As this report is for information only it has been decided that no Statutory Officer Clearance is required.

Ward Councillors notified:	NO
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Section 4 - Contact Details and Background Papers

Contact: Susan Dixson, Head of Internal Audit & Corporate Anti-Fraud,
Tel: 0208 424 1420

Justin Phillips, Corporate Anti-Fraud Service Manager
Tel: 0208 424 1609

Background Papers: None

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**Internal Audit Mid-Year Report and Quarter 3 Update
2019/20****CONTENTS:****Introduction****Head of Internal Audit Opinion**

- Key Factors at Mid-Year for the 2019/20 Opinion

Summary of Outputs

- Key Outputs at Mid-year
- Progress against the 2019/20 Internal Audit Plan at Mid-Year and Q3 including Assurance Results of Individual Assignments
- Follow Up Work Conducted/Due

Performance of Internal Audit**Appendices:**

1. Audit Report Assurance Levels

Introduction

This report outlines the internal audit work carried out in the first half of the year ending 31/03/20 i.e. quarters 1 and 2 plus, given the timing of the report, an update of work undertaken in quarter 3.

The Internal Audit Plan 2019/20 was based on a level of internal audit input of 795 days and was agreed by the Governance, Audit, Risk Management and Standards Committee on 16/04/19. At the mid-year point 435 audit days have been delivered and 44% of the plan has been completed with 16% in progress.

Internal audit work has been performed in conformance with the Public Sector Internal Audit Standards.

Head of Internal Audit Opinion

The aim of the internal audit plan is to ensure that sufficient internal audit work is undertaken throughout the year to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and internal control across the Council.

The level of progress against the plan at mid-year indicates that sufficient work will be undertaken to allow an opinion to be given at year-end.

Key Factors at Mid-Year for the 2019/20 Opinion

The key factors that contributed to the opinion are summarised as follows:

- 100% of assurance reviews undertaken at mid-year 2019/20 were given an amber, an amber/green or a green assurance;
- 97% of overall recommendations made during 2019/20 were agreed by management for implementation;
- 62% of recommendations were implemented/substantially implemented, 20% were in progress and 18% were planned at time of follow-up thus it is expected that in due course 100% will be implemented;
- All follow-ups resulted in an improved assurance rating with 75% attaining an amber, amber/green or green assurance rating;

Summary of Outputs

A summary of key outputs/findings from the programme of internal audit work at mid-year is recorded in the table below:

Key Outputs at Mid-Year	
Description	Detail
<p>Audit reports</p> <p>15 internal audit reviews were undertaken resulting in an audit report.</p>	<ul style="list-style-type: none"> • 6 green, 6 amber/green and 3 amber assurance reports were issued; • 4 high risk, 21 medium risk and 13 low risk recommendations were made to improve weaknesses identified in governance, risk management or control.
<p>Significant weaknesses</p> <p>No Red and Red/Amber assurance reports have been issued at mid-year 2019/20.</p>	
<p>Other audit work</p> <p>A number of other pieces of audit work have been undertaken as part of the 2019/20 Internal Audit Plan that did not result in a traditional audit report but none the less added value to the Council's governance, risk management and control framework.</p>	<ul style="list-style-type: none"> • Risk Management, outputs = Corporate Risk register for Q1, Q2 and Q3 of 2019/20; • Information Governance Board, outputs = pro-active audit input and advice on information governance policy, procedures, issues and data breaches; • Build a Better Harrow Governance, outputs = continued pro-active input into the development of the governance structure and the development of the corporate project management process; • SFVS, outputs = review of the school self-assessments against the school financial Value Standard and an assurance report for the Chief Finance Officer; • Families First (Troubled Families Grant), outputs = validation of the Q1 grant claim; • Professional Advice, outputs = the provision of independent professional internal audit advice on a range of topics e.g. Adult Social care Debt; Facilities Management; Joint Venture Governance; School Whistleblowing; Regeneration Manager's Pay; School conflict of interest.
<p>Follow up</p> <p>So far during the year we have undertaken follow up work on the implementation of previously agreed actions.</p>	<ul style="list-style-type: none"> • 4 follow-ups have been completed during 2019/20 so far. All completed follow-ups have resulted in an improved assurance rating.
<p>Good practice</p> <p>We also identified a number of areas where few weaknesses were identified.</p>	<ul style="list-style-type: none"> • The Council's core financial systems continue to be well controlled with the combined approach of periodic full audit reviews and annual evidence based self-assessments working well; • Overall schools also continue to demonstrate a strong level of control over their finances and budgets along with good governance procedures.

Progress against the 2019/20 Internal Audit Plan at Mid-Year and Q3 including Assurance Results of Individual Assignments

The table below sets out the results of the internal audit work undertaken so far:

Review	Assurance Rating/Mid Year Position		Q3 Progress
Corporate Compliance Checks			
Financial Regulations	Likely to be c/f to 20/21 as training not yet undertaken		
Contract Procedure Rules	Planning stage		In progress
IR35	In progress		In progress
Corporate Project Management	Process not yet implemented therefore may be c/f to 20/21		
Corporate Risk Based Reviews			
Corporate Governance	2018/19 annual review of governance completed in Q1		2019/20 annual review of governance to commence Q4
Risk Management	Corporate Risk Register updated for Q1		Corporate Risk Register updated for Q2 & 3
Information Governance Board (IGB)	HIA's attendance of the Q1 & Q2 IGB meetings providing pro-active audit input and advice on information governance policy, procedures and issues.		HIA's attendance of the Q3 IGB meeting
Budget Process	Ongoing support and advice to the S151 Officer		Ongoing support and advice to the S151 Officer
Build a Better Harrow Governance	On- going input to the development of governance arrangements		On-going
Corporate Health & Safety - Schools	Due in Q3		Schedule to be undertaken Q4
Social Value	Planning stage		In progress
GDPR c/f 2018/19	AMBER	GREEN	
IT System Security – PAWS	Planning stage		In progress
Devolved Application Teams	Management requested a delay to Q4		Planned for Q4
SAP Replacement Project	Ongoing support and input		Ongoing support and input
Sancroft c/f 2018/19	In progress		In progress
Resources Directorate + Core Financial Systems			
Payroll	GREEN		
Council Tax	AMBER	GREEN	
Corporate Accounts Receivable	GREEN		
Corporate Accounts Payable	GREEN		
Business Rates	AMBER	GREEN	
Capital Expenditure	AMBER	GREEN	
Housing Benefit	GREEN		
Housing Rents	GREEN		
Treasury	GREEN		
Emergency Planning	Due in Q3		Slightly behind schedule to be undertaken Q4
Debt Collection	Due in Q3		In progress
Cashiers	In progress		In progress
Directorate Risk Based Reviews			
Community			
Empty Property Grant	AMBER		
Major Projects - Grange Farm	Due for Q3/4		Planning stage
Major Projects – Depot	Due for Q3/4		Planning stage
Housing Service Charges	Planned for Q4		
Property Acquisition	In progress		In progress
Domestic Waste Collection	Due Q3		Slightly behind schedule to be undertaken Q4

HMO Management & Enforcement	Planned for Q4	
Parking Operations	In progress	AMBER
People		
Camrose Primary School	AMBER	GREEN
Norbury Primary School	AMBER	GREEN
Whitchurch Primary School	AMBER	
Other schools x 6	Planned for Q4	School visit's booked
SFVS Assurance Statement	Assurance provided to S151 Officer responsible for signing off statutory return	
Together with Families Programme (Troubled Families Grant)	1st claim complete	2 nd claim in progress (new team)
School Admissions	Due Q3	Slightly behind schedule to be undertaken Q4
First Response Team	In progress	AMBER GREEN
Youth Offending Team	Planned Q4	Planned Q4
Learning Disability Focus Group/Partnership	Planned Q4	Planned Q4
Adult Social Care – Personal Budgets	Due in Q3	Planning stage
IT System Security – Mosaic	In progress	GREEN
Schools SLA c/f 2018/19	In progress	AMBER
Fostering c/f 2018/19	AMBER	

Final red and red/amber assurance reports are presented to the GARMS Committee individually for review and comment with relevant managers attending the meetings. No red or red/amber assurance reports have been issued in Q1, Q2 or Q3 of 2019/20.

Follow Up Work Conducted/Due

Introduction

In order for the Council to derive maximum benefit from internal audit, agreed actions should be implemented. Whilst management is responsible for implementing recommendations, in accordance with the internal audit protocol follow-ups of recommendations are undertaken for all but Green assurance reports and report recommendations are followed-up until at least an Amber assurance rating is achieved. The table below summarises the follow up work performed during 2019/20.

Review	Original Assurance Rating		Re-Assessed Assurance Rating at Mid Year / Comments		Re-Assessed Assurance Rating at Q3 / Comments
Fuel Cards	RED	AMBER	AMBER	GREEN	
Regeneration Programme (2 nd f/up)*	RED	AMBER	AMBER	GREEN	
Planning	AMBER		GREEN		
SNT (2nd f/up)**	RED		RED	AMBER	AMBER
Museum & Great Barn	RED				AMBER
Empty Property Grant – vfm	AMBER				AMBER GREEN
Helix Centre – Budgetary Control	AMBER				GREEN

Homelessness – Preventative Work	AMBER		Follow-up due February 2020	
Trade Waste Collection	AMBER		Issued in draft 24/06/19 – there has been a delay in the response to this review due to a change in personnel however the majority of the responses have now been received and the final report will be issued shortly.	
Fly Tipping	AMBER		Follow-up due May 2020	
Depot Security (Emerging Risk)	AMBER			In progress – awaiting reply
Parking – CEO Shifts	AMBER			Follow up in progress
Housing Landlord Responsibilities - Health & Safety Compliance	AMBER		Follow-up due Jan 2020	
Waste – Landfill, Recycling & Weighbridge	RED	AMBER	Follow-up commenced January 2019, initial response provided in May by the Head of Environment & Waste Strategy however evidence never received. Change in personal has caused difficulty in obtaining this evidence, but progress has been made in the last week.	
Grange Primary School – Governance & Financial Control	AMBER	GREEN	In progress- awaiting reply	
Pinner Park Infants & Nursery - Governance & Financial Control	AMBER	GREEN	In progress – awaiting reply (new Head)	
Roxbourne Primary - Governance & Financial Control	AMBER		In progress – awaiting reply	
Kingsley - Budget Management	RED		Follow-up due January 2020	
Fostering	AMBER		Follow up due May 2020	
Personal Budgets - Children with Disabilities	AMBER		Follow-up Feb 2020	
Personal Budgets - Sample Testing	AMBER		Follow up May 2020	
Parking Whistleblowing	RED			Follow up in progress

* **Regeneration Programme:** An initial follow-up was undertaken in May 2019 with a re-assessed assurance rating of Amber, a second follow-up was undertaken, following a request from the Building a Better Harrow Board, in August 2019 that resulted in an Amber/Green assurance rating.

