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The London Borough of Harrow

Report to theGovernance, Audit and Risk Management Committee on the year ended 31 March 2013 Audit

12 September 2013

Deloitte.

Deloitte LLP
3 Victoria Square,
Victoria Street,
St Albans, AL1 3TF
Tel: +44 (0) 1727 839000

www.deloitte.co.uk

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

12September 2013

Dear Sirs,

We have pleasure in setting out in this document our report to the Governance, Audit and Risk ManagementCommittee of the London Borough of Harrow("the Council") for the year ended31 March 2013. This report covers the principal matters that have arisen from our audit of the Councilfor the year ended 31 March 2013.

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.
- Our work is largely complete. Should we become aware of any circumstances which would cause result in further work or for us to issue a qualified opinion on the accounts or a qualified value for money conclusion, we would report on this verbally at the meeting to be held on 24 September 2013.

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

Yours faithfully,

Paul Schofield

Paul Schofield

Engagement Lead

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Executive summary

We have the pleasure in setting out in this document our report to the Governance, Audit and Risk Management Committee ("GARM") of the London Borough of Harrow ("the Council") on the audit of the Council's financial statements for the year ended 31 March 2013. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2013.This summary is not intended to be exhaustive but highlights the most significant matters which we would like to bring to your attention and should, therefore, be read in conjunction with the report and the appendices thereto.

Status	Description
Completion of the audit	
Our audit is largely complete	We have completed our work on the areas of significant risk as identified in our audit plan.There are no additional risks identified by our work to date. Our outstanding areas are: • Completion of review of events after the reporting period and up to the proposed date of signing the financial statements; • Final confirmation of the wording in the Annual Governance Statement to account for events up to the date of approval of the financial statements; • Completion of final internal review procedures and documentation; • Final review of financial statements; and • Receipt of signed management representation letter.
Overall view	
We have not identified any matters through our work to date which would prevent us from issuing an unmodified audit opinion on the truth and fairness of the financial statements	We have not identified any matters through our work to date which would prevent us from issuing an unmodified audit opinion on the truth and fairness of the financial statements.The matters that we have taken into account in forming our overall view are described in the following sections of this report. Under the Audit Commission Act 1998, we issue a certificate 'when the audit of the accounts has been concluded'. The issue of the audit certificate marks the closure of the audit and the end of the exercise of the auditor's powers and duties in respect of that audit. The audit certificate can be issued as soon as all the work required to meet auditors' responsibilities under sections 2 and 3 of the Code has been completed. One of our statutory responsibilities is to issue an opinion on the Whole of Government Accounts (WGA) return. The deadline for the audited return is 4thOctober. We intend to complete our work in this regard so that at the same time we issue our opinion on the financial statements, we would also issue our assurance statement on the WGA. At the time of writing this report we have received enquiries from local residents relating to the proposed development of the Whitchurch playing fields, which we are investigating. These matters do not have an impact on the current year financial statements and are currently deemed not to be objections and so should not delay the audit certificate.

Executive summary (continued)

Overview of risk	Description	Status
Significant audit risks		**Status**
There were no significant issues arising from our review of these audit risk areas	In our audit plan we identified a number of significant audit risks. Our findings in respect of those risks are as follows: 1. **Recognition of grant income:**our testing of grants did not identify any significant issues. 2. **Valuation of the pension liability** is sensitive to small changes in assumptions. Overall, the assumptions used by the authority fell within a reasonable range. 3. **Revaluation of properties:**in the 2012/13 year the Council valued a range of assets including community premises, housing property, sports premises, youth centres and investment properties. We considered the process undertaken for the valuation of these assets and reviewed the assumptions used. We concluded that the resulting valuations were reasonably stated. 4. **Housing Revenue Account ("HRA") self-financing:**The impact of the Localism Act 2011 on statutory mitigations for depreciation on HRA fixed assets is a new accounting requirement for 2012/13. Our testing has identified no issuesin respect of the new accounting requirements. 5. **Management override of key controls:**we are required to assume that all organisations have a risk of management override of controls in accordance with international auditing standards.To address this, we tested the employment/redundancy provision. Our testing identified no material misstatements and the assumptions made were deemed reasonable. We also considered one off transactions impacting reservesin light of the low reserves position with no material misstatements were noted. Significant risks are discussed in more detail in section 1.	l G l G l G l G l G

l G	Risk appropriately addressed	l A	Risk with information outstanding and audit subject to completion	l R	Material unresolved matter

Executive summary (continued)

Status	Description
Value for money (VFM) conclusion	
We expect to issue an unqualified value for money conclusion	One of our responsibilities is to include in our audit report a conclusion on whether the London Borough of Harrow 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". The conclusion is given in relation to two criteria specified by the Audit Commission. On the basis of our work, we confirmed our preliminary assessment that there were no risks which required us to carry out other locally determined work and we propose to issue an unqualified VFM conclusion. Our work in this area is discussed further in section 2.
Risk management and internal control systems	
We did not identify any significant deficiencies in the financial reporting systems	Our audit findings did not identify any significant deficiencies in the financial reporting systems. However, we have identified a number of recommendations which we have identified during the course of our work. These are discussed in section 3.
Identified misstatements, disclosure misstatements and prior period adjustment	
As set out in appendix 1, based on our work performed to date, we have identified one misstatement above the threshold for reporting to you	Audit materiality was £4.4 million as set out in our Audit Plan. We have identified an uncorrected misstatement, over the threshold for reporting, being £0.7m on the upward revaluation of the Housing Revenue Account Council Dwellings. This arose from a movement in the Housing Price Index used in the revaluation, between the date of preparation of the revaluation, and the date of the audit, We have notidentified any significant uncorrected disclosure misstatements. Accumulated depreciation arising on assets revalued in the current and prior year has been reversed in the property plant and equipment note to correct a disclosure deficiency that was identified in the prior year. A prior period adjustment of £12.8m was made to opening reserves, due to the incorrect application of the useful economic life and the resultant under-charging of depreciation in prior periods. This adjustment corrected the net book value of the assets. We our finalising our review of the financial statements at the time of writing and we will provide an update on the position at the meeting. This will take account of any events up to the date of approval of the financial statements that may need to be taken into account.

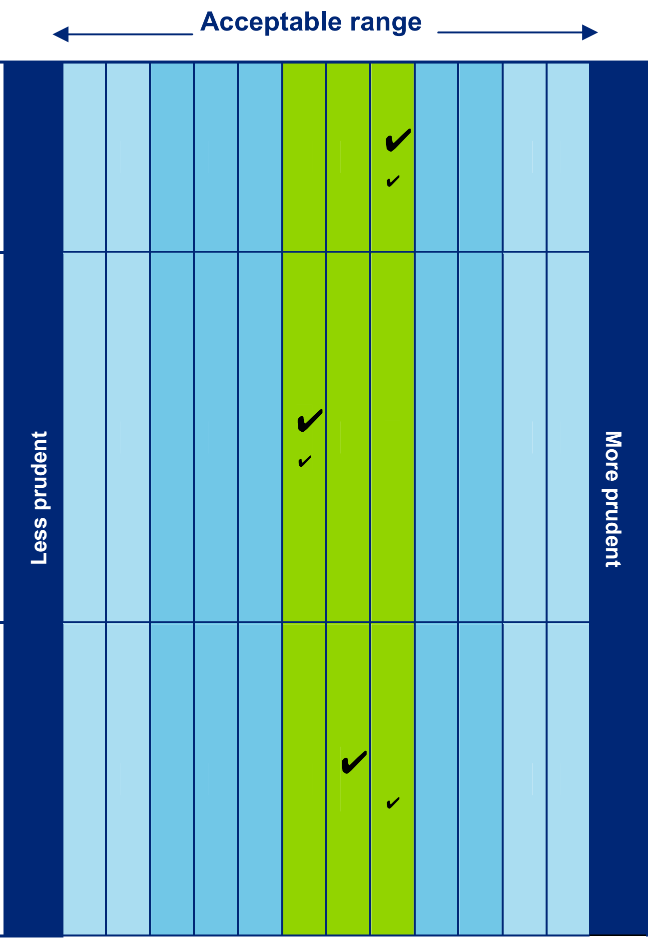
Executive summary (continued)

Status	Description
Significant representations	
We will request management representations	A copy of the draft representation letter to be signed on behalf of theCouncilis included at appendix 3. Non-standard representations have been highlighted in italics.
Independence	
We confirm we comply with APB Revised Ethical Standards for Auditors	Our reporting requirements in respect of independence matters, including fees, are covered in section 5.
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.

1. Significantaudit risks

Understanding the subjective judgements and estimates

The table below shows, on a range of acceptable outcomes from less prudent to more prudent, where management's key assumptions and valuations relating to significant estimates lie. We have only included those significant risks which we consider to involve key judgements.



Pension liability	We have concluded that the assumptions used by the Council's actuary to calculate the pension liability are reasonable. When compared to our own in-house benchmark we consider the assumptions to be slightly prudent but consistent with the prior year.
Property revaluation	We engaged our property specialists Deloitte Real Estate (DRE) to review the assumptions and methodology used in the valuations. We concluded that the valuation methods selected, and the way in which those methods were applied, was reasonable. We recommend the council consider whether Depreciated Replacement Cost (DRC) is the most appropriate methodology given that this method is normally applied only for specialised assets where there is no market-based evidence of fair value.
Management override of controls	We did not identify anything from our testing of journals or review of other estimates or judgements to suggest a prudent or aggressive stance taken by management. We identified provisions made in the prior year for restructuring were in part released in the current year. This release reflects a less prudent approach in the current year. A recommendation related to the release of this provision is included in section 3.

Current year position ✔

Prior year position (if relevant) ✔

1. Significant audit risks

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

l G	Risk appropriately addressed	l A	Risk with information outstanding and audit subject to completion	l R	Material unresolved matter

Recognition of GrantIncome	
Gl **We have not identified any errors in our sample testing of the grant income**	Accounting for grant income can be complex as the basis for revenue recognition in the accounts will depend on the scheme rules for each grant. This risk was identified because presumed risk of fraud around revenue is a requirement under ISA 240 and as grant income is a material income stream to the Council (revenue and capital grants amounted to over £303m in 2012/13) 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 and capital grants, by reviewing correspondence attached to specific grants and comparing with the Council's accounting treatment. We have also tested the design and implementation of controls around grants and concluded that this is effective.Our testing identified no significant issues with the revenue and capital grants within the sample selected. In the prior year a recommendation was made around increased central monitoring of grants and the maintenance of a central grant register. This has been implemented in the current year with improved year-end monitoring through the use of a grant register however we recommend that this is further developed to operate continuously throughout the year.

1. Significantaudit risks (continued)

Valuation of the pension liability	
G1 **We consider the assumptions used to calculate the pension liability to fall within a reasonable range**	The determination of the net pension liability was identified as a risk because it is substantial, and its calculation is sensitive to small changes in judgemental assumptions made about future changes in salaries, mortality and other key variables. The total pension liability recognised in the draft financial statements of £806.8mrelates to the London Borough of Harrow (LBH) Pension Fund which is within the Local Government Pension Scheme (LGPS). The total net pension liability has increased by £104.8m on the prior year liability of £702.0m, mainly due to poor performance of the fund assets in the current economic environment and a change in the discount rate.
Deloitte response	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 actuaries have concluded that the assumptions used in the calculation are near the prudent end ofthe reasonable range. We highlight that the assumptions used in the prior year were also considered to be towards the prudent end of reasonable. Some specific findings from the review include: • Hymans Robertson has a standard assumption setting approach for the bulk of its clients which participate in anLocal Government Pension Scheme (LGPS). The financial assumptions reflect the duration (mean term) of the liabilities for a "typical" LGPS employer (which the actuary takes to be around 17 years). The assumptions do not therefore necessarily reflect the Section's profile. • Although the discount rate is relatively optimistic, the inflation increase assumptions are very prudent; in particular the Council has not applied an inflation risk premium (IRP) deduction to the inflation measure. The general market trend is to allow for an IRP. Had a typical IRP deduction been applied, the liability value could be approximately £35m lower. • No expected return on assets assumption has been provided. Although this assumption is not relevant under the revised IAS 19, it will be needed to quantify the impact in the FY14 accounts of adopting the revised IAS 19. • LGPSs are not sectionalised – the values of the assets and liabilities in respect of each participating employer (i.e. for each section) are determined only once every three years, the most recent valuation being as at 31 March 2010.

1. Significant audit risks

Revaluation of properties	
G1 **We consider the Council's valuation of fixed assets to be reasonable**	The Council's substantial portfolio of property assets is subject to a rolling five year revaluation programme. In the 2012/13 year the Council undertook a detailed revaluation of assets with a carrying value of £75.0m, which equates to 10.0% of the £747.1m carried in the balance sheet value for property, plant and equipment at 31 March 2013. The revaluation of council dwellings (held within the Housing Revenue Account (HRA))was performed using indices provided by the Land Registry to the housing stock in order to update this valuation for the year ended 31 March 2013. In 2012/13 the Accounts presented for audit showed a reversal of impairment of £8.5m for Other Land and Buildings and £0.5m impairment on HRA Other Land and Buildings. • General Fund: an impairment of £2.7m was taken on other Land and buildings, compared to £4.6m in 2011/12. At a portfolio level, other land and buildings have shown a 4.2% reduction in value. This is in line with what we would expect for the types of assets valued. • Council Dwellings: the HRA has incurred an impairment of £0.5m and a reversal of impairment of £11.2m, compared to an impairment of £1.5m in 2011/12. This as a result of a 6.5% increase in the house prices in the borough to 31 March 2013. • Investment properties: the value of the portfolio has increased by 11.57% mainly due to higher rentals arising fromrent reviews on these properties during the year.
Deloitte response	We engaged our property specialists Deloitte Real Estate (DRE) 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, werereasonable. The Depreciated Replacement Cost (DRC) method is normally only applied for specialised assets where there is no market-based evidence of fair value. We recommend that the valuer considers whether DRC is almost the most appropriate methodology to use. Valuation cross checks are also recommended e.g. value per space or per square foot to ensure that the valuation is reasonable. One misstatement was noted in the HRA valuation of £0.7m due to movement in the Housing Price Index used for the revaluation, between the date of the preparation of the revaluation and the date of the audit. This has been included in appendix 1. We have also identified a control observation related to the DRC method. For further information refer to section 3. As part of our testing we also considered whether there was any evidence of impairment to assets which might mean the carrying value of other assets was not appropriate. Management have provided us with evidence of their impairment review which considered properties that weren't subject to current year revaluation.

1. Significantaudit risks (continued)

Housing Revenue Account (HRA) self-financing	
G1 **We did not identify any issues from our testing of the HRA self-financing settlement**	In the year ending 31 March 2012, the Council made an HRA self-financing settlement payment of £88.46m, 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 mitigate the impact of depreciation or impairment of HRA dwellings by reducing the impact of a portion of depreciation on the bottom line. The Council has made the decision not to use these transitional arrangements. 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.
Deloitte response	We have reviewed the estimate on the depreciation charge of HRA properties to verify that it is in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 Guidance Notes and Item 8 Determination. In the prior year, the amount used for depreciation was a formula calculation based on what the Council considered was the correct amount to put to reserves to maintain the housing stock. This value was described as the Major Repairs Allowance. In the current year, as a result of the new requirements, a true figure for depreciation has been used as calculated using Code of Practice guidelines. We have verified that the depreciation and impairment charges are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 Guidance Notes and Item 8 Determination and have not noted any material misstatements. We have worked with management to ensure that the policy disclosures in the financial statements adequately explain the change in estimate brought about by the change in guidance.

1. Significantaudit risks (continued)

Management override of controls	
G1 **We consider some of management's judgements to be at the more prudent end of an acceptable range.**	International Standards on auditing include a presumption of a risk of management override of key controls which cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to prevent inaccurate or even fraudulent financial reporting.
Deloitte response	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 could be indicators of possible fraud and to focus our testing on these. We did not identify any issues from the work carried out. Key accounting judgements have been reported in this document as separate significant risks, notably the valuation of fixed assets and the valuation of the pension liability. Our testing concluded satisfactorily in each of these individual areas.We highlight to the committee that, the Council shows consistent examples of prudence in its application of judgement, and the assumptions made are within the acceptable range (as set out at the table at the start of Section 1). From the work performed on the employment/redundancy provision, our testing concluded that there were no material misstatements and the judgements applied were reasonable.A control recommendation related to the prior year provision was included in section 3. There were also no significant unusual transactions in the reserves note from the testing performed. There was prior period adjustment of £12.8m to opening reserves due to the correction of the net book value of a number of assets. Two new reserves were created in the current year: a Business Risk reserve of £1.7m and a MTFS (medium term financial strategy) Implementation Cost reserve of £4.8m. We have reviewed the nature of these reserves and are satisfied that they do not currently meet the criteria for recognition as provisions in the financial statements. We consider management's application of judgements to be materially reasonable and did not identify any instances where the business rationale was not clear.

2. Value for money conclusion

Scope of our work

Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether the London Borough of Harrow 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 auditors’ VFM conclusion	Focus of the criteria for 2013
The organisation has proper arrangements in place for securing financial resilience.	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 has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Approach to our work

We draw sources of assurance relating to our VFM responsibilities from:

- the audited body's system of internal control as reported on in its Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review agencies to the extent that the results come to our attention and have an impact on the our responsibilities;
- any work mandated by the Commission – of which there was none in 2012/13; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

Risk assessment

Our preliminary assessment identified two potential risks in relation to our VFM responsibilities, which we reported in our audit plan. These related to:

- Low level of reserves; and
- Lack of capacity in the finance department.

In our audit plan we said we would undertake a wider risk analysis but also pay specific attention to these areas. We have done this and report our findings below.

2. Value for money 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. A spending protocol was issued in 2012/13 and operated for the remainder of the year which resulted in a net under-spend against budget without impacting the achievement of operational plans for 2012/13.

Benchmarking against other London Boroughs, using information provided by the Audit Commission, highlights that the Councilhas a low spend per head and that the Council has low grant-funding – which reduces the impact that future central cuts can have on the Council.

Reserves have been increasing steadily over the last two financial periods as a result of close monitoring of spending within the Council.

The Medium Term Financial Strategy (MTFS) approved in February 2013 was balanced for the first two years of the four year period ending 2016/17. This decreases the risk that reserves will be required in balancing the budget in the near future. That being said, the risk remains that the savings planned in the MTFS are not realised. There is also a remaining risk related to the unbalanced budget for the last two years of the MTFS.

The Council has used their position as a low spending body to drive relationships with third parties,such as other Councils. With limited reserves, they will need to continue to monitor results against budget on an on-going basis and controlling costs against budget as envisioned in the MTFS.

Lack of capacity in the finance department

During the year there were a number of staff movements in the finance function, and a number of key members are currently nearing the end of their employment (either due to resignation or due to retirement). A new Director of Finance and Assurance was also appointed during the year.

The finance team has been restructured during the year; although the total heads remain comparable, the structure of the team has changed as a result. These changes arebeing sufficiently managed by the new Director of Finance and Assurance, who has the relevant skills and experience andis highly engaged in the finance function.

Overall conclusion

On the basis of the work detailed above, and supplemented by more general enquiries such as reviewing the matters reported in the Annual Governance Statement, and other matters which came to our attention, we concluded that there were no significant risks which required us to carry out furtherwork and we propose to issue an unqualified VFM conclusion.

3. 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 March 2013.

Key controls over significant risks

In Section 1 we discussed the identified significant audit risks. For each of these significant audit 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
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 raised a recommendation in the prior year in relation to thecentral monitoring of grants. There is now a central register maintained which we have obtained and reviewed. This is only collated at year end, and could be improved by collating this throughout the year as grants are awarded.	A
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. We are aware of a change in staff in this area of finance that will impact on this area going forward. We have made recommendations on methodology improvement in section 1.	G
Revaluation of properties The property portfolio is revalued on a 5 year rolling basis internally, in accordance with the RICS Appraisal and Valuation Standards. Accounting entries for the revaluations are then recorded by the Finance team.	We have considered the competence of the internal valuers and verified that the revaluations are appropriately recorded. We identified one instance where the valuer was using a different approach to that expected, albeit reaching the same conclusions.We have made a control recommendation later in this section.	A/G

G No issues noted A Requires improvement R Significant improvement required

3. Risk management and internal control systems (continued)

Council controls in operation	Deloitte procedures on controls	Conclusion
Management override of controls - journals Management is aware of key controls and judgements and has detailed these in the accounting policies. Hierarchical controls are in place with journals.	We have considered the key judgements highlighted by management and tested the design and implementation of controls around manual journals. We would recommend that management review journals before posting.	A
Management override of controls - isolated provisions Where management do not have the expertise to assess the value of the provision, third party experts are engaged (such as for the Municipal Mutual Insuranceliability). 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 have reviewed the working papers supporting the justification and value of the employment provision.	G

3. Risk management and internal control systems (continued)

Risk management and control observations

We have identified a number of control observations, the most significant of which are detailed below:

1. Authorisation of Journals	
Description	Our journal testing highlighted that journals over £20,000 are required to be authorised and reviewed on an ad-hoc basis. We noted that journals are often only authorisedafter they have been posted, and as such the controls around authorising journals have scope for improvement.
Recommendation	Authorisation of journals should be performed prior to the posting of the journal and evidenced by dated signatures of personnel with the appropriate authority to authorise journals.
Management response	System developments are already underway to ensure all journals are validated before posting.
Timeframe:	October 2013
Owner:	Head of Technical Finance and Accounting

3. Risk management and internal control systems (continued)

2. Adoption of Government Financial Reporting Manual (FReM) Requirements in Explanatory Foreword	
Description	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. In the Council's 2012/13 Accounts, the FReM requirements have not been adopted in the Explanatory Foreword.
Recommendation	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. It is recommended that the Council adopts the new FReM requirements in the Explanatory Foreword to the Accounts and includes additional disclosures.By electing to prepare an Explanatory Foreword in accordance with the requirements of the FReMthe Council would need to disclose the matters required for disclosure under section 417 of the Companies Act 2006. In doing so, it is recommended that the Council takes 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.
Management response	Work is in progress to ensure the disclosure requirements of FReM are met for 2013-14 accounts.
Timeframe:	April 2014
Owner:	Head of Technical Finance and Accounting

3. Risk management and internal control systems (continued)

3. Use of Depreciated Replacement Cost methodology on Valuation of Assets	
Description	Depreciated Replacement Cost(DRC) methodology has been applied in the valuation of certainLand and Buildings.Where there is no market-based evidence of fair value because of the specialist nature of an asset, DRC is used as an estimate of fair value. Where the DRC method has been used, the specialist nature of the asset should be considered to ascertain whether DRC is the most appropriate method, as this method is of last resort and is only to be relied on if it is impractical to produce a reliable valuation using other methods. From the testing performed around the revaluation of assets, it was noted that for one asset, DRC was applied although it not the most appropriate methodology, as we believe there would be a market for this building assuming vacant possession. The impact, however, was not material.
Recommendation	There should be consideration of the most appropriate methodology applied in valuing each asset as DRCmay not be the most appropriate valuation methodology. Valuation cross checks are also recommended e.g.: value per space or per square foot to ensure that the valuation is reasonable.
Management response	The comments will be discussed with the valuation team and taken into account where considered appropriate in forthcoming valuations.
Timeframe:	By 1 April 2014
Owner:	Head of Service Corporate Estate

3. Risk management and internal control systems (continued)

4. Timely addressing of Complaint Investigations	
Description	It came to our attention during the course of our audit procedures that an investigation relating to a councillor's personal conduct had not been concluded. The related complaint about the councillor's behaviour had not been referred to the Standards Committee in a timely manner. This was due to a transition period where the responsibility moved from an individual that was being made redundant to the Director of Finance and Assurance. As a result of this having been discussed at length during the audit, we understand that the matter was dealt and concluded in the September Standards Committee, however the recommendation remains.
Recommendation	The Council must ensure that all complaints relating to councillors' conduct are addressed on a timely manner and using the established reporting protocols. Additionally the Council should ensure that there is full hand over of duties where those in senior posts leave and that these individuals are not making key Council decisions in their notice period.
Management response	Reporting lines will be reviewed for such cases to ensure that changes in structures do not in future impinge on the timeliness of complaints being passed to the Standards Committee.
Timeframe:	September 2013
Owner:	Director of Finance and Assurance

3. Risk management and internal control systems (continued)

5. Overstatement of prior year redundancy provision	
Description	In the prior year a redundancy provision was created, amounting to £3.8m, of which only 28% was utilised in the current year. This resulted in a net credit to the Comprehensive Income and Expenditure Statement (CIES) in the current year. The impact of the prior year overstatement of the redundancy provision is effectively recognition of expenses in the prior period that related to the current period.
Recommendation	We recommend that provisions are reviewed at year end to determine whether they are in line with the requirements of International Financial Reporting Standards and that they represent management's best estimate of the potential liability at year end.
Management response	The estimates and funding required for future redundancy payments were reviewed thoroughly as part of the 2012-13 closing process and classified between provisions and reserves in line with the requirements of IFRS
Timeframe:	Already in place as part of 2012-13 closing process
Owner:	Head of Technical Finance and Accounting

3. Risk management and internal control systems (continued)

6. 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. Errors found in the course of the prior year 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. Without an accurate cash value being available for each organisation at a point in time it is difficult for the organisations to prioritise its resources their resources if funds are not allocated between organisations.
Management response	Processes and controls were already in place for 2012-13 to capture the correct cash balance and this will continue for the 2013-14 financial year. From 1 April 2014, WLWA are going to use a separate accounting system along with separate bank account and VAT registration.
Timeframe:	April 2014
Owner:	Director of Finance and Assurance

3. Risk management and internal control systems (continued)

7. Increased use of SAP to reduce manual journals – a prior year recommendation	
Description	There are a significant number of complex high value journals required to reconcile the day-to-day accounting ledger to the reported position and results in the financial statements.
Recommendation	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	Systems development already in progress. A number of improvements will be implemented for 2013-14 closure process. The development work will continue in to 2014-15.
Timeframe:	Ongoing
Owner:	Head of Technical Finance and Accounting

3. 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 2010/11 year, but have not yet been fully addressed:

2010/11 Finding	Status		2011/12 Year Audit Update	2012/13 Year Audit 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.	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.

4. Independence

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

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

Non-audit services	
We confirm that our independence is not compromised by our provision ofnon-auditservices.	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors, the Audit Commission's additional instructions in relation to independence and non-audit services provided.

Fees	
The level of non-audit fees is within appropriate guidelines.	An analysis of professional fees earned by Deloitte in the year from 1 April 2012 to31 March 2013 is included in appendix 2.

5. Responsibility statement

This report should be read in conjunction with the "Briefing on audit matters" circulated to you in March 2013 and 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 board and this report is not necessarily 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 London Borough of HarrowGovernance, Audit and Risk Management Committee, 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. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Deloitte LLP

Deloitte LLP

Chartered Accountants

St Albans

12September 2013

Appendix 1: Audit adjustmentsand prior period adjustment

Uncorrected audit adjustments

Description	Assets DR / (CR) £	Liabilities DR / CR) £	Equity DR / (CR) £	Income Statement DR / (CR) £
HRA Revaluation difference due to change in HPI between preparation of account and audit date	728,528		(728,528)	

Correctedaudit adjustments

We identified no adjustments to the draft financial statements,over our threshold for reporting to you.

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 have not identified any significant disclosure misstatementