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Harrow Council

Report to the Governance, Audit and Risk Management Committee on the 2012 Audit

Issued on 12 September for the meeting to be held on 24 September 2012

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The Governance, Audit and Risk Management Committee of Harrow Council
Harrow Council
Station Road
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12 September 2012

Dear Sirs and Madams

We have pleasure in setting out in this document our report to the Governance, Auditand Risk Management Committee of Harrow Council for the year ended 31st March 2012 for discussion at the meetingscheduled for 24 September 2012.This report covers the principal matters that have arisen from our audit forthe year ended 31 March 2012.

In summary:

- The significant risks and other items arising in the course of the audit, which are summarised in the Executive Summary, have now been largely addressed and our conclusions are set out in our report.
- There are a number of judgemental areas to which we draw your attention in our report which you should consider carefully.
- We identified a number of control weaknesses that we have drawn to your attention in the report which you should also consider carefully in terms of addressing.
- Work is continuing on the financial statements and some aspects of underlying audit work, most notably in relation to extended audit procedures as a result of the control issues identified.
- In the absence of unforeseen difficulties, management and we expect to meet the agreed audit and financial reporting timetable.

We would like to take this opportunity to thank the management team for their assistance and co-operation during the course of our audit work.

Senior Statutory Auditor

Contents

Executive summary 1

1. Significant audit risks 5

2. Other issues 11

3. Value for Money conclusion 14

4. Risk management and internal control systems 16

5. Independence 24

6. Responsibility statement 25

Appendix 1: Audit adjustments 26

Appendix 2: Independence – fees charged during the period 28

Appendix 3: Draft representation letter 29

Executive summary

We have pleasure in setting out our report, summarising the principal matters that have arisen, to the Governance, Audit and Risk Management Committee (GARMC) of Harrow Council in respect of the year ended 31 March 2012. The report will be discussed in full at the meeting scheduled for 24 September 2012.

This summary is not intended to be exhaustive, highlighting only the most significant issues, and should be read in conjunction with the report and the appendices thereto.

Status	Description	Detail
Completion of the audit		
The audit has been time pressured in comparison to previous years,however we expect to achieve the reporting deadline	The audit has been time pressured in comparison to previous yearsbecause of the time needed to resolve some of the issues discussed later in this report. However we expect to achieve the reporting deadline although the status of some areas of work is behind the timetable we had expected. The following are the remaining outstanding areas we are required to complete before we can finalise the audit: • Required procedures on the Whole of Government Accounts (WGA) return • Conclusion in relation to some procedures on specific risks (highlighted in our commentary in section 1) and in relation to other issues (highlighted in section 2) • Specific procedures in relation to potential double counting of income and expenditure (not yet quantified) • Completion of other internal review procedures • Review of post balance sheet events • Receipt of signed management representation letter We will communicate orally to you any modifications to the findings or opinions contained within this report that may arise during completion of the audit.	Throughout
Overall view		
Subject to completion of certain audit procedures, we anticipate issuing an unmodified audit opinion	Upon satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion with regards tothe truth and fairness of the financial statements. We cannot issue our certificate at this point as work in relation to an objection to a prior year set of financial statements is on-going. We comment in section 3 in more detail on the control weaknesses identified. We do not believe theyimpact on the Value for Money conclusion.	N/a Section 3

Executive summary (continued)

Status	Description	Detail

Significant audit risks		Status
We have not identified any material issues through our procedures in respect of the Council's significant audit risks	In our audit plan we identified a number of significant audit risks. Our findings in respect of those risks are as follows:	
	• **Revaluation of properties**is inherently judgmental and we focused our work on the assumptions used. Overall, we were satisfied with the approach and assumptions made.	G
	• **Valuation of the pension liability**is sensitive to small changes in assumptions. Overall, the assumptions used by the authority fell within a reasonable range.	G
	• **Recognition of grant income**includes judgements made owing to different recognition criteria attached to individual grants. Our testing identified some instances where the grant recognition criteria had not been correctly applied.	G
	• **Management override of controls**is a presumed risk in all audits. Our testing highlighted a number of concerns in this area.	A
	• **Capital mis-coding** continues to be a risk whilst new controls relating to approval, recording and reporting of capital transactions bed in. Our work is on-going with respect to this risk.	A
	Additionally we identified the following additional risk in the course of our audit procedures:	
	• **Large provisions**in relation to redundancy/ restructuring and a former contingent liability are judgemental and one-off in nature. Our review of the assumptions made in calculating these provisions highlighted no material issues, although one error has been highlighted in relation to the MMI provision.	A
	The commentary in section 1 highlights where work is on-going in relation to parts of this testing.	

G Risk appropriately addressed, any errors have been amended | A Work on-going in relation to this risk | R Material unresolved matter

Other issues		
Aside from the significant audit risks, there were a number of other areas of focus	In this section we discuss other key areas of audit work that are of interest to those charged with governance and came to light during our audit – this includes: • Impact of audit errors noted at West London Waste Authority • Treatment of Academy Schools • HRA self-financing decision and changes of estimate in relation to HRA fixed assets • Disclosure of senior officers' remuneration	Section 2

Executive summary (continued)

Status	Description	Detail
Risk management and internal control systems		
We have identified a number of significant control observations	In testing the significant risk in relation to management override of controls, we have identified a number of risk management and control observations which we consider to be significant and which have required us to perform extended audit procedures in some areas. In summary these relate to three main areas: • Ledger codes for Academy schools that are no longer council assets were 'closed' and removed from the chart of account without the required approval; • Identification of audit errors and inconsistencies in reporting at West London Waste Authority (WLWA) highlighted weaknesses in the governance and allocation of cash and borrowings between the Council and WLWA; and • As a result of the weaknesses identified above and compounded by a finance team lacking capacity, the prevalence of manual adjustments outside the accounts software system was more apparent. Additionally, we have identified a number of more minor observations, which we have included in Section 5 of this report.	Section 4
Value for money (VfM) conclusion		
The significant control observations noted above do not impact on our conclusion	We are required to undertake certain procedures specified by the Audit Commission in order to provide a value for money (VfM) conclusion. The control weaknesses identified above have required careful consideration in relation to both the VfM conclusion (i.e. whether modification is required) and the disclosures to be included in the Annual Governance Statement. We have been able to conclude that there is no impact on our VfM conclusion.	Section 3
Significant representations		
We have included a copy of our draft representation letter	A copy of the draft representation letter to be signed on behalf of the Council is included at Appendix 3. Non-standard representations have been highlighted.	Appendix 3

Executive summary (continued)

Status	Description	Detail
Identified misstatements and disclosure misstatements		
Uncorrected misstatements to date reduce net assets and increase reserves by £0.3m	Audit materiality was £6.382m (2011 £6.113m). This exceeds the estimate set out in our audit plan owing to differences in the budgeted and actual full year gross expenditure. Uncorrected misstatements identified to date reduce net assets and increase reserves by £0.3m. Management has concluded that the total impact of the uncorrected misstatements, both individually and in aggregate, is not material in the context of the financial statements taken as a whole. The definitive summary of uncorrected misstatements will be attached to the representation letter obtained from the Interim Corporate Director of Resources. Details of recorded audit adjustments are included in Appendix1. We also comment on disclosure misstatements in Appendix 1.	Appendix 1
Whole of Government Accounts (WGA) return		
Our procedures in respect of the WGA return are on-going	Our procedures in respect of WGA are on-going and we expect to submit the audited return by 1 October 2012.	N/a
Independence		
We confirm our independence	Our reporting requirements in respect of independence matters, including fees, are covered in Section 5.	Section 5 and Appendix 2
Reappointment		
We have been appointed as external auditors to the Council for five years from 2012/13	The Audit Commission has confirmed our appointment as external auditors to the London Borough of Harrow for five years from 2012/13. This appointment has been under Section 3 of the Audit Commission Act 1998 and was approved by the Audit Commission Board at its meeting on 26 July 2012.	N/a
Scoping of material account balances, classes of transactions and disclosures		
We have performed a risk assessment to assess the level of procedures required on account balances	As part of our procedures we undertake a risk assessment to determine the level of substantive testing required as part of the audit. This assessment involves performing limited procedures on account balances to assess the risk of material misstatement. If we conclude that the risk of material misstatement is remote, we may choose to not perform any further procedures on that account balance or note to the financial statements. We have not scoped out any account balances and notes greater than our audit materiality.	N/a

1. Significantaudit risks

The results of our audit work on significant audit risks are set out below:

G	Risk appropriately addressed, any errors have been amended	A	Work on-going in relation to this risk	R	Material unresolved matter

Revaluation of Property

Status - G

We consider the Council's valuation of fixed assets to be reasonable

The Council's substantial portfolio of assets is subject to a rolling 5-year revaluation programme. In the 2011/12 year, the Council undertook a detailed revaluation of the general fund assets with a carrying value of £54.5m, which equates to 11.3% of the £484.4m carried in the balance sheet value for non-HRA property, plant and equipment at 31 March 2012.

On-going volatility in land and property prices, the level of assets held and the complexity underlying the valuations (including changes because of IFRS in the previous year) make this a particularly judgemental area of the accounts.

In 2011/12 the Accounts presented for audit showed the following net impairments:

Other land and buildings	£5.349m
Council dwellings	£1.476m

General Fund: at a portfolio level, other land and buildings have shown a modest 0.8% reduction in value. This is in line with what we would expect for the types of assets valued, with 7 academy schools being impaired as at August 2011 before transition, as well as 8 sets of addresses which were sold out of the General Fund during the year.

Council Dwellings portfolio: the housing revenue account (HRA) has incurred an impairment of £1.5m. This as a result of a 1.52% increase in the house prices in the borough to 31 March 2012 set off against the 1 April 2011 Beacon valuation, which fell by approximately £15m from 1 April 2010.

Deloitte response

We engaged our property specialists Drivers Jonas Deloitte (DJD) to review the assumptions and methodology used to value the different types of land and property. We concluded that the valuation methods selected, and the way in which those methods were applied, were reasonable.

As part of our testing we also considered whether there was any evidence of material change to assets not revalued in the year which might mean the carrying value of assets was not appropriate. Our testing did not identify any instances where this was the case.

See all the 'other issues' section for our comments in relation to the treatment of academies and depreciation of assets in the HRA.

1. Significantaudit risks (continued)

Valuation of Pension Liability

Status - G

The assumptions used to calculate the pension liability fall within a reasonable range.

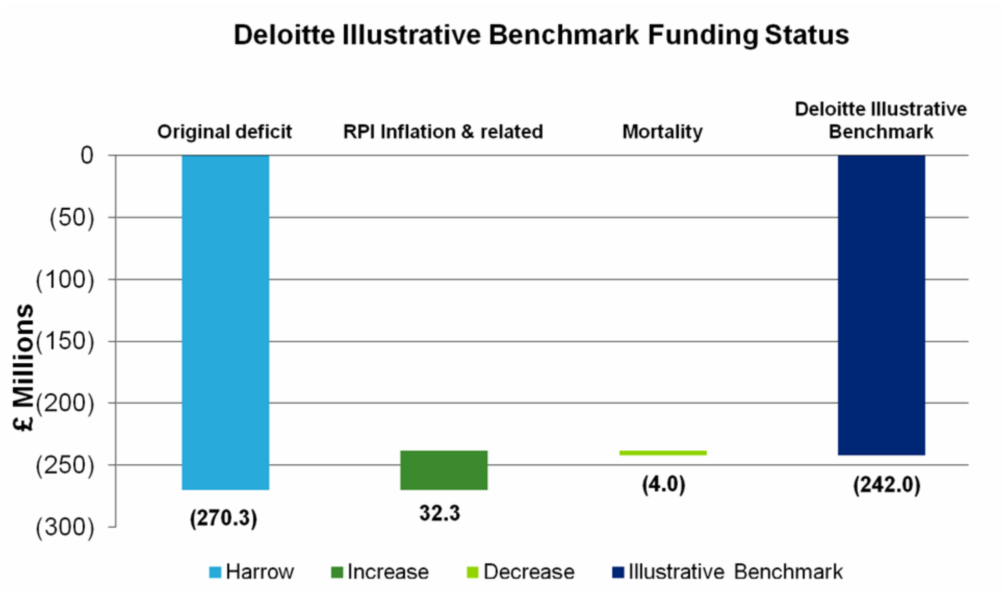
Deloitte response

The determination of the net pension liability was identified as a risk because it is a substantial balance and its calculation is sensitive to small changes in judgemental assumptions made about future changes in salaries, mortality and other key variables.Some of these assumptions draw on market prices and economic indicators which have become more volatile in the current economic environment.

We considered the Council's arrangements, including the use of actuarial services to calculate the pension liability, to be reasonable. We engaged our own actuarial experts to assist in the review of the assumptions used to calculate the pension liability and the resulting accounting entries and disclosures.

Our review confirmed that the assumptions used by the Council in the calculation of the pension liability are within an acceptable range, based on benchmarking undertaken by Deloitte for other 31 March 2012 reporting bodies. As a result, we do not consider the liability to be materially misstated.

The chart gives an indication of the broad impact on the funded status of setting the main assumptions to be in line with our illustrative benchmark:



If all of the assumptions were set equal to the Deloitte Illustrative Benchmark assumptions, the reported deficit of approximately £270m would decrease to become a deficit of approximately £242m. However, this is not intended to imply that the deficit calculated by the actuary is inappropriate – overall we would characterise the Council's assumptions as slightly towards the prudent end of the range, a similar position to the previous year.

1. Significantaudit risks (continued)

Recognition of grant income	
Status - G **We identified some errors which resulted in reclassifications of grants within the comprehensive income and expenditure account**	There is a presumed risk of fraud in revenue recognition in all audit work we perform as a result of the requirements of auditing standards. Accounting for grant income can be complex as the basis for recognition in the accounts will depend on the scheme rules for each grant. This risk was identified because grant income is a material income stream to the Council (revenue and capital grants amounted to over £334m in 2011/12) and there is an element of professional judgement in determining whether certain grants have conditions or restrictions attached and whether those conditions or restrictions have been discharged.
Deloitte response	We performed detailed testing on a sample of revenue grants by reviewing correspondence attached to specific grants and comparing with the Council's accounting treatment as disclosed in the notes to the financial statements. We found disclosure misstatements of £2.4m where income had been mis-allocatedbetween grants in the notes to the financial statements. The comprehensive income and expenditure statement was not affected.Management has corrected this error. We are still completing our work in relation to reconciling the dedicated schools grant between award and note disclosures. We also performed detailed testing on a sample of capital grants by reviewing correspondence attached to specific grants and comparing with the accounting treatments. We identified three grants totalling £2.1m that were not included in the note disclosure for capital grant income despite being correctly included on the ledger. The income had mistakenly been taken through the movement in reserves statement (appendix 1). This has now been corrected by management. Our work in relation to section 106 amounts, and the assessment of the correct classification as capital, is on-going. In the previous year we made a recommendation in relation to retention of grant documentation centrally by Corporate Finance. We have re-raised this item in section 4 as it has not been addressed and the lack of central documentation and management led to a number of amendments to the disclosures in relation to grants in the accounts.Furthermore, although no errors were found in the recognition, it was not clear that there was a sufficient process in place to review conditions and reconcile grant amounts during the year to the ledger.

1. Significantaudit risks (continued)

Management Override of controls

Status - A

We noted some weaknesses in relation to override of controls.

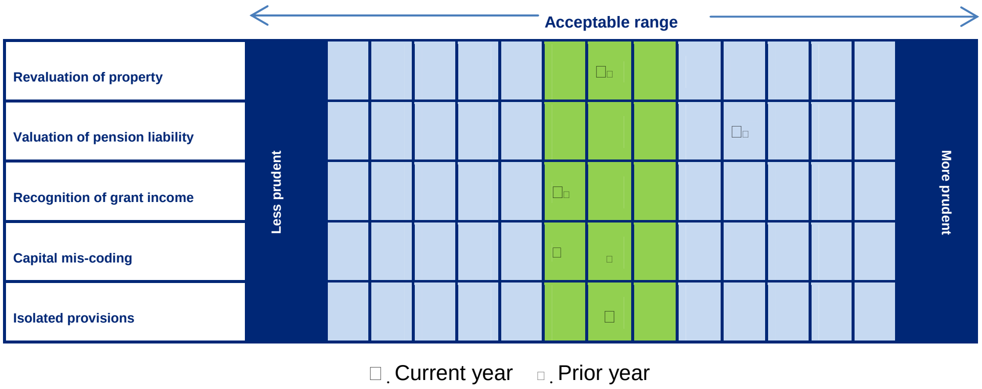
Deloitte response

International standards on auditing require us to presume a significant risk in relation to management override of key controls. Our audit work is designed to test the override of key controls by management and the significant estimates and judgements used by them.

Our work focused on testing of journals, significant accounting estimates and any unusual transactions, including those with related parties.

In testing journals, we made use of computer assisted audit techniques to analyse the whole population of journals and to identify those which had features which can be indicators of possible fraud and to focus our testing on these. We did not identify any concerns from this work, however have re-raised a prior year control recommendation around the retention of journal information in a central location.

Key areas of accounting estimates are covered by our significant audit risks and are discussed and concluded on in this section. We did not identify any bias in preparing these estimates. However, we do highlight to the committee that taken together, the Council does show consistent examples of prudence in its application of judgement as can be seen in the table below:



We consider management's application of judgements to be materially reasonable and did not identify any instances where the business rationale was not clear.

Aside from these areas, our work highlighted some weaknesses in the control environment, which we have also raised control recommendations in relation to:

- One bank accountis used for a number of Harrow profit centres including West London Waste Authority (WLWA). In our audit of WLWA we identified a number of income statement errors that raised a concern that the creditor allocated to WLWA by the Council was incorrect by way of it being the balancing figure in the WLWA trial balance.
- Inadvertently, a number of ledger codes in relation to Academies were removed from the chart of accounts and hence income and expenditure was omitted fromthe draft financial statements (see appendix 1). Corporate Finance were not aware of this as a control had been circumvented.
- The level of manual adjustments between the reported ledger position and the draft financial statements is material with limited in year support. A number of these are historical items, resulting from the way the ledger was set up.

These examples of management override of control have weakened the control environment and we have worked with management to complete additional audit procedures to ensure the risk of material misstatement in this respect has been addressed. The items above are also discussed in the next section in relation to the Value for Money conclusion.

1. Significantaudit risks (continued)

Capital mis-coding	
Status - A **Our work in relation to this risk is on-going**	Two years ago, the audit highlighted a control circumvention in relation to capital spend against budget in the Children's Services directorate. In the past two years, the Council has been working on an implementation plan to improve the capital project control environment, with the help of independent advisors. A risk exists as the control environment operating for the 2011/12 year is newly implemented and has not yet been fully tested by the Council's Internal Audit function and hence concluded on as to whether the new controls are operating effectively. This was not identified as a value for money risk in the current year as no capital overspends against budget were noted.
Deloitte response	We have tested a sample of capital additions to ensure that appropriate approvals for spend were obtained and that spend was within the budgetary constraints. No issues arose from this. However, the approach to satisfying this risk is two-fold and whilst Internal Audit are yet to report to GARM Committee on the effective operation of the new control environment, they are assisting us by performing some initial testing in relation to this that we will review and re-perform on a sample basis before forming our conclusion. Internal Audit have highlighted to us that their work performed to date has identified that the Council does not hold any evidence from the testing undertaken by the capital accountant during the year. Additionally Internal Audit when liaising with the directorates to perform their own checks on in year validity testing have identified that this testing was not performed. Work is on-going in relation to these findings which may have arisen from a lack of capacity in this area.

1. Significantaudit risks (continued)

Large provisions	
Status - A **We are considering both items of this balance to ensure they meet the recognition criteria of a provision**	The financial statements include two key provisions that are one-off in nature: • Employment - £3.975m • Municipal Mutual Insurance (MMI) - £1.100m Provisions can only be recognised, in line with accounting standards, when the Council meets the following recognition criteria: • A present obligation as a result of a past event; • It is probable that an outflow of resources will be required to settle the obligation; and • A reliable estimate of the size of the obligation can be made. In addition to this and as a result of the relative size of these individual balances, an audit risk has been raised in the course of our initial review of the draft financial statements.
Deloitte response	**Employment provision** Our work is on-going in relation to this area of the risk. We are in the process of reviewing the schedule of amounts making up this provision to confirm completeness of the balance, and to test a sample of the larger items to corroboratory evidence – predominantly 'notification of redundancy' letters and calculations and communication of amounts payable. In so doing we are looking to confirm that both the recognition criteria of a provision has been met and that the provision has been reasonably calculated. **MMI provision** The council took advice from an independent actuary in determining a) whether a provision was appropriate; and b) the level of the provision required. We have reviewed the actuary's report as well as considering the March 2012 Supreme Court decision that triggered the treatment as a provision replacing a previous contingent liability. We considered the Council's arrangements, including the use of actuarial services to determine the level of provision. The actuary recommended a provision of £1.4m, compared to the value included in the financial statements of £1.1m. The total level recommended by the actuary is consistent with disclosures in the MMI financial statements for the year ending 30 June 2011 which suggested claw-back between 10% and 25% of total claims. Whilst the difference between the two values has been included in reserves, we have proposed a judgemental adjustment to recognise the full amount within provisions (appendix 1). No other issues arose in our work.

2. Other issues

Audit inconsistencies and errors at West London Waste Authority (WLWA) and the impact on the Council	
Background	We are alsothe appointed auditorto WLWA. Our WLWA audit team have identified inconsistencies, and subsequently audit errors, that are in the process of being adjusted, that challenged the adequacy of the control environment around the allocation of related party receivable and payable balancesbetween Harrow, WLWA and a number of other organisations that also use the same bank account. To summarise the situation: • WLWA is set up as a profit centre of Harrow on Harrow's accounting system. • All WLWA banking is processed through the Harrow account, so whilst income and expenditure is recorded by the WLWA finance team, the cash movements are within the Harrow bank account. • At the year end, the cash balance recorded by WLWA is the balancing figure on the trial balance. Cash is recognised in both WLWA and Harrow, with Harrow also showing a related party creditor balance for the cash it holds in its account for WLWA.
Response	The cash balance can only be recognised by one organisation. As the bank account is the Council's the disclosures in the Harrow accounts are appropriate. Audit work is nearing completion at WLWA, after which the related party creditor balance that the Council discloses will be confirmed. Should a material error impactingthe receivable be identified in the course of the WLWA audit, a matching amendment will be required to the Council's balance sheet in addition to amending the related party disclosures. Audit work is on-going at WLWA and the potential impact on Harrow is not yet known, however, based on work performed to date, no material adjustment to the related party payable balance has been noted for Harrow... In section 3 we have documentedour consideration of this in relation to the Value for Money conclusion of the council, concluding that nomodification is required. In section 4 we have re-raised the control recommendation in relation to separate bank accounts for each organisation.

2. Other issues (continued)

HRA self-financing settlement and estimates in relation to depreciation and valuation	

Background

On 24 March 2012 the Council made a one-off payment of £88.461m to central government as part of the move towards self-financing of Council housing stock. The Council has funded this payment through a loan from the Public Works Loan Board (PWLB).

Additionally in the year, the Council has revisited its estimate in relation to depreciation of material components of the dwellings held in the HRA.

- In 2010/11 and 2011/12 the dwellings, including key components, were valued on an 'existing use value' (EUV).
- In 2010/11, following CIPFA guidance notes to the Code, the Council used the major repairs allowance (MRA) as a proxy for the depreciation charge for the key components of the dwellings. In doing this the Council compared the MRA to the estimated charge for the components, as a portion of the valued dwellings.
- In 2011/12 the Council, having considered the impact the self-financing settlement will have on future costs to the HRA, depreciated the components based on an estimate of their depreciated replacement cost (DRC). The DRC value is in excess of the valuations in the financial statements, which are under EUV as the social housing discount factor has not been applied.
- This treatment is not consistent with the Code – the Code requires depreciation to be calculated from the carrying value of the asset. As a result the depreciable amount of the components is overstated and hence the depreciable amount of the host dwelling is understated. This is because the DRC value of the components has been deducted from the EUV of the property.
- Depreciation in the draft accounts was overstated as a result of this incorrect approach to asset depreciation.

Approach	Estimated charge
Depreciation based on proportion of EUV	£2,820k
Major repairs allowance	£4,148k
Depreciation based on incorrect DRC asset values	£6,078k

Management is entitled to change an estimate in circumstances such as these where there is either new information or a new development, but the approach must remain in line with examples given in the Code and guidance notes.

Response

Depreciation of £4,148k has now been recognised in the HRA. The amended approach is consistent with 2010/11 whereby, on materiality grounds, the MRA has been considered a reasonable proxy for the depreciation charge when calculated in accordance with the Code. The additional £1.9m charge that management had initially recognised has been reversed.

2. Other issues (continued)

Accounting for Academies	
Background	Sevenschools moved to academy status in the year. Part of this arrangement involved the schools signing a 125 year lease for the school land and property. The Council previously recognised these school assets on the balance sheet and so has treated this as a fixed asset disposal in the accounts resulting in a loss on disposal of £129m. We reviewed the Council's treatment of all categories of schools and considered against available CIPFA guidance. Initially the Council had impaired the assets to their estimated value at the end of the 125 year lease, and then recognised the disposal at that value, however the financial statements have been amended to recognise the disposal at market value. This had no net impact on the deficit on provision of services (see appendix 1). On a sample basis, we have agreed the Council's categorisation of academies to Edubase, an independent data resource.
Response	The control weakness in relation to closed ledger codes for these academies has already been discussed in our findings on the risk in relation to management override of controls.

Disclosure of senior officers' remuneration	
Background	The disclosures in relation to senior employees that were included in the first draft of the financial statements have been amended as a result of our audit procedures. One of our tests of these disclosures is to circularise these employees to obtain confirmation of their consistency with their own records. This identified a number of inconsistencies. Further challenge highlighted that the payroll records being provided to Corporate Finance were not always complete and hence this led to incomplete and inaccurate disclosures. By using copies of the P11Ds for the year we were able to work with management to correct the disclosures.
Response	Management are in the process of redrafting the disclosures, after which we will re-circularise the senior employees and test to P11D and other payroll documentation. It is important that these disclosures include all payments and benefits, whether taxable or non-taxable and that where material payments are made to independent third parties for the provision of staff, that the disclosure note outlines the arrangement in place, the reason for it and the amounts involved.

3. Value for Money conclusion

Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources - this conclusion is known as “the VFM conclusion”.Our conclusion is given in relation to two criteria:

Specified criteria for auditor's VFM conclusion	
The organisation has proper arrangements in place for securing financial resilience.	The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.
Focus of the criteria	
The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We have carried out a risk assessment, involving consideration of common risk factors for local authorities identified by the Audit Commission, concluding on whether they represent actual risks for the purpose of our VFM conclusion on the Council. We undertook this work through review of relevant documentation, including committee papers and discussion with officers. From this work, we identified a number of potential risks which we investigated further. These potential risks, and our conclusions as to why we did not consider them to be significant risks to our value for money conclusion, are noted below:

Risk	Response and conclusion
Low level of reserves	The Council has low reserves, but in the past few years has shown good evidence of gradually adding to these reserves.Forecast over-spends were identified early in 2011/12 and a spending protocol was issued and operated for the remainder of the year which concluded in a net under-spend against budget without impacting the achievement of operational plans for 2011/12. Benchmarking against other London Boroughs, undertaken by the Audit Commission, highlights that the Council: • has a low spend per head - under-spends from the past couple of years highlight that this is as a result of effective cost control; and • has low grant-funding – which reduces the impact that future central cuts can have on the Council. The Council are using the low spend per head statistic as an opportunity to engage with other authorities to provide low-cost services.
Weaknesses in medium term financial planning	The 2012/13 budget has been balanced, however there are funding gaps in the future years of the medium term financial plan (as reported to Cabinet in February 2012: £6.7m for 2013/14 and £4.3m for 2014/15). The Audit Commission has benchmarked London Boroughs, highlighting that the council is a low cost organisation and as such future savings must come from real innovation to the delivery of services. The Council is already increasing cross-borough working relationships to offer services to third parties. Bridging the funding gap will remain an area of focus for the Council for the foreseeable future and we are aware from our conversations and work that this involves all levels of staff, in addition to consulting with residents and other external stakeholders.

3. Value for Money conclusion (continued)

Risk	Response and conclusion
Lack of capacity in the finance team	Post year end, a portion of the 2011/12 under-spend has been approved for use in relation to developing the capacity of the finance department. The future plans for the department as a result of the on-going restructure confirms the focus that is given to this. Alongside the role of GARM Committee, there is now a portfolio holder with specific responsibility for finance and the new S151 officer will only have responsibility for finance and assurance, which will allow real focus on developing the team and the supporting software.

Additionally, as noted in the executive summary, a number of control weaknesses were noted in the course of our audit procedures that we have considered in relation to their potential impact on the VfM conclusion:

Control weakness	Response
Cash allocation at WLWA **VfM impact -** G	The audit errors and other inconsistencies identified at WLWA highlighted to us that the allocation of balances between different organisations using one bank account was not supported by evidence as to its accuracy. For a number of years we have raised a control recommendation to use separate bank accounts for all organisations, but we have not previously found issues/errors. During the current year, a separate account for the pension fund was opened. Whilst our audit work has not highlighted any adjustments to the cash allocation between entities it has highlighted that the allocation of cash between organisations is a manual posting to balance the trial balance. Whilst this challenges the presence of proper arrangements to manage cash, in the absence of any financial issues arising, we are satisfied this does not impact the VfM conclusion.
Closure of codes without required approval **VfM impact -** G	A number of schools converted to academies during the year and from that date the assets were removed from the balance sheet. At the same time the income and expenditure ledger codes were closed for further entries, however this closure did not follow the formal process and proper authorisation was not obtained. As a result the codes were removed from the chart of accounts that feeds into the financial statements and it was only our audit of payroll costs that identified this issue. We do not believe that this matter impacts our VfM conclusion, as whilst this was a controls circumvention, the issue only arose after the schools had become the responsibility of a third party and hence it did not impact the day to day management and arrangements for the operation of the schools before they became academies.
Level of manual journals included in the accounts process **VfM impact -** G	We do not believe this would impact the VfM conclusion although comment in our recommendations about improvements that could be made to the IT environment that would reduce the level of manual override. This controls point does not impact the organisations arrangements in relation to VfM and is a year end close-down point only.

G No impact on conclusion   A Potential impact on conclusion   R Likely impact on conclusion

The items discussed above, whilst control weaknesses, have not led to financial issues at the Council in relation to its arrangements for securingfinancial resilience or economy, efficiency and effectiveness in its use of resources.

Management should consider the disclosures required in relation to the items above, as part of the Annual Governance Statement, and also the control recommendations we have made in section 4.

4. Risk management and internal control systems

Our audit approach in relation to internal control was set out in our ‘Briefing on audit matters’ and our planning report circulated to you in September 2011 and January 2012 respectively.

Key controls over significant risks

In Section 1 we discussed the identified significantaudit risks. For each of these significantaudit risks we have assessed the design and implementation of internal controls in each of those areas, summarised below.

Council controls in operation	Deloitte procedures on controls	Conclusion
Revaluation of property The valuation of assets is undertaken in-house by the Council’s internal valuers. The Council’s corporate finance team reviews the valuations for unexpected movements and completeness.	We have considered the competence of the in-house valuer and corroborated the role that corporate finance plays in reviewing the completeness of the valuations.	G
Valuation of the pension liability The Council engages actuaries to value the pension liability. Corporate finance engages with the actuary to discuss and challenge the assumptions being made.	We have considered the competence of the actuarial support and corroborated the role that Corporate finance plays in reviewing the assumptions and valuations that take place.	G
Recognition of grant income Managing of the grants is largely delegated to individual directorates and is only reviewed and compiled by Corporate Finance in the course of the year end close the books process.	We have re-raised our prior year controls recommendation in relation to a central register and monitoring of grants, as discussed more fully overleaf.	A
Management override of controls Management is aware of key controls and judgements and has detailed these in the accounting policies. Hierarchical controls are in place with journals.	We considered the key judgements highlighted by management and tested the design and implementation of controls around manual journals (recommendations 2 and 3 on the following pages).	R
Capital mis-coding controls The new control environment is being implemented based on recommendations made by the council’s advisors. Internal Audit will not have completed full testing of the new controls by the time our audit opinion is signed.	We did not identify issues in the application of the new controls, however the review by Internal Audit has yet to be completed and reported to the GARMC.	A
Isolated provisions Where management do not have the expertise to assess the value of the provision, third party experts are engaged (MMI). For the employment provision management were able to assess the appropriateness of recognising a provision and have data to support the valuation from payroll.	We reviewed the work of the third party actuary in relation to the MMI provision. We are reviewing the working papers supporting the justification and value of the employment provision.	G

G No issues noted | Satisfactory – minor observations only | Requires improvement | R Significant improvement required

4. Risk management and internal control systems (continued)

Risk management and control observations

In addition to the recommendations provided in relation to significant audit risks, we alsoidentified a number of risk management and control observations, the most significant of which are detailed below.Aside from the IT recommendations discussed later in this section, of the ten control recommendations raised in our 2010/11 audit work, three of the itemsare re-raised below.

1. Separate bank accounts – a prior year recommendation	
Description	West London Waste Authority (WLWA) does not have its own bank account, instead its transactions are processed by the Council in its account. During the year, and in response to part of our prior year recommendation, the pension scheme opened a separate bank account. However, shared banking facilities continue to be used as they give access to better interest rates and additional cost savings for both parties. Errors found in the course of the audit of WLWA highlighted that value of the related party balances between Harrow and WLWA are simply the balancing figure in the trial balance.
Recommendation	We have raised for a number of years now the importance of separate accounts. Organisations must capture their correct cash value at all times rather than the value being a reporting date balancing figure (this is a legal requirement for the pension scheme). Without an accurate cash value being available for each organisation at a point in time it is difficult for the organisationsto prioritise its resourcestheir resources if funds are not allocated between organisations.
Management response	Harrow Council has its own bank account. Harrow Council entered into an arrangement with WLWA to act as its host for accounting and banking functions. This means that all accounting transactions for WLWA flow through a restricted area of Harrow's financial ledger. At the commencement of the arrangement, WLWA issued a payment in advance, to Harrow Council, to meet its future working capital liabilities arising from future transactions and to ensure that council tax payers' funds were not meeting WLWA liabilities or being funded by WLWA assets. As an interim measure the Council will introduce monthly reconciliation and settlement of balances between itself and WLWA and refine internal processes between the entities. A longer term solution will be introduced subject to the future of WLWA after the move to the new remedial waste contract due to be completed in 2014/15.
Timeframe:	October 2012
Owner:	Divisional Director of Finance and Procurement

4. Risk management and internal control systems (continued)

2. Closure of codes without required approvals	
Description	In the course of our testing, we identified some inconsistencies in the number of staff and payroll costs. Further investigation highlighted that this was because ledger codes for academies had been removed from the chart of accounts. From September 2011, academies have been operated by third parties; hence the codes were requested to be frozen to avoid further entries. The Council has a control in place whereby if an account needs closing, manager approval from the Corporate Finance team is required. This control was circumvented and the code closure process removed all entries from the chart of accounts when all that was required was to halt further posting of entries to those accounts.
Recommendation	Management should review the approval processes in place. In this case it appears that the approval required in the system should have come from a member of staff on maternity leave. The system had not been amended to escalate the approval to another member of staff in their absence.
Management response	Recommendation accepted. Management will review the approval processes in place. We will write to all finance staff and the ERP team to reinforce the importance of this control.
Timeframe:	Immediate
Owner:	Divisional Director of Finance and Procurement

4. Risk management and internal control systems (continued)

3. Increased use of SAP to reduce manual journals	
Description	In light of the two control recommendations noted above and compounded by staff pressures and changes in the Corporate Finance team, we determined it necessary (as part of our testing of the management override of controls risk) to complete extended procedures on manual journals posted outside the trial balance to arrive at financial statement primary statement balances. A significant number of overly complex high value journals are required to reconcile the day-to-day accounting ledger to the reported position and results in the financial statements.
Recommendation	Our testing highlighted that the accounting software (SAP) is not set up in a way to facilitate a clean and swift year end close the books process. We are aware that management are considering potential improvements to the IT control environment and we recommend that a more organisation-specific version of SAP is used to reduce the level of manual intervention and override in the financial statement process. Additionally this would reduce the level of staff input and hence reduce the pressure on the team.
Management response	Our Finance Transformation Plan, currently being developed, will incorporate a range of actions to address this in the short, medium and long term.
Timeframe:	30 June 2013
Owner:	Corporate Director of Resources

4. Risk management and internal control systems (continued)

4. Maintaining grant award documentation – a prior year recommendation	
Description	Our testing of grants income, both revenue and capital, highlighted a few disclosure errors. There were also a number of key amendments to the first draft of the financial statements. More critically, our work identified the challenges that the Corporate Finance team had in preparing the financial statements, as they were not able to get an accurate or complete picture from the information supplied to them by the directorates during the year. There is no clear process in place to ensure conditions attached to grants are reviewed on commencement and on an on-going basis nor to reconcile grant amounts received during the year to the ledger.
Recommendation	All grants should be centrally maintained, despite parts of some grants being awarded to different areas of the council. There are two main benefits to this: • Maintaining a central grants register will ensure that the financial accounting for the grants on a day to day basis is correct. • Corporate Finance, including the S151 officer, will be up to date on the grant funding that is currently being received and can monitor spend by directorate to ensure risk of claw back is reduced.
Management response	The Council has already undertaken significant actions in respect of last year's recommendation on grants; this is a further enhancement of these recommendations in the light of new issues. The Council agrees to set up a centrally maintained grants register to ensure that the financial accounting for the grants on a day to day basis is correct. Budget monitoring will be adjusted to include information on grant funding that is currently being received and to monitor spend by directorate to ensure risk of claw back is reduced.
Timeframe:	September 2012 – March 2013
Owner:	Corporate Director of Resources

5. Retention of journal documentation in a central location – a prior year recommendation	
Description	Our journal testing highlighted that journal sheets are not retained with their backing documentation in a central location. This arises because journals are posted by finance staff in each directorate.
Recommendation	Journal documentation should always be retained to allow for review or challenge. Additionally, journal posting in relation to non-standard items should be restricted to the Corporate Finance team to ensure sufficiency of review.
Management response	The council are reviewing extant practices as part of the financial transformation plan and will be putting in place measures to ensure consistent practice and proper documentation of all journals.
Timeframe:	September 2012 – March 2013
Owner:	Corporate Director of Resources

4. Risk management and internal control systems (continued)

The points discussed below were noted in the course of our IT audit. No new recommendations were found in the course of the current year work, however those discussed below were raised in the prior year, but have not yet been fully addressed:

Prior Year Finding	Status		Current Year Update
	On-going	Outstanding	
Third Party Access A number of systems are supported by third parties, for example Northgate on IWorld. Access to support these systems is given through shared, generic, unrestricted, and unmonitored accounts. Although we understand the requirement for third party access and access is given as required in the support contracts and SLA's, the use of these accounts removes individual accountability for actions taken, while logged on to the system. There is also a risk that without limiting the access and removal of access when not required that the controls set at a Harrow level will not be adhered to, for example an risk of modifications bring made which have not gone through the formal change management process. **2011 management comments:** All third parties sign a "Code of Connection" contract prior to access being granted on Harrow's systems. This contract is company specific and covers areas such as security, disaster recovery, business continuity planning and staff vetting. Once signed, 3rd party companies are able to login through remote access.	X		**2012 management comments:** Controls have been put in place so that access by a third party is enabled by Capita each time it is required on written request through the Change Management process. Additionally, for some systems the business owner holds the access token so that the third party has to call the Council to get a unique access code each time they log on.
Data Centre Controls There are a number of users with inappropriate access to the Harrow data centre. We also confirmed there is no documented user access reviews for users with access to any of the data centres. Where users access to the data centre is not appropriately approved and monitored, there is a risk of unauthorised access to the data centres where the production servers are held. Inappropriate access to computer systems leads to an increased likelihood of theft, damage, copying, viewing or public disclosure of sensitive information which in turn could lead to system service disruption or reputational damage. **2011 management comments:** Access will be reviewed during the next 12 months when the data centre is moved to a Capita owned facility.	X		**2012 management comments:** Currently, access to the Harrow Data Centre is granted by the LB Harrow Client IT Team – hence, inappropriate access is avoided. This has been addressed. There has been a review and the following changes made: a visitor log; up to date list and review of access agreement with client team.

4. Risk management and internal control systems (continued)

Prior Year Finding	Status		Current Year Update
	On-going	Outstanding	
Audit Logging Through review of the audit logging configurations on the financially relevant applications, databases and operating systems there were two varying levels of logging in place:- • No logging active (for example on SAP) • Logging was active but this was not reviewed (for example on IWorld) Where an appropriate level of auditing is not enabled or reviewed, changes to key data and key tables are not recorded and cannot be reviewed if required. There is also a risk that key security violations may go unnoticed. **2011 management comments:** Harrow are currently in the middle of a switch to a Capita- based audit log-in system. In the interim, audit logs which exist are checked in an ad hoc manner/spot checks.	X		**2012 management comments:** Consolidated logging is currently delivered through Splunk but this is not consistent across all systems. Monitoring and response to alerts is being reviewed and improved as part of an operations service improvement plan targeted to complete December 2012.
Password Settings **NOVELL:** Passwords were required to be changed every 60 days rather than 30 days as specified in the Harrow Password Management Policy. **2011 management comments:** Novell accounts not accessed after 30 days will be disabled. If not accessed after 60 days the account will be deleted. Any staff on Maternity leave will have their accounts restored on their return to work. Councillors and remote users present a particular problem as the current facilities do not notify the users of a password change alert. **IWorld:** The minimum password length is 5 characters rather than 6-8 and no alphanumeric complexity requirement is enforced. **2011 management comments:** The i-world application has the following functionality for passwords Minimum 8 character password length Passwords Alpha/Numeric – yes, Passwords have a 20 use history. Passwords have a 30 day expiry.	X		**2012 management comments:** Resolved. Password policy implemented.Leavers process implemented. iWorld – min 8 characters with 2 numeric. Default password policy is being updated to a ‘30 day expiry’ mode. Exercise being undertaken to update all current user accounts to reflect the 30 days expiry default. iWorld – Minimum password requirements to be updated and an exercise carried out to update the current users accounts**.**

4. Risk management and internal control systems (continued)

Prior Year Finding	Status		Current Year Update
	On-going	Outstanding	
Periodic restore from backup No scheduled restoration tests of backup data are performed to ensure its readability. Management Response: We have the equipment in place to provide this service but it requires additional capacity for about a £5k investment. Periodic and sampled backup restores can then be scheduled into weekly routines. We now have the go ahead to purchase a new device which will provide the capacity to do periodic restores. We have requested a quotation from the supplier and will install as soon as possible. In the meantime we have set up a spreadsheet which records all restores and we have a restore plan to perform periodic restores on the various types of backup as soon as the disk space is available. **2011 management comments:** Process being implemented to regularly restore from backups however this has not being implemented at time of testing. This is due to be included when the Data Centre has completed its move to the Capita Data Centre, located in Kent.	X		**2012 management comments:** The disaster recovery for SAP is provided by a hot-start facility at Capita's Kent Data Centre which means that the service can switch over during live operations. A restoration from backups is not necessary.
SAP role management It was identified that roles within SAP have not been formally documented. This issue is mitigated in part by the fact that functional leads sign off on any role changes. However no evidence exists of an exercise to define key roles and conflicts for segregation of duties purposes. **2011 management comments:** On-going.	X		**2012 management comments:** The matter of SAP roles is a service issue not an ICT issue. Process and procedure exists within the LBH Shared Services team for allocating roles. List of roles defined at implementation, dependent on grades. Segregation established through manager role.

5. Independence

As part of our obligations under International Standards on Auditing (UK & Ireland), we are required to report to you on the matters listed below.

Confirmation	
We confirm our independence	We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivityis not compromised.

Fees	
We have performed no non-audit services	Details of the fees charged by Deloitte in the period from 1 April 2011 to 31 March 2012are included in Appendix2. In our opinion, there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Council's policy for the supply of non audit services or of any apparent breach of that policy.

6. Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the “Briefing on audit matters” circulated to you in September 2011and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to the Council and this report is not necessarily a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Deloitte LLP

Chartered Accountants

St Albans
12 September 2012

Appendix 1: Audit adjustments

Uncorrected misstatements

The following uncorrected misstatements have been identifiedup to the date of this report. As noted in the executive summary in ‘completion of the audit’ there are some open areas of audit work that may lead to further misstatements. We will update you at the GARM Committee meeting as to the final status of adjustments..

		Credit/ (charge) to current year income statement £’000	Increase/ (decrease) in net assets £’000	Increase/ (decrease) in reserves £’000	Increase/ (decrease) in turnover £’000
Judgementalmisstatements					
Reclassify MMI reserve to provisions	[1]	-	(300)	(300)	-
Total		-	(300)	(300)	-

[1] Provision in relation to MMI is understated by £300k when compared to the actuarial estimate of the value. The difference is currently held in reserves and should be reclassified as a provision.

We will obtain written representations from the Interim Corporate Director of Resources confirming that after considering the uncorrected items in the context of the consolidated financial statements taken as a whole, no adjustments are required.

We only report to you uncorrected misstatements that are not clearly trivial, which are thoseof £0.3m or more.

Appendix 1: Audit adjustments (continued)

Recorded audit adjustments

We report all individual identified recorded audit adjustments in excess of £0.3mand other identified misstatements in aggregate adjusted by management in the table below.

		Credit/ (charge) to current year income and expenditure statement £'000	Increase/ (decrease) in net assets £'000	Increase/ (decrease) in reserves £'000	Increase/ (decrease) in turnover £'000
Factual misstatements					
Reclassification of grant income	[1]	-	-	-	-
Reclassification of DSG creditor	[2]	-	-	-	-
Understatement of NNDR debtor	[3]	-	-	-	-
Recognise academy closed codes	[4]	-	-	-	-
Recognise disposal rather than impairment in relation to academies	[5]	-	-	-	-
Over-depreciation of HRA components	[6]	1,930	1,930	-	-
Total		1,930	1,930	-	-

[1] Grant income from 3 grants totalling £2,092k was incorrectly allocated to the General Fund when it should have been accounted for as 'non-specific grant income' outside net cost of services.

[2] DSG creditor of £1,644k incorrectly classified within debtors.

[3] The NNDR debtor was understated by £2,160k, as it did not include prepayments and amounts due to the pool.

[4] General ledger codes in relation to schools that became academies during the year were excluded from the financial statements. The results have been amended to include net income and expenditure of £1,951k, having a net impact of nil on the comprehensive income and expenditure statement..

[5] Academies were impaired to nil rather than being disposed of at their book value of £129m.

[6] Depreciation was overstated by depreciating a higher value of asset to that recorded in the financial statements. The correct approach reduces the charge by £1,930k.

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements.

We are still finalising our review of the financial statements and will update you at the GARM Committee meeting if any further unadjusted deficiencies remain.

Appendix 2: Independence – fees charged during the period

The professional fees earned by Deloitte in the period from 1 April 2011 to 31 March 2012 are as follows:

		2011/12 £'000	2010/11 £'000
Fees payable in respect of our work under the Code of Audit Practice		**271	*282
Fees payable in respect of our work under the Code of Audit Practice – extensions to audit work	[1]	12	11
Fees payable in respect of the WGA return		**5	*5
Fees payable in respect of the certification of grants	[2]	110	110
Fees payable in respect of our work on value for money/use of resources	[3]	**54	*80
Fees payable in respect of our work under the Code of Audit Practice in respect of the Pension Fund		**35	*35
Audit services provided		487	523

[1] Extensions to audit work is the fees charged in relation to our procedures required in addressing objections to the accounts.

[2] Our fees for grant certification work are billed on the basis of time spent by different grades of staff using scale fees advised by the Audit Commission. The level of fees charged in a given year is dependent on the grant schemes falling within the audit requirement, the scope of procedures agreed between the Audit Commission and the grant paying body and the quality of working papers provided to us and timeliness with which audit queries are resolved. The above figure is our current estimate for 2012.

[3] The fee in relation to this work is billed a year in advance, hence the 2010/11 fee was billed in 2009/10 and the 2011/12 fee was billed in 2010/11.

* These items were communicated to you in our 2010/11 fee letter.

** These items were communicated to you in our 2011/12 fee letter.

Appendix 3: Draft representation letter

Non standard representations are shown in *italics* below

This representation letter is provided in connection with your audit of the financial statements of the London Borough of Harrow for the year ended 31 March 2012 for the purpose of expressing an opinion as to whether the financial statements present fairly the financial position of London Borough of Harrow at 31 March 2012 and of the results of its operations, other comprehensive income and expenditure and its cash flows for the year then ended in accordance with applicable accounting framework and Accounts and Audit Regulations 2003 (as amended).

We acknowledge our responsibilities for preparing financial statements for the London Borough of Harrow ("the local authority") which present fairly the financial position of London Borough of Harrow at 31 March 2012 and of the results of its operations, other comprehensive income and expenditure and its cash flows and for making accurate representations to you. For the avoidance of doubt, references to the local authority should be taken as applying equally to the London Borough of Harrow Pension Scheme and references to the financial statements of the local authority, includes information in those financial statements dealing with the London Borough of Harrow Pension Scheme.

We confirm, to the best of our knowledge and belief, the following representations.

Financial statements

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework and the Accounts and Audit Regulations 2003 (as amended) which give a true and fair view.

2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

3. The measurement processes, including related assumptions and models used to determine accounting estimates in the context of the applicable financial reporting framework are appropriate and have been applied consistently.

4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 "Related party disclosures" and the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

5. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.

6. We confirm that the financial statements have been prepared on the going concern basis. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the council's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

7. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole.

8. We are not aware of events or changes in circumstances occurring during the period which indicate that the carrying amount of fixed assets or may not be recoverable.

Appendix 3: Draft representation letter (continued)

9. We confirm that no significant fixed assets have been sold or scrapped during the financial year other than in relation to Academies.

10. *Management acknowledge that some employees are carrying accumulated compensated leave at a level exceeding the maximum allowed by the policy.*

11. *We are satisfied that the holiday pay accrual represents our best estimate of the holiday pay liability as at 31 March 2012.*

12. *We are satisfied that the banking arrangements in place between London Borough of Harrow and West London Waste Authority are deemed to be satisfactory.*

13. We acknowledge that the segmental reporting disclosures in the Statement of Accounts are consistent with our approach to internal management reporting up to 31 March 2012.

14. We acknowledge our responsibilities for the following in relation to the adoption of IFRS:
    (a) analysing the impact of the introduction of IFRS on the business;

    (b) developing plans to mitigate the effects identified by this analysis;

    (c) Assessing any impact of the introduction of IFRS on the appropriateness of adopting the going concern basis in preparing the financial statements (and preparation of relevant disclosures); and

15. *We have not provided information to current and former staff of the Council prior to 1 April 2010 which would give rise to an expectation other than that pensions would rise in line with the Retail Price Index. As a result we confirm our view that the reduction in the liability arising from the change to the Consumer Price Index is properly accounted for as a change in benefits.*

16. Except as disclosed in the Statement of Accounts, as at 31 March 2012 there were no significant capital commitments contracted for by the Council.

17. *The methods and models used to determine fair values in the context of the applicable financial reporting framework and Royal Institution of Chartered Surveyors guidance are appropriate and have been applied consistently.*

18. *We confirm that the approach to depreciating material components of dwellings held by the HRA is in accordance with the CIPFA Code of Practice on Local Authority Accounting 2011/12.*

19. *We confirm that in our opinion the bad debt provision policy currently in place is considered to be adequate but not excessive.*

20. *We confirm that the disclosures made in the Statement of Accounts in respect of Heritage assets represent a complete disclosure of the existence of assets which fall within the scope of Heritage assets under The Code of Practice on Local Authority Accounting in the United Kingdom 2011-12, and our most accurate available information on the valuation of these assets.*

21. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and have disclosed in the Statement of Accounts all guarantees that we have given to third parties.

22. The annual governance statement is representative, to the best of our knowledge, of the activities and performance of the Council in the financial year.

Appendix 3: Draft representation letter (continued)

23. *We are satisfied as to the appropriateness and reliable operation of the new control environment that has been implemented as a result of the mis-coding of capitalised costs between projects in a previous year.*

24. We consider the organisation has proper arrangements in place for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness.

Information provided

25. We have provided you with all relevant information and access.

26. All minutes of Council and committee meetings during and since the financial year have been made available to you.

27. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.

28. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

29. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

30. We are not aware of any fraud or suspected fraudthat affects the entity and involves:
    (i). management;
    (ii). employees who have significant roles in internal control; or
    (iii). others where the fraud could have a material effect on the financial statements.

31. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

32. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations, and contractual agreements whose effects should be considered when preparing financial statements

33. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

34. We have considered all claims against the council and on the basis of legal advice have provided for the amount.   No other claims in connection with litigation have been or are expected to be received. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.

35. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

36. We are not aware of any events or changes in circumstances occurring during the period which indicate that the carrying value of fixed assets may not be recoverable.

Appendix 3: Draft representation letter (continued)

37. *On the grounds of materiality, we do not believe a provision for repayment of PCN income is required in relation to the open objection and the London Borough of Camden Judgement received in February 2011.*

38. We confirm that:

- all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
- all settlements and curtailments have been identified and properly accounted for;
- all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
- the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with the directors' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
- the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of the London Borough of Harrow

Interim Corporate Director of Resources