Deloitte.

London Borough of Harrow

Our Planning Report to the Governance, Audit and Risk Management Committee on the year ending 31 March 2013 Audit

13 March 2013

Deloitte LLP
3 Victoria Square
Victoria Street
St Albans
AL1 3TF
United Kingdom

Tel: +44 (0) 1727 839000
Fax: +44 (0) 1727 831111
www.deloitte.co.uk

Governance, Audit and Risk Management Committee
London Borough of Harrow
Civic Centre
High Street
Uxbridge
Middlesex
UB8 1UW

13 March 2013

Dear Sirs

We have pleasure in setting out in this document our planning report to the Governance, Audit and Risk Management Committee ('GARMC') of the London Borough of Harrow for the year ending 31 March 2013, for discussion at the meeting scheduled for 4 April 2013. This report covers the principal matters that we will focus on during our audit for the year ending 31 March 2013.
In summary:

- The major issues, which are summarised in the Executive Summary, and how we plan to address them.
- The scope of our work is in line with the approach taken for the audit for the year ended 31 March 2012.
- There are a number of areas where significant management judgement will be required which we draw your attention in our report and which you should consider carefully.

We would like to take this opportunity to thank the management team for their on-going assistance.

Yours sincerely

Paul Schofield

Senior Statutory Auditor

Contents

Executive summary

We have pleasure in setting out in this document details of our proposed audit plan for London Borough of Harrow for the year ending 31 March 2013.

The Financial Reporting Council ("FRC") has made it clear, in its 'Update for Corporate Committees' that it expects Audit Committees to focus activity on assessing and communicating risks and uncertainties and reliance on estimates, assumptions and forecasts. Whilst the FRC report is designed for private and public companies, the messages are equally applicable to governance and Audit Committees in other organisations. This report will describe the work we undertake in order to support this activity.

Status	Description	Detail
Key changes in our audit plan this year		
The nature and scope of our planned procedures are similar to those set out in our audit plan for the year ended 31 March 2012	The nature and scope of our planned procedures are similar to those set out in our audit plan for the year ended 31 March 2012. The principal change, arising from sector developments is: • consideration of the changes to the Housing Revenue Account ("HRA") resulting from the Localism Act 2011 which we consider to be an area of significant audit risk.	Section 1 and 3
Audit scope		
Our work is carried out under the Code of Audit Practice 2010, issued by the Audit Commission	We conduct our audit in accordance with the Accounts and Audit Regulations 2011, the Code of Audit Practice 2010 issued by the Audit Commission and our audit of the statement of accounts in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board ("APB"). The Code requires that we: • issue an opinion on the financial statements of London Borough of Harrow; • satisfy ourselves as to whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources; • consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work; and • issue an assurance report to the National Audit Office on London Borough of Harrow "Whole of Government Accounts" return. For the 2012/13 financial statements, we have estimated materiality of £4.846m (2011/12: £6.382m), which is based on estimated gross expenditure. Materiality has reduced by £1.5m, predominantly as a result of the derecognition of academy expenditure from September 2012 and due to the £88m HRA settlement payment made in 2011/12. Our preliminary assessment of the level at which we report unadjusted misstatements to the GARMC is £242,000 (2011/12: £300,000). We will also report other adjustments that we consider to be qualitatively material. We will update our assessment during the planning visit based on latest outturn expectations and inform you of any change in our final report.	Section 1

Executive summary (continued)

<table>
<tr><th>Status</th><th>Description</th><th>Detail</th></tr>
<tr><td colspan="3">Internal controls</td></tr>
<tr><td>We will evaluate the design and test the implementation of key controls relevant to the audit</td><td>To assist us in planning our work, we will evaluate the design and test the implementation of key controls relevant to the audit, including controls which mitigate the significant risks of material misstatement we have identified.

We continue to rely on the work of the Council's internal audit function to inform our risk assessment.</td><td>Section 1</td></tr>
<tr><td colspan="3">Significant audit risks</td></tr>
<tr><td>We summarise the key audit risks identified at this stage</td><td>The significant audit risks which we have identified as part of our overall audit strategy are:
1. Recognition of grant income: Evaluating whether recognition is consistent with grant terms and conditions can involve significant judgement.
2. Revaluation of properties: Properties are revalued every 5 years under a rolling programme. The valuation of the Council's property is sensitive to judgements on key assumptions.
3. Valuation of the pension liability: This continues to be an audit risk in view of the size of the liability and complexity of judgements in this area. The amount of the net liability at 31 March 2012 was £270 million.
4. Housing Revenue Account (HRA) self-financing: The impact of the Localism Act 2011, which increases the significance of depreciation charges on HRA fixed assets, is a new accounting requirement for 2012/13.
5. Management override of key controls: Our response to this presumed risk will focus on the testing of journals, significant accounting estimates (including those above) and any unusual transactions in the year.</td><td>Section 2</td></tr>
<tr><td colspan="3">Other issues</td></tr>
<tr><td>We reported a number of findings in 2011/12 that we will follow up on in 2012/13</td><td>In our final report to the GARMC, issued on 12 September 2012, we reported findings in relation to other audit issues:
• Disclosure of senior officers' remuneration;
• 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.