**** SNT:** An initial follow-up was undertaken in September 2019 with a re-assessed assurance rating of Red/Amber, a second follow-up was undertaken in November 2019 that resulted in an Amber assurance rating.

Summary (as at end Q3)

70% of recommendations were implemented/substantially implemented at the time of follow-up, with a further 15% in progress and 15% planned. All of the recommendations were still considered appropriate by management and thus it is expected that in due course 100% will be implemented.

All follow-ups undertaken resulted in an improved assurance rating with 100% attaining an amber, amber/green or green assurance rating by the end of Q3.¹

¹ The impact of recommendations implemented, substantially or partially implemented at follow-up on the expected controls are assessed to provide the re-assessed assurance rating and assumes that previous controls that were operating and still operating. It should be noted the correlation between control weaknesses and recommendations is not 1:1 i.e. one weakness identified may result in a number of recommendations being made and alternatively a number of weaknesses identified may result in only one recommendation being made.

Performance of Internal Audit at Mid-Year

Introduction

A number of Key Performance Indicators (KPIs) were agreed as part of the 2019/20 Internal Audit Plan and performance against these is set out in the table below:

	Internal Audit Performance Indicator	Target Mid-Year	Actual Mid-Year	Comments
1	Recommendations agreed for implementation	95%	97%	Exceeded 1 low risk recommendation partially agreed.
2	Follow up undertaken	100%	100%	Met
3	Plan achieved for key control reviews	100%	100%	Met 2 full reviews and 7 evidence based self- assessments undertaken
4	Plan achieved overall (key indicator)	45%	44%	Substantially Met 27 out of 61 projects complete to end of Q2.
Corporate Performance Indicator				
1	Implementation of recommendations	90%	62% (100% in due course)	Exceeded (in due course) 62% of recommendations were implemented/substantially implemented, 20% were in progress and 18% were planned at time of follow-up thus it is expected that in due course 100% will be implemented.

Summary

Of the 4 internal audit performance indicators 1 was exceeded, 2 were met and 1 was substantially met.

Internal audit reports are given a **red**, **red/amber**, **amber**, **amber/green** or **green** assurance rating.

Red reports will indicate systems/functions/establishments with a low overall percentage of controls in place that represent a high risk to the authority needing immediate attention to improve the control environment;

Red/amber reports will indicate systems/functions/establishments that represent a high to medium risk to the authority needing immediate attention to improve the control environment;

Amber reports will indicate a fair level of controls operating that represent a medium risk in need of attention to prevent them becoming high risk;

Amber/green reports will indicate medium to low risk in need of attention to prevent them becoming high risk and

Green reports will indicate a high level of controls operating, including all critical controls, that represent low risk areas

A formula for converting audit findings into a **red**, **red/amber**, **amber**, **amber/green** or **green** rating has been developed as follows:

Red reports will essentially be those where there is **one or more** of the following:

- A low overall percentage of controls in place (0-50%)
- An absence of critical controls (reflected as high risk recommendations)
- A significant deterioration in control systems
- Poor progress with implementation of previous recommendations

Red/Amber reports will be those that have 51-60% of controls operating and no more than 40% of controls absent are critical (40% of recommendations made).

Amber reports will be those that have 61-70% of controls operating and no more than 25% of controls absent are critical (25% of recommendations made).

Amber/Green reports will be those that have 71-80% of controls operating and no more than 10% of controls absent are critical (10% of recommendations made).

Green reports will be those having 81-100% of controls operating including all critical controls and no absence of critical controls (no high risk recommendations).

Controls operating and substantially operating will be combined to give the overall assurance rating.

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**Corporate Anti-Fraud Team Mid-Year Report and
Quarter 3 update – 2019-20**

CONTENTS:

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Summary of outputs

Progress against the Plan

Performance of Anti-Fraud Team

Fraud referrals, outputs and savings summary

Introduction

This report outlines the corporate ant-fraud work carried out up to the mid-year point for 2019-20 and an update on Q3 activity. The plan is risk based and developed through consultation internally and drawing upon external sources of data to ensure that where possible best practice is followed (see CIPFA Fraud Code Self-Assessment below) and fraud resources are targeted at those areas of the authority deemed to be of highest risk to fraud with the greatest potential negative financial impact and/or reputational damage. The plan is approved by the Governance, Audit, Risk Management & Standards Committee (GARMS) annually and mid-year and year end progress reports provided against the plan to provide a level of assurance around the authorities' fraud risk resilience capability.

Summary of outputs

A summary of key outputs from the programme of corporate anti-fraud work for the year is recorded in the table below. Of the 17 work streams contained within the plan, 1 (6%) has been achieved, 4 (24%) have not yet commenced and 12 (71%) have commenced and are ongoing. 4 (80%) out of the 5 key performance indicators are being achieved with 1 (20%) ongoing.

	Fraud work stream	2019-20 Mid Year progress and Quarter 3 update
1	<p>Corporate fraud risk assessment</p> <p>Identify and assess Harrow's fraud risk exposure affecting the principle activities in order to fully understand changing patterns in fraud and corruption threats and the potential harmful consequences to the authority and our customers</p>	<p>Objective not yet commenced</p> <p>Planned for Q4</p>
2.	<p>CIPFA Fraud Code Self-Assessment</p> <p>Undertake an annual self-assessment against the CIPFA Code of Managing the Risk of Fraud & Corruption</p>	<p>Objective achieved for 2019-20</p> <p>The authority has achieved a 78% compliance which is a 'good' level of compliance with the code which remains unchanged from 2018/19.</p>
3	<p>Corporate fraud risk register</p> <p>Review and facilitate the updating of the fraud risk register annually where significant fraud and corruption risks are identified, mitigated and monitored</p>	<p>Objective not yet commenced</p> <p>Planned for Q4</p>
4	<p>Corporate Anti-Fraud & Corruption Strategy</p> <p>Review the Corporate Anti-Fraud & Corruption Strategy 2016-19 that links to Harrow's corporate priorities, the overall goal of improving resilience to fraud and corruption and fully reflecting the fraud and corruption risks faced by the authority. Timing of the review will depend on the completed review/refresh of the Fighting Fraud & Corruption Locally Strategy that is being undertaken in 2019/20 by the FFCL Board</p>	<p>Objective not yet commenced</p> <p>Task planned for Q4 to be aligned with the review of the Counter Fraud and Corruption Strategy for Local Government. The Fighting Fraud & Corruption Locally Strategy Board (FFCL) are at present reviewing the strategy for Local Government and therefore, it would be reasonable to await the strategy refresh before amending the authorities' strategy to ensure it remains closely aligned. This maybe pushed to into the fraud plan for 2020-21.</p>

	Fraud work stream	2019-20 Mid Year progress and Quarter 3 update
5.	<p>Establish a fraud loss methodology</p> <p>Develop and implement a fraud loss value methodology to apply consistently to significant fraud risk exposures enabling fraud losses to be measured accurately</p>	<p>Objective not yet commenced Planned for Q4</p>
6.	<p>National Fraud Initiative co-ordination role</p> <p>Co-ordination of the 2018/19 National Fraud Initiative (NFI) data match processing including:-</p> <ul style="list-style-type: none"> • Supporting service areas to ensure matches are processed in a timely manner and that suspected fraud is referred for investigation • Processing matches which are the responsibility of the CAFT (Housing & RTB matches) • Investigate potential fraud cases referred and recommend sanction and/or corrective action on cases as appropriate 	<p>Objective ongoing</p> <p>CAFT's main role in this objective is to provide advice and support to Services processing their matches. This is being delivered and an officer is meeting periodically with services to review progress.</p> <p>CAFT are responsible for both housing tenancy and Right to Buy matches and have processed 100%. No fraud has been detected to date.</p> <p>There have been 11 NFI fraud referrals made to the CAFT since April 2019, 4 have been closed no further action, 2 were closed as positive outcomes (CTRS cases) and 5 cases are still under investigation</p> <p>Overall cumulative fraud savings attributed to this work stream is £894,857.34</p>

	Fraud work stream	2019-20 Mid Year progress and Quarter 3 update
7.	<p>London Counter Fraud Hub (LCFH)</p> <p>Explore the membership of the London Counter Fraud Hub (LCFH) which may result in the authority participating in a pan London data matching exercise focusing on Council Tax Single Person Discount, Business rates and Housing Tenancy fraud.</p>	<p>Objective ongoing</p> <p>LCFH has stalled due to legal issues and an update was received from CIPFA at the end of Q3 with a new proposal now rebranded as the CIPFA Counter Fraud Hub (CCFH). This will need to be carefully considered by the authority before any decision made on joining the hub. A paper will be presented to CSB in February 2020 on the merits of joining the project and further information will be provided in the year end report</p>
8.	<p>Participate in a Cifas 6 month pilot membership</p> <p>Join a 6 month pilot membership of Cifas which is the UK's leading fraud prevention service that facilitates the sharing of fraud data for the prevention and detection of crime across the public, private and third sectors.</p>	<p>Objective ongoing</p> <p>Cifas is a not for profit organisation run for members to securely exchange information about known frauds affecting their business to enable other members to protect themselves from fraud and corruption. Membership of Cifas allows organisations to both file frauds that reach an evidence threshold and to search the database at any time during a customer relationship to see if they are known to other members as fraudsters.</p> <p>The pilot was launched in April 2019 and whilst accessing Cifas data has undoubtedly added value to the CAFT investigations in terms of intelligence gathering, there have been some challenges around sharing data and ensuring that data subjects are made aware that the authority is working with Cifas. The CAFT privacy notice was updated in April 2019 to reflect the pilot and correspondence to customers (requesting information and invites to attend interviews) updated in May 2019. Existing investigations that were live in April 2019 and carried forward from the previous year, were disregarded from being searched or being able to be filed as fraud on the basis that the pilot had not commenced.</p> <p>The CAFT is at present using the Cifas database to sift all cases that are referred for investigation (reactive) but the intention is to use the database more proactively and a) batch match sets of data on a risk basis to target areas of high fraud risk and b) to expand the access to Cifas to other services in the authority. Discussions are well advanced with both Insurance and Procurement and work to update their privacy notices is progressing well. It is envisaged that this work will be built into the 2020/21 plan.</p> <p>Given the long lead in time and nature of fraud investigation work, a decision was made by the pilot authorities and Cifas that the initial pilot period would be extended to September 2020 to allow a greater opportunity of casework throughput and for positive outcomes to be identified.</p>
9.	<p>Corporate anti-fraud awareness</p> <p>Raise awareness of fraud and corruption risks both within the authority and in the community through the publication of fraud successes in local and national media, including the use of all forms of</p>	<p>Objective ongoing</p>

	<p>social media including the following actions:-</p> <ul style="list-style-type: none"> • Embed fraud E-learning to existing employees • Chief Executive Newsletters and general internal communications bulletins in relation to articles on fraud and corruption • Issuing management reports detailing investigation outcomes and recommendations for improving fraud risk controls are implemented if agreed according to risk (KPI5) • Deliver fraud workshops/CAFT attendance at team meetings for high fraud risk areas as appropriate • Publicity through all forms of media on successful fraud cases, fraud initiatives and related prosecution outcomes 	<p>E-learning The fraud e-learning package has been undertaken by 44 employees since April 2019. Further promotion work with Communications and the Learning & Development Team will be carried out in Q4 and into 2020/21 to encourage employees to undertake the training.</p> <p>Management reports and briefing notes In total, 16 fraud risk recommendations contained within investigation reports and briefing notes have been made to management with 15 being agreed for implementation. KPI5 target 70%, achieving 94% (15/16) at the mid-year point.</p> <p>Publicity Harrow Council featured in an article about Single Person Discount fraud in September 2019</p>
10.	<p>Fraud liaison</p> <p>Explore, develop and maintain effective liaison with investigation teams in other boroughs and external agencies and ensure that membership and interest continues in the London Borough of Fraud Investigators Group (LBFIG), The National Anti-Fraud Network (NAFN), The Chartered Institute of Public Finance and Accountancy (CIPFA) and the proposed London Counter Fraud Hub</p>	<p>Objective ongoing</p> <p>The authority retained its membership of the National Anti Fraud Network (NAFN) for its essential role in intelligence gathering and the London Borough of Fraud Investigators Group (LBFIG). NAFN is an essential conduit for accessing 3rd party information sources which is vital for supporting investigation work.</p> <p>Officers in the team have also attended a number of Counter Fraud Conferences during the year which is important to keep up to date of current fraud trends and emerging fraud risks.</p> <p>Established partnerships with the Border Force, HMRC, the Home Office, the Metropolitan Police and other enforcement agencies have proven essential to current investigation work.</p> <p>The authority continues to work with CIPFA and explore the proposed London Counter Fraud Hub and remains open to joining providing that the business case on the benefits and return on investment is cost effective and right for the authority</p> <p>The authority joined Cifas in April 2019. See section 8 above.</p>

	Fraud work stream	2019-20 Mid Year progress and Quarter 3 update
11.	<p>Internal datamatching</p> <p>Design and deliver an anti-fraud campaign using the iDIS data matching tool for the purposes of detecting, preventing and pursuing fraud and corruption</p>	<p>Objective ongoing</p> <p>The housing tenancy fraud datamatch against credit data was commenced in Q3 and the matches returned are now being sifted and sampled by officers on a risk basis. It is hoped that the bulk of the sifting will be complete by year end and that a small number of high risk matches will remain for further investigation. Given its infancy, greater detail will be provided in the year-end report.</p>
12.	<p>Housing fraud</p> <p>Assess and investigate allegations of fraud and abuse in the housing system working in partnership with Housing Resident Services, Housing Needs and Harrow's RSL's including:</p> <ul style="list-style-type: none"> • Seek to recover 10 social housing units subject to fraud & misuse (KPI1) • Prevent housing application fraud through a proactive fraud risk based targeted review of those customers in emergency accommodation (placed outside of the borough) • Prevent fraudulent Right to Buy (RTB) applications through targeted application validation with a fraud check on 90% applications referred to the CAFT at offer stage (KPI2) • Maximise the use of powers contained within the Prevention of Social Housing Fraud Act 2013 (PoSHFA) in terms of gathering evidence, investigation and prosecution of offenders and recovery of unlawful profit 	<p>Objective ongoing</p> <p>Tenancy recoveries Working in partnership with Housing Resident Services and Harrow's Registered Social Landlords (RSLs), 5 social housing tenancies were recovered resulting in notional fraud savings of £465,000. Recoveries and rooting out tenancy fraud is becoming more difficult as the stock reduces (through RTB) and those subletting their properties are becoming more aware of investigation techniques.</p> <p>KPI1 target 10, achieved 5 (50%) up to the end of Q3</p> <p>Savings subtotal achieved £465,000</p> <p>Housing Applications proactive exercise due to commence in Q4.</p> <p>A total of 13 housing application referrals have been received by the team during the year at the mid-year point and 1 fraud has been detected to date where an application was rejected.</p> <p>Savings subtotal achieved £72,000</p> <p>RTB work stream on target Working in partnerships with Leasehold Services, HB Public Law Services and Housing Management, 6 RTB applications were intercepted saving the authority £658,000 in terms of purchase discount losses prevented. In all 25 applications have been or are in the process of being fraud checked.</p> <p>These outcomes are due to applicants failing anti-money laundering checks (proving the source of funds) or following CAFT consultation with the lenders, the mortgage offer being withdrawn. The team is continuing to make use of the National Hunter system allowing the authority to communicate with lenders lawfully for the prevention and detection of crime and referring cases where appropriate to the National Crime Agency (NCA).</p> <p>KPI2 target 90%, achieving 100% at the mid-year point</p> <p>Savings subtotal achieved £658,000</p> <p>PoSHFA 2013 Powers work stream on target The authority has utilised powers contained within the above act</p>

		<p>through requests to the National Anti Fraud Network (NAFN) on 15 occasions this year.</p> <p>If approved by NAFN, this enables the authority to access personal financial data held by the banks on individuals on cases of suspected tenancy sub-let, RTB and housing applications where there is doubt over the accuracy of the subject's account of events</p> <p>Overall fraud savings attributed to this work stream is £1,195,000</p>
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	Fraud work stream	2019-20 Mid Year progress and Quarter 3 update
13	<p>Internal fraud & corruption</p> <p>Risk assess 80% allegations of internal fraud and corruption as a priority and deploy resources on those cases where there is corroborative evidence within an average of 5 working days of receipt of the information (KPI3).</p>	<p>Objective ongoing</p> <p>Of the 8 internal fraud referrals received, 7 were risk assessed and resources allocated in 5 working days.</p> <p>KPI3 target 80%, achieving 87.5%.</p> <p>There have been 2 positive outcome during the year.</p> <p>An employee was arrested in April 2018 and dismissed in June 2018 following misuse of a company purchase card resulting in salary savings of £19,890. This was reported previously to the Committee. On 16th July 2019, they were convicted at Willesden Magistrates Court of fraud amounting to £494.42 and sentenced to 200 hours of unpaid work to be complete within 12 months and a compensation order to repay the full loss amount to the authority.</p> <p>A former employee prosecuted for defrauding the housing benefit system in August 2018 had their Proceeds of Crime Act application heard on 3rd December 2019 where an order was made against them for £75,000 and this has to be repaid within 3 months or a further 18 month prison sentence will follow. The savings / losses were already accounted for. If the £75,000 is recovered this will be updated in the year-end report</p> <p>Overall fraud savings attributed to this work stream is £494.42 plus £80 costs</p>
14	<p>Revenues/Business Rates/Council Tax Support fraud</p> <p>Work in partnership with Revenues and Benefits to investigate allegations of fraud and abuse on a risk basis of the Council Tax, Council Tax Support and Non Domestic Rates Systems, including exemptions, discounts and reliefs, apply appropriate sanctions where fraud is proven and assist in the recovery of fraud related losses</p>	<p>Objective ongoing</p> <p>The team received 7 referrals of Council Tax discount/exemption fraud, CTRS fraud and NNDR fraud. There have been 13 positive outcomes during the year primarily identified from linked tenancy fraud investigations where the tenant was in receipt of a benefit/exemption/reduction but no longer occupied the address as their principle home.</p> <p>CTRS/CTB overpayments £21,871.67 HB overpayments £121,245.77</p> <p>Overall fraud savings attributed to this work stream is £143,117.44</p>
15	<p>Social care fraud</p> <p>Work in partnership with the People Directorate to investigate allegation of fraud and abuse of the social care system including but not limited to:-</p> <ul style="list-style-type: none"> • Personal budget applications, assessment and monitoring of spend • A proactive fraud risk based 	<p>Objective ongoing</p> <p>There have been 5 positive outcomes involving social care cases; 2 involving residential care, 2 involving personal budget cases and 1 case involving a No Recourse to Public Funds (NRPF) case.</p> <p>A personal budget investigation uncovered false documentation that an individual had submitted to continue to receive care for their son, but the reality was that the care was not taking place. The investigation is still continuing but a reassessment of the applicant has resulted in the individual being invoiced for in</p>

	<p>exercise in relation to those individuals being financially supported in long term residential care</p>	<p>excess of £100,000. A decision on further punitive action will be taken in due course. In the other case, the personal budget was being misused by an individual and funds spent on items outside of the agreed care plan. There is an overpayment in excess of £17,000 on this case.</p> <p>The proactive fraud risk based exercise in relation to residential care financial assessments commenced in Q4 of 2018/19 continued in 2019/20 and of the 20 cases reviewed, 2 are currently live under investigation with suspicions that the applicant / representative have failed to disclose capital/assets impacting the financial assessment. The other long term residential care case is a historical investigation where a family member deliberately deprived the applicant of capital which would have impacted the financial assessment and this case is currently in the court system. The overpayment of care fees in this case is in excess of £100,000.</p> <p>1 NRPf case was investigated where the applicant had failed to disclose to the authority that their immigration status had changed so continued to receive financial support from the authority whilst claiming state benefit too. This resulted in an overpayment of £2,626.</p> <p>Overall fraud savings attributed to this work stream is £248,326.12</p>
16	<p>Partnership working</p> <p>Responding to requests for information in a timely manner from our law enforcement partners e.g Police, HMRC, Other LA's etc</p>	<p>Objective ongoing</p> <p>The team handled many requests for information from other law enforcement agencies to support their work and have maintained a positive working relationship with the Department for Work & Pensions, the Metropolitan Police and other forces in the UK, the UK Border Agency, Registered Social Landlords and other Local Authorities.</p>
17	<p>Risk assess allegations of fraud and corruption</p> <p>Risk assess 80% of allegations of fraud and corruption and deploy resources on those cases deemed sufficiently high enough fraud risk within an average of 10 working days of receipt of the information. (KPI4)</p>	<p>Objective ongoing</p> <p>Of the 99 referrals received during the year, 96 (97%) were risk assessed and resources deployed to those cases accepted for investigation within 10 working days.</p> <p>KPI4 target 80%, achieving 96%</p>

Performance of Corporate Anti-Fraud Team

Introduction

A number of Key Performance Indicators (KPIs) were agreed as part of the 2019-20 Corporate Anti-Fraud Plan and performance against these is set out in the table below:

No.	CAFT Key Performance Indicators 2019-20	Target	Mid-year inc Q3	Year-end	Comments
1.	Recovery of 10 social housing units subject to fraud and misuse	100%	50% (5/10)		Ongoing 5 (50%) social housing units have been recovered. The nature of recoveries is that they are inconsistent and there is no regular pattern.
2.	Fraud validation checks undertaken on Right to Buy applications referred to the CAFT at offer stage and before completion	90%	100% (25/25)		Achieving and on target 25 Right to Buy applications received by the team during in the year all (100%) had anti money laundering checks carried out before purchase or were in progress before a decision made to accept or deny the purchase.
3.	Internal fraud and corruption referrals risk assessed and resources deployed in 5 working days	80%	87.5% (7/8)		Achieving and on target Of the 8 internal fraud and corruption referrals received by the team, 7 (87.5%) were risk assessed and resources deployed within 5 working days
4.	Fraud and corruption referrals risk assessed and resources deployed in 10 working days	80%	97% (96/99)		Achieving and on target Of the 99 referrals received by the team during the year, 96 (96%) were risk assessed and resources deployed within 10 working days.
5.	Fraud risk recommendations agreed for implementation	70%	94% (15/16)		Achieving and on target Of the 16 fraud risk recommendations made by the team in reports and briefing notes, 15 (94%) were agreed for implementation by management

Fraud referrals, outputs and savings summary

Fraud Risk Area	2019-20 Q1-3
Housing application fraud Referrals Positive outputs Savings	13 1 £72,000 (1 application rejected)
Blue badge Referrals Positive outputs Savings	14 1 (successful prosecution) £980 (£500 notional outcome, £250 court costs, £200 fine and £30 victim surcharge)
Fraud other Referrals Positive outputs Savings	3 0 0
No Recourse to Public Funds Referrals Positive outputs Savings	2 1 £2,626
Revenues/CT/CTRS/HB Referrals Positive outputs Savings	7 13 (linked housing fraud investigations that impact benefit entitlement) £143,117.44
Internal Referrals Positive outputs Savings	8 2 (successful prosecution of former employee for purchase card misuse and a Proceeds of Crime Act order). See workstream 13 for explanation £579.42
Right to Buy Referrals Positive outputs Savings	25 6 £658,000 (6 x RTB applications rejected)
Social care/grants Referrals Positive outputs Savings	7 4 £248,326.12 (2 x residential care cases, 2 x personal budget cases)
Tenancy Referrals Positive outputs Savings	28 127 £65,000 (5 x tenancies recovered)

NFI Positive outputs Savings	379 £894,857.34 (This is a running total also reported in year-end report 2018/19) ¹
Totals Referrals Positive outputs Fraud Savings	 107 412 (inc NFI cases) £2,485,486.32 ²

2019-20 Mid-Year and Quarter 3 Financial Summary

The level of fraud and corruption identified impacting the authority for 2019-20 up to the end of Q3 is just under £2.5 million which represents an approximate return on investment for the team's running costs of just over 10:1.

¹ Figures taken from Cabinet Office website where NFI matches are held. The exercise is live for a period of 2 years from data extraction and upload through to match processing and investigation conclusion. The cumulative totals are reported by the Cabinet Office for each Local Authority

² Total fraud savings include cumulative NFI figures from Cabinet Office website



**REPORT FOR: GOVERNANCE, AUDIT,
RISK MANAGEMENT AND
STANDARDS COMMITTEE**

Date of Meeting: 21 January 2020

Subject: 2020/21 Internal Audit Planning Process

Responsible Officer: Dawn Calvert – Director of Finance

Exempt: No

Wards affected: All

Enclosures: Appendix 1 – Annual Plan Process

Section 1 – Summary

This report sets out the 2020/21 Internal Audit annual planning process to help the GARMS Committee understand and contribute to the development of the Internal Audit Plan.

FOR INFORMATION

Section 2 – Report

Background

- 2.1 The Public Sector Internal Audit Standard's require the 'chief audit executive' (the Head of Internal Audit) to establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.
- 2.2. The Head of Internal Audit takes into account the organisation's risk management framework or where a framework does not exist, his/her own judgment of risks after consideration of input from senior management and the board. The Head of Internal Audit must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls.
- 2.3 The Standards include a specific public sector requirement that the risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.
- 2.4 The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.
- 2.5 The Head of Internal Audit must identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinions and other conclusions.
- 2.6 A further public sector requirement is that the Head of Internal Audit must include in the risk-based plan the approach to using other sources of assurance and any work required to place reliance upon those other sources.

The 2020/21 Process

- 2.7 Each year the process, whilst broadly remaining the same, is reviewed and updated/refined. The 2020/21 process is attached at Appendix 1. This is not a linear process.
- 2.8 There are also a number of elements that are included in the plan each year as follows:
 - Annual Governance Review – co-ordination and evaluation of assurances for the annual review of governance, drafting of the annual governance statement;

- Risk Management – co-ordination and update of the quarterly Corporate Risk Register;
- Core Financial System reviews – nine systems have been identified as core financial systems (this does not include the accounting system as this is reviewed annually by the External Auditors). These systems are reviewed by Internal Audit using a cyclical/risk based approach with management, evidence based, self-assessments undertaken annually when not being reviewed by Internal Audit enabling annual assurance to be provided and feed into the annual internal audit opinion.
- Support, advice and follow-up – to enable pro-active audit advice on control, risk management and governance to be provided to management throughout the year and to follow-up the implementation of audit recommendations.

2.9 Other elements generally included on a risk basis, as determined by the annual planning process include, IT reviews, corporate compliance checks, corporate risk based/governance reviews, and departmental risk based reviews.

Legal Implications

2.10 The Accounts & Audit Regulations 2015:

Internal audit

5.—(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

Financial Implications

2.11 There are no financial implications to this report. The Internal Audit Service is provided within the set service budget.

Risk Management Implications

2.12 There are no risk management implications to this report. The Internal Audit Plan is risk based.

Equalities implications / Public Sector Equality Duty

2.13 There are no equalities implications to this report.

Council Priorities

2.14 The Internal Audit Service contributes to all the corporate priorities by enhancing the robustness of the control environment and governance mechanisms that directly or indirectly support these priorities.

Section 3 - Statutory Officer Clearance

3.1 As this report is for information only it has been decided that no Statutory Officer Clearance is required.

Ward Councillors notified:	NO
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Section 4 - Contact Details and Background Papers

Contact: Susan Dixon, Head of Internal Audit & Corporate Anti-Fraud, 02084241420

Background Papers: None

2020/21 ANNUAL PLAN PROCESS

Public Sector Internal Audit Standard's Requirements 2010 Planning

The chief audit executive¹ must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

Interpretation:

The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organisation's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consideration of input from senior management and the board. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls.

Public sector requirement

The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.

2010.A1

The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management² and the board³ must be considered in this process.

2010.A2

The chief audit executive must identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinions and other conclusions.

2010.C1

The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisation's operations. Accepted engagements must be included in the plan.

Public sector requirement

The chief audit executive must include in the risk-based plan the approach to using other sources of assurance and any work required to place reliance upon those other sources.

¹ The chief audit executive = Head of Internal Audit

² Senior management = the Corporate Strategic Board (as define in the Harrow Internal Audit Charter)

³ The board = GARMS Committee (as define in the Harrow Internal Audit Charter)

2020/21 Process (to be undertaken by the Internal Audit Team in Q4 of 2019/20)

NB This is not a linear process

1. Review structures and responsibilities of directorates and audit reviews undertaken Q4 2018/19 and Q1, 2 & 3 2019/20. Update the Audit Universe accordingly and identify potential areas for audit coverage.
2. Review draft vision and corporate priorities for 2020/21 and identify potential areas for review.
3. Review the draft budget 2020/21 and relevant appendices.
4. Review Q3 Corporate Risk Register and Q2/Q3 Directorate risk registers for relevant risks to be covered in the plan.
5. Review the 2019/20 External Audit plan and consult as appropriate throughout the process.
6. Review and update the Internal Audit Charter and Strategy.
7. Assess risk for core financial systems and amend cyclical programme as necessary.
8. Review 2019/20 performance management information e.g. reports to CSB
9. Review current position of 2019/20 plan and any outstanding projects/potential areas for carry forward
10. Review Annual Governance Statement 2018/19 and assurance obtained for the 2019/20 annual review of governance to identify any weak governance areas to be included in the plan.
11. Consider potential key themes for 2019/20 plan.
12. Consult with Directors/Divisional Directors/other key managers.
 - identify areas of responsibility;
 - Identify any areas of fraud risk in their services (use Fraud Risk register as a guide);
 - Identify any Commercialisation projects in the division, obtain business cases for anything new, and any shared services/company arrangements in existence, identifying the lead Council and obtaining copy of agreement for any new ones;
 - Enquire about other forms of independent assurance e.g. external inspections received by the Division in 2019/20 (obtain copies) or expected in 2020/21;
 - Enquiry about any new legislation or government guidance
 - Request a copy of Service Plan (either Divisional or Directorate);
 - Ask managers to identified any areas to be considered for IA review (level of risk to be captured using Audit Risk Template unless linked to a corporate risk).
13. Update Audit Universe.
14. Review organisation's risk maturity using Harrow's Risk Maturity Assessment 2020-21.docx.
15. Undertake resource calculation to establish the number of internal audit days available to undertake the plan.
16. Prepare long list of projects to be included in plan and undertake a risk assessment of each using the Audit Risk Template (unless linked to a corporate risk) and assess links to the corporate priorities.
17. Draft initial plan.
18. Attend DMTs or meet with Corporate Directors to discuss draft plan.
19. Meet with Chief Executive to discuss draft plan.
20. Present draft plan to CSB and obtain agreement to the plan.
21. Present draft plan to GARMS committee and obtain agreement to plan.
22. Make any amendments from consultation and finalise plan.

Susan Dixon
Service Manager, Internal Audit
13/01/20

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