We will follow up on these areas as part of our 2012/13 work.</td><td>N/a</td></tr>
</table>

Executive summary (continued)

Status	Description	Detail
Sector developments		
The Localism Act 2011 devolves more powers to Councils. The Local Government Finance Act 2012 makes amendments to Council tax support and Non domestic rates	The Localism Act 2011 received Royal Assent in November 2011 and contains a number of measures that devolve more powers to Councils. The key changes are: • replacing the subsidy method of financing the Housing Revenue Account ("HRA") with a self-financing system; • introducing a new general power of competence; • abolition of the Standards Board regime. The Local Government Finance Act 2012 contains amendments to two areas of local government finance: council tax support and non domestic rates There are a small number of changes to the Code of Practice on Local Authority Accounting in the United Kingdom, which we have highlighted in Section 3.	Section 3
Prior year uncorrected misstatements including disclosure misstatements		
Prior year uncorrected misstatements reduced net assets and reserves by £0.3m	We take this opportunity to remind you of the misstatements identified in the prior period. There was one uncorrected misstatement in 2011/12 reducing net assets and reserves by £0.3 million in relation to a provision held in reserves. We would also like to remind you of the disclosure misstatements identified in the prior year with a view to addressing these at an early stage of the current year reporting process. These are detailed in Appendix 1.	Appendix 1
Operational features of our audit plan		
Our planned audit approach is similar to prior year's	Appendix 2 sets out our approach to considering fraud in relation to the audit. Appendices 3 and 4 set out our service team and timetable respectively.	Appendices 2, 3 and 4

Executive summary (continued)

Status	Description	Detail
Independence and fees		
We confirm our independence. Proposed audit fees for 2012/13 are £198,365	We confirm we are independent of the London Borough of Harrow. We will reconfirm our independence and objectivity to the GARMC for the year ending 31 March 2013 in our final report to the GARMC. Our responsibilities and those of the Council are explained in the Audit Commission's publication, 'The responsibilities of Auditors and of Audited Bodies – Local Government' issued March 2010. We propose an audit fee of £198,365 (2011/12: planned fee of £330,608) for the audit of the Council's financial statements, the assurance report on the whole of government account return and value for money conclusion. This is in line with the scale fee set by the Audit Commission. The 2012/13 scale fees set by the Audit Commision include reductions of up to 40% on 2011/12 fees as a result of savings generated from the outsourcing of the Audit Commission's in-house Audit Practice and internal efficiency savings that the Commission is passing on to audited bodies. Under our new arrangements with the Audit Commission, Deloitte's net re-imbursement for external services provided remains unchanged from those previously agreed. The scale fee reductions do not therefore have an impact on our ability to continue offering a high quality service to you. Further information is provided in Appendix 5.	Appendix 5

1. Scope of work and approach

Key areas of responsibility	
	We have four key areas of responsibility under the Audit Commission's Code of Audit Practice:
Financial statements	We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK and Ireland)") as adopted by the UK Auditing Practices Board ("APB") and the Audit Commission's Code of Audit Practice. The Council will prepare its accounts under the Code of Local Authority Accounting. There are no significant changes in respect of the scope of our work in relation to this area of responsibility.
Annual Governance Statement	We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work. We will also review reports from relevant regulatory bodies and any related action plans developed by The Council.
Value for Money conclusion	We are required to satisfy ourselves that The Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and issue a conclusion on value for money. Our conclusion is given in respect of two criteria: • Whether the organisation has proper arrangements in place for securing financial resilience; and • Whether the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. In discharging this responsibility, we take into account our work on the Annual Governance Statement and the work of regulators.
Assurance report on the Whole of Government Accounts return	Whole of Government Accounts (WGA) are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice to review and report on The Council's whole of government accounts return. Our report is issued to the National Audit Office ("NAO") for the purposes of their audit of the Whole of Government Accounts.

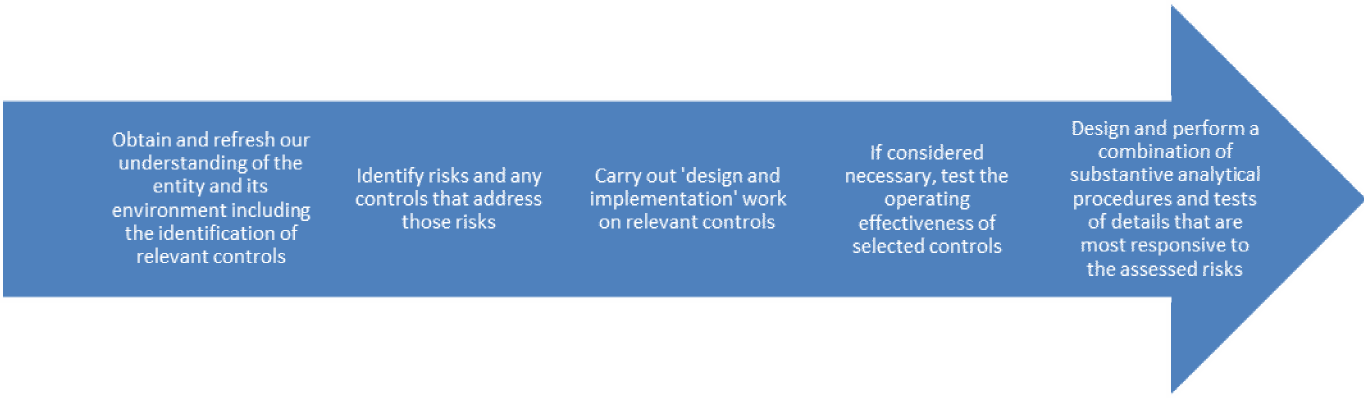
Working with internal audit	
We will liaise with internal audit in planning our work and utilise their findings in our risk assessment	We will meet with the internal audit team to plan our combined approach in the year. Following an update of their assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit team, we will review the findings of internal audit and adjust our audit approach as is deemed appropriate. This normally takes a number of forms: • discussion of the work plan for internal audit; and • where internal audit identifies specific material deficiencies in the control environment, we consider adjusting our testing so that the audit risk is covered by our work. We will continue to review all internal audit reports issued during the year and utilise them to assist our risk assessment.

1. Scope of work and approach (continued)

What audit work do we do on controls?

We will evaluate the design and implementation of controls relevant to the audit

As set out in "Briefing on audit matters" circulated to you with this document, our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D&I"). Our audit approach consists of the following:



The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Our audit is not designed to provide assurance as to the overall effectiveness of the controls operating within the Group, although we will report to management any recommendations on controls that we may have identified during the course of our audit work.

Scoping of material account balances, classes of transactions and disclosures

We will report to you any significant findings from our scoping work

We perform an assessment of risk which includes considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address the risk of material misstatement. We will report to you any significant findings from our scoping work.

2. Significant audit risks

Based upon our initial assessment and following discussion with management, we will concentrate specific effort on the significant audit risks set out below.

Recognition of grant income		Deloitte response
Evaluating compliance with grant terms and conditions can involve significant judgement	We have identified a significant audit risk in relation to the recognition of grant income. This is due to the fact that for those grants with conditions attached, income should only be recognised when such conditions have been met. Determining if there are conditions attached to a grant and if these conditions have been met can involve significant management judgement. In the prior year revenue grant income amounted to £431,097k and capital grant and contributions income amounted to £40,364k.	We will carry out detailed testing of grant income to check that recognition of income properly reflects the grant scheme rules, that entitlement is in agreement with the draft or final grant claim and that the grant control account balance has been properly reconciled. We will follow up on our control recommendation from the 2011/12 audit to ensure that adequate central controls are in place.

Revaluation of properties		Deloitte response
The valuation of property is sensitive to judgements on key assumptions	The Council has a substantial portfolio of property, amounting to £610,410k at 31 March 2012, which is subject to a rolling revaluation programme. The current and recent economic volatility has affected property values, generally, and the Council has recorded significant gains and losses over the last three years. We have identified this as a risk because of the significant value of the asset base and the fact that valuations are sensitive to judgements on key assumptions.	We will consider the qualifications, expertise and independence of the Council's valuation expert and the instructions and sources of information provided to the expert. We will evaluate the arrangements in place around the property valuation as part of our interim audit. We will use our internal valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used by the Council in valuing their property.

Valuation of pension liability		Deloitte response
The valuation of the pension liability continues to be an audit risk in view of the complexity of the judgements and sensitivity of the valuation to small changes in individual assumptions	The net liability relating to the pension scheme is substantial, amounting to £270,287k at 31 March 2012, so its calculation is sensitive to comparatively small changes in assumptions made about future changes in salaries, price and pensions, mortality and other key variables. Some of these assumptions draw on market prices and other economic indices and these have become more volatile during the current economic environment.	We will consider the qualifications, expertise and independence of the actuary engaged by The Council and the instructions and sources of information provided to the actuary. We will include a specialist from our team of actuaries in our engagement team to assist in the review and challenge of assumptions used to calculate the pension liability and related in year transactions and the reasonableness of the resulting accounting entries.

2. Significant audit risks (continued)

Housing Revenue Account (HRA) self-financing		Deloitte response
The Localism Act 2011 replaces the subsidy method of financing the Housing Revenue Account with a system of self-financing	In the year ending 31 March 2012, the Council made a HRA self-financing settlement payment of £88,461k, which will allow it to retain surpluses on the HRA account going forward. As a result, all HRA revenue and capital expenditure is expected to be funded from existing resources meaning that rent collection, depreciation and impairment of HRA assets have a real impact on the HRA surplus or deficit. There are transitional arrangements in place for a 5 year period that allow the Council to defer the impact of depreciation or impairment of HRA dwellings by reducing the impact of depreciation on the bottom line. This is a new requirement in the current year and there is a risk that the impact of depreciation and impairment of HRA properties is understated; therefore it is considered a significant audit risk.	We will understand and challenge the estimate that management has made for depreciation on HRA properties. We will test the entry posted by management to the major repairs reserve, owing to the judgement that can be applied by management here in choosing either to use calculated depreciation, a notional major repairs allowance or another amount. In so doing, we will verify that the treatment is in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 Guidance Notes and Item 8 Determination.

Management override of key controls		Deloitte response
We will focus on the testing of journals, significant accounting estimates, and any unusual transactions in the year	International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.	Our work will focus on the testing of journals, significant accounting estimates and any unusual transactions, including those with related parties. As a result of our ongoing dialogue with management, we will also focus our attention on: provisioning in relation to restructuring to ensure that the conditions to provide are met; and consider any one off transactions impacting reserves in light of the low reserves position.

3. Sector developments

Localism Act 2011	
The Localism Act 2011 devolves more powers to Councils	**Self-financing the housing revenue account ("HRA")** The Localism Act 2011 replaced the previous subsidy method of financing the HRA with a system of self-financing. The Council made a one off payment in 2011/12 of £88m to central government so that it can retain the surpluses made on the HRA going forward. From 2012/13 authorities will no longer receive housing subsidy or Major Repairs Allowance (MRA) income. Instead the Council will be expected to fund all HRA revenue and capital expenditure from existing resources. The impact on depreciation and impairments to HRA property has been considered a significant risk within Section 2. **General power of competence** The previous well-being powers of local authorities, contained in section 2 of the Local Government Act 2001, have been replaced by a new 'general power of competence' in the Localism Act 2011. The general power of competence enables local authorities to do anything which an individual can do, unless other legislation specifically prevents it. Councils may use the power to do things for a commercial purpose, although they must do so through a company. Applying the new power is still subject to legal interpretation and advice. The general power may facilitate new income generation schemes and new ways of providing and funding services, such as joint working arrangements. **Governance, scrutiny and standards** Changes to the Council's arrangements for governance, scrutiny and standards have been introduced by the Localism Act 2011. The Act abolishes: the requirement for councils to adopt a national code of conduct; the requirement to have a standards committee that oversees the behaviour of councillors and receives complaints; and the Standards Board for England, the central body set up to regulate standards committees. All councils now have a duty to 'promote and maintain high standards of conduct by members and co-opted member of the authority'. Each council must: • develop a local code of conduct dealing with the conduct of members and co-opted members of the authority; • maintain and publish a register of interests; and • appoint at least one independent person to act as an adviser to the council on any allegations it may be considering and to members who may be the subject of the allegation(s). Members who fail to comply with the requirement to register interests will now be committing a criminal offence. The Council itself must decide what action to take if it finds that a member has failed to comply with the Code.

3. Sector developments (continued)

Local Government Finance Act 2012

The Local Government Finance Act 2012 contains amendments to council tax support and non-domestic rates

Council tax support

The Local Government Finance Act 2012 includes provisions designated to localise council tax support. Council tax benefit will disappear and individual local authorities will be responsible for preparing their own council tax reduction ("CTR") schemes. The current system means that central government reimburses the Council for all correctly awarded council tax benefit. Going forward, it is intended that the source of funding for each authority's CTR scheme will be the proportion of business rates retained by authority.

Non domestic rates

The provisions allow the Secretary of State to move money around by deciding how much of the non-domestic rate income collected by the Council should be retained by the Council, paid to central government and paid out by central government to local authorities for local government purposes.

CIPFA will use the 2013/14 Code update to cover the accounting implications of these changes.

Code of Practice on Local Authority Accounting in United Kingdom 2012/13

Changes introduced by the Code 2012/13 are not significant

Housing Revenue Account ("HRA")

The impacts of the changes to the HRA due to the Localism Act 2011 have been discussed in more detail above and in the significant risks section (Section 2).

Carbon Reduction Commitment ("CRC") scheme

As the obligation to meet CRC responsibilities arises during 2012/13, the obligation should be accounted for at 31 March 2013. Where any allowances are purchased prospectively (i.e. in respect of 2013/14), authorities will need to account for the allowances as assets. The provision has historically not been material; therefore we do not consider this to be significant audit risk of material misstatement.

Exit packages

The 2012/13 Code guidance notes provide extended guidance on the disclosure requirements for exit packages. This clarifies that legal, contractual or constructive obligations at year end should be included in the disclosure of exit packages. The guidance notes also recommend that the exit package disclosure is amalgamated with the requirements in relation to the disclosure of termination benefits. The value of exit packages historically not been material; therefore we do not consider this to be significant audit risk of material misstatement.

Accounting for non-current schools' assets

The CIPFA/LASAAC board is still considering the accounting for non-current schools' assets. It intends to issue guidance to authorities to improve the consistency of the accounting for these assets and a potential accounting treatment was consulted on as part of the 2013/14 code. Since CIPFA/LASAAC is not able to issue guidance for 2012/13, the situation remains the same as for the 2012/13 year. There is no change in guidance and no issues were noted from testing in the prior; therefor accounting for schools' non-current assets is not considered a significant audit risk.

3. Sector developments (continued)

Code of Practice on Local Authority Accounting in United Kingdom 2012/13 (continued)	
Content of the explanatory foreword	On an annual basis CIPFA produces a Code of Practice on local authority accounting. The Code of Practice for 2012/13 applies all International Financial Reporting Standards and interpretations which are in effect for the accounting periods commencing on or before 1 January 2012. One of the key changes in the 2012/13 edition of the Code relates to the content of the Explanatory Foreword. The purpose of the Foreword is and has been to offer interested parties an easily understandable guide to the most significant matters in the accounts and on this basis it has historically provided some commentary on the major factors which influence the income, expenditure, cash flows and resources of the Authority. Whilst the content and style of the Explanatory Foreword have been and still will be left to local judgement, the 2012/13 Code encourages local authorities to take into the consideration the requirements of sections 5.2.8 to 5.2.12 of the Government Financial Reporting Manual (FReM) where these requirements are relevant to a local authority. Unlike the FReM, the Code does not include a specific requirement to prepare a sustainability report which would show the Authority's use of finite resources, but neither does it prevent an authority from including such information in its Explanatory Foreword. Authorities electing to prepare an Explanatory Foreword in accordance with the requirements of the FReM would need to disclose the matters required for disclosure under section 417 of the Companies Act 2006. In doing so they would need to take into consideration the recommendations made by the Accounting Standards Board's Reporting Statement *Operating and Financial Review* as interpreted by the FReM for a public sector context. Specific additional disclosure that would be required include, but are not limited to, a brief history of the authority and its statutory background, an explanation of the going concern basis, details of company directorships and other significant interests held by members and sickness absence data.

3. Sector developments (continued)

Code of Practice on Local Authority Accounting in United Kingdom 2013/14

A number of changes are proposed by the 2013/14 Code

IFRS 13: Fair value accounting

The 2013/14 Code will introduce the requirements of IFRS 13 *Fair Value Measurement* as adapted for public sector circumstances. Non-financial non-profit generating assets are taken out of the scope of this standard and will be carried at a 'public sector valuation', which is presumed to reflect the assets' service potential.

As a result of the adaption the Council would not be required to measure property, plant and equipment in accordance with IFRS 13; however in order to meet the disclosure requirements of the standard the Code makes it necessary for authorities to consider which level of the fair value hierarchy the valuation technique they have used will apply.

The Council will need to ensure that the valuer is made aware of the introduction of IFRS 13 and the Code's adaption of it. Where the change is expected to be a material to the accounts, the Council will need to disclose in its 2012/13 financial statements:

- the title of the new or amended standard;
- the nature of the change of accounting policy;
- the date at which the change of accounting policy is required; and
- a discussion of the impact that initial application of the IFRS is expected to have on the financial statements.

Other amendments

Other changes include:

- amendments to the Comprehensive Income and Expenditure Statement as a result of the June 2011 amendments to IAS 1 *Presentation of Financial Statements*;
- amendments to IAS 19 *Employee Benefits* including changes to definitions and terminology, changes to the recognition requirements and clarification of the disclosure requirements;
- a number of clarifications and augmentations of the provision of the Code as a result of the CIPFA/LASAAC IFRS post implementation review;
- amendments to IAS 12 *Income Taxes*;
- new definitions and clarification for service concession arrangements that are assets under construction or intangible assets;
- clarification on the treatment of overdrafts; and
- amendments to IFRS 7 *Financial Instruments: Disclosures* requiring information that will enable users to evaluate the potential effect of netting arrangements;

As discussed above, a change to accounting for non-current school assets is currently being consulted on.

4. Responsibility statement

This report should be read in conjunction with the "Briefing on audit matters" circulated to you with this document and sets out those audit matters of governance interest which have come to our attention during the planning of our audit to date. Our audit is not designed to identify all matters that may be relevant to the Members and our final report on the audit will not necessarily be a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Members, 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. It should not be made available to any other parties without our prior written consent.

Deloitte LLP

Chartered Accountants

St Albans

13 March 2013

Appendix 1: Prior year uncorrected disclosure misstatements

Disclosure misstatements

Auditing standards require us to highlight significant disclosure deficiencies to enable audit committees to evaluate the impact of those matters on the financial statements. The table below highlights those areas of disclosure that we considered required consideration by the committee in the prior year:

Disclosure	Source of disclosure requirement	Quantitative or qualitative consideration
The related party note includes a creditor with West London Waste Authority (WLWA). At the time of concluding the financial statements of the Council the audit work at WLWA was ongoing. Errors have been identified at WLWA that will impact this creditor balance however they are not material to the Council's financial statements and so the disclosure has not been amended.	CIPFA Code of Practice on local authority accounting 2011/12	Quantitative
The accumulated depreciation balance in the plant, property and equipment note includes depreciation that is required to be reversed out into the revaluation reserve for assets which have been revalued during the year. There is no effect on the net book value of these assets.	CIPFA Code of Practice on local authority accounting 2011/12	Qualitative
Paragraph 3.18 of the Annual Governance Statement states that the value for money conclusion will not be published until January 2013, however under the current reporting regime our value for money conclusion is issued as part of our audit opinion, in September 2012.	CIPFA Code of Practice on local authority accounting 2011/12	Qualitative

We obtained written representations from management confirming that after considering all these disclosure deficiencies (and the numerical misstatement noted in the executive summary of this report), both individually and in aggregate, in the context of the financial statements taken as a whole, no adjustments were required.

Appendix 2: Consideration of fraud

Characteristics

Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. Two types of intentional misstatements are relevant us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

Responsibilities

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Fraud inquiries

We will make the following inquiries regarding fraud:

Management	Internal Audit	Governance, Audit and Risk Management Committee
Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments. Management's process for identifying and responding to the risks of fraud in the entity. Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity. Management's communication, if any, to employees regarding its views on business practices and ethical behaviour. Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.	Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.	How the GARMC exercises oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. Whether the GARMC has knowledge of any actual, suspected or alleged fraud affecting the entity.

Appendix 2: Consideration of fraud (continued)

We will make inquiries of others within the Council as appropriate. We will also inquire into matters arising from your whistle blowing procedures.

Concerns

As set out in Section 2 above we have identified the risk of fraud in grant income recognition and management override of controls as a key audit risk for your organisation.

Representations

We will ask for you and management to make the following representations towards the end of the audit process:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- 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.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:

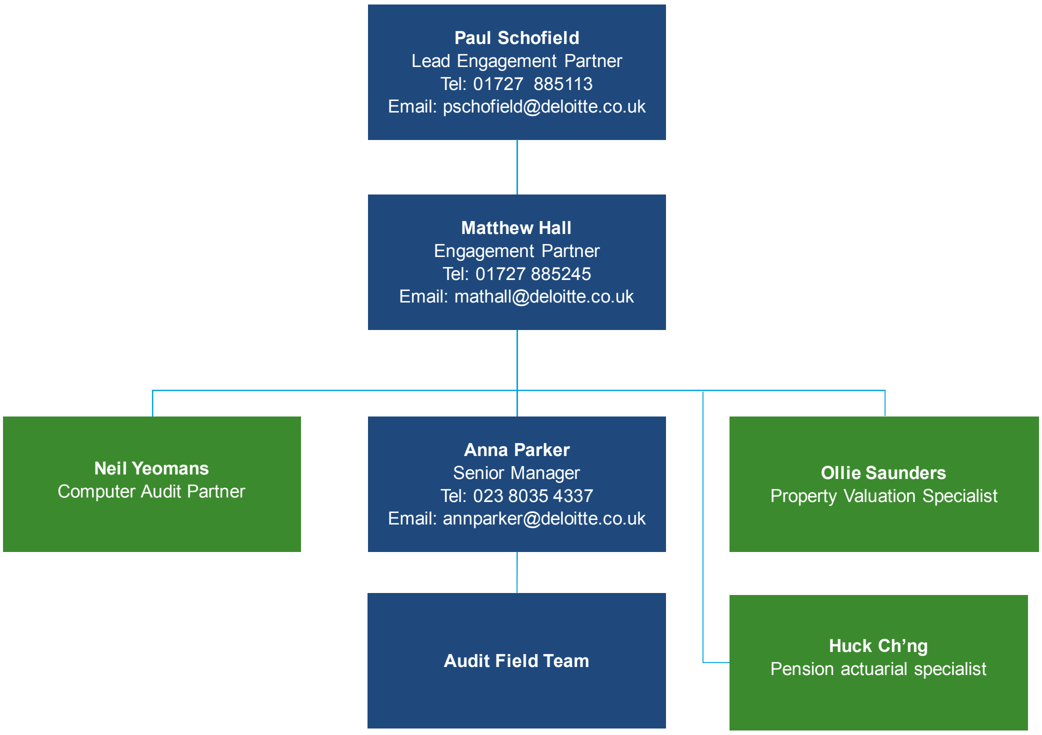
  (i) management;

  (ii) employees who have significant roles in internal control; or

  (iii) others where the fraud could have a material effect on the financial statements.
- 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.

Appendix 3: Audit engagement team

We set out below our audit engagement team. We manage our audit on a basis that is consistent with prior year and which draws on the expertise of our local government industry group and relevant specialists within the firm.



Appendix 4: Timetable

Set out below is the approximate expected timing of our reporting and communication with management and those charged with governance.

Planning	Interim audit	Year end fieldwork	Reporting	Post reporting
Planning meetings to: • confirm risk assessment; and management response and • agree on key judgemental accounting issues Agree audit plan	Update discussions of key audit and business risks and testing of controls to mitigate significant audit risks Review of relevant internal audit work Document and test design and implementation of key controls Update understanding of systems, controls and developments in the business Performance of work in support of value for money conclusion	Performance of substantive testing Finalisation of work in support of value for money conclusion Review of annual accounts Audit issues meeting Work to support assurance statement on WGA return	Final Audit Committee Meeting Issuance of: • audit report and opinion; • value for money conclusion • limited assurance opinion on WGA return	Audit feedback meeting Issue of annual audit letter
February 2013	March – April 2013	June – August 2013	August – Sept 2013	Sept – October 2013

Ongoing communication and feedback

Appendix 5: Audit fees

The indicative fee for the audit of the London Borough of Harrow for 2012/13, excluding the audit of the pension scheme and certification of claims and returns, is £198,365 (exclusive of VAT), which compares to the planned fee of £330,608 for 2011/12.

The 2012/13 scale fees set by the Audit Commission include reductions of up to 40% on 2011/12 fees. These result from savings generated from the outsourcing of the Audit Commission's in-house Audit Practice and internal efficiency savings that the Commission is passing on to audited bodies. Under our new arrangements with the Audit Commission, Deloitte’s net re-imbursement for external services provided remains unchanged from those previously agreed. The scale fee reductions do not therefore have an impact on our ability to continue offering a high quality service to you.

The fee excludes:

- fees for the certification of grant claims. For 2012/13, the Audit Commission has replaced the previous schedule of hourly rates with a composite fee for certification work for each body. The composite indicative fee which the Audit Commission has set for 2012/13 is £42,700. This is based on the actual certification fees for 2010/11 adjusted to reflect the fact that a number of schemes will no longer require auditor certification, and incorporating a 40% reduction (similar to the 40% reduction in the audit fee described above). The fee is based on assumptions on the grants requiring certification, the scope of work required and the availability of good quality working papers to support the claims;
- the fee for the audit of the pension scheme annual report, which is discussed in a separate audit plan;
- any work in relation to providing any specific accounting or other views. Given the uncertainty of timing and input required, we will agree the scope of work and associated fee with you when you request the opinion;
- any additional work required to address questions and objections raised by local government electors which, due to uncertainty of timing and resource required, will be agreed separately;
- any work requested by you that we may agree to undertake. Each piece of work will be separately negotiated and a detailed project specification agreed with you; and
- value added tax which will be charged at the prevailing rate.

We have also assumed that:

- good quality draft of the financial statements, together with good quality working papers and records to support the financial statements, will be provided by the agreed start date for the final audit visit; and
- good quality working papers will be available by the deadline for submission of the WGA return to auditors to support the WGA return.

Appendix 6: Briefing on audit matters

Published for those charged with governance

This document is intended to assist directors to understand the major aspects of our audit approach, including explaining the key concepts behind the Deloitte Audit methodology including audit objectives and materiality.

Further, it describes the safeguards developed by Deloitte to counter threats to our independence and objectivity.

This document will only be reissued if significant changes to any of those matters highlighted above occur.

We will usually communicate our audit planning information and the findings from the audit separately. Where we issue separate reports these should be read in conjunction with this "Briefing on audit matters".

Approach and scope of the audit

Primary audit objectives

We conduct our audit in accordance with International Standards on Auditing (UK & Ireland) as adopted by the UK Auditing Practices Board (“APB”). Our statutory audit objectives are:

- to express an opinion in true and fair view terms to the shareholders on the financial statements;
- to express an opinion as to whether the accounts have been properly prepared in accordance with the relevant financial reporting framework;
- to express an opinion as to whether the accounts have been prepared in accordance with the Companies Act;
- to form an opinion on whether adequate accounting records have been kept by the company; and
- to express an opinion as to whether the directors’ report, including the business review, is consistent with the financial statements.

Other reporting objectives

Our reporting objectives are to:

- present significant reporting findings to the directors. This will highlight key judgements, important accounting policies and estimates and the application of new reporting requirements, as well as significant control observations; and
- provide timely and constructive letters of recommendation to management. This will include key business process improvements and significant controls weaknesses identified during our audit.

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

Materiality (cont'd)

"Materiality" is defined in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements" in the following terms:

"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."

We determine materiality based on professional judgment in the context of our knowledge of the audited entity, including consideration of factors such as shareholder expectations, industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality to:

- determine the nature, timing and extent of audit procedures; and
- evaluate the effect of misstatements.

The extent of our procedures is not based on materiality alone but also local considerations of subsidiaries and divisions of the group, the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

For local statutory reporting purposes, individual materiality levels will be set for each of the subsidiary companies.

Uncorrected misstatements

In accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)") we will communicate to you all uncorrected misstatements (including disclosure deficiencies) identified during our audit, other than those which we believe are clearly trivial.

ISAs (UK and Ireland) do not place numeric limits on the meaning of 'clearly trivial'. The Audit Engagement Partner, management and the directors will agree an appropriate limit for 'clearly trivial'. In our report we will report all individual identified uncorrected misstatements in excess of this limit and other identified errors in aggregate.

We will consider identified misstatements in qualitative as well as quantitative terms.

Audit methodology

Our audit methodology takes into account the changing requirements of auditing standards and adopts a risk based approach. We utilise technology in an efficient way to provide maximum value to shareholders and create value for management and the Board whilst minimising a "box ticking" approach.

Our audit methodology is designed to give directors and shareholders the confidence that they deserve.

For controls considered to be 'relevant to the audit' we evaluate the design of the controls and determine whether they have been implemented ("D & I"). The controls that are determined to be relevant to the audit will include those:

- where we plan to obtain assurance through the testing of operating effectiveness;
- relating to identified risks (including the risk of fraud in revenue recognition, unless rebutted and the risk of management override of controls);

Audit methodology (cont'd)

- where we consider we are unable to obtain sufficient audit assurance through substantive procedures alone; and
- to enable us to identify and assess the risks of material misstatement of the financial statements and design and perform further audit procedures.

Other requirements of International Standards on Auditing (UK and Ireland)

ISAs (UK and Ireland) require we communicate the following additional matters:

ISA (UK & Ireland)	Matter
ISQC 1	Quality control for firms that perform audits and review of financial statements, and other assurance and related services engagements
240	The auditor's responsibilities relating to fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
265	Communicating deficiencies in internal control to those charged with governance and management
450	Evaluation of misstatements identified during the audit
505	External confirmations
510	Initial audit engagements – opening balances
550	Related parties
560	Subsequent events
570	Going concern
600	Special considerations – audits of group financial statements (including the work of component auditors)
705	Modifications to the opinion in the independent auditor's report
706	Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report
710	Comparative information – corresponding figures and comparative financial statements
720	Section A: The auditor's responsibilities relating to other information in documents containing audited financial statements

Independence policies and procedures

Important safeguards and procedures have been developed by Deloitte to counter threats or perceived threats to our objectivity, which include the items set out below.

Safeguards and procedures

- Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit.
- Where appropriate, review and challenge takes place of key decisions by the Second Partner and by the Independent Review Partner, which goes beyond ISAs (UK and Ireland), and ensures the objectivity of our judgement is maintained.
- We report annually to the directors our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment.
- Periodic rotation takes place of the audit engagement partner, the independent review partner and key partners involved in the audit in accordance with our policies and professional and regulatory requirements.
- In accordance with the Revised Ethical Standards issued by the APB, there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This would include particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation.

Safeguards and procedures (cont'd)

- In the UK, statutory oversight and regulation of auditors is carried out by the Financial Reporting Council (FRC). The Firm's policies and procedures are subject to external monitoring by both the Audit Quality Review Team (AQRT, formerly known as the Audit Inspection Unit), which is part of the FRC's Conduct Division, and the ICAEW's Quality Assurance Department (QAD). The AQRT is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW's Audit Registration Committee.

Independence policies

Our detailed ethical policies' standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies.

Amongst other things, these policies:

- state that no Deloitte partner (or any immediate family member) is allowed to hold a financial interest in any of our UK audited entities;
- require that professional staff may not work on assignments if they (or any immediate family member) have a financial interest in the audited entity or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the audited entity;
- state that no person in a position to influence the conduct and outcome of the audit (or any immediate family member) should enter into business relationships with UK audited entities or their affiliates;
- prohibit any professional employee from obtaining gifts from audited entities unless the value is clearly insignificant; and
- provide safeguards against potential conflicts of interest.

Remuneration and evaluation policies

Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.

APB Revised Ethical Standards

The Auditing Practices Board (APB) has issued five ethical standards for auditors that apply a 'threats' and 'safeguards' approach.

The five standards cover:

- maintaining integrity, objectivity and independence;
- financial, business, employment and personal relationships between auditors and their audited entities;
- long association of audit partners and other audit team members with audit engagements;
- audit fees, remuneration and evaluation of the audit team, litigation between auditors and their audited entities, and gifts and hospitality received from audited entities; and
- non-audit services provided to audited entities.

Our policies and procedures comply with these standards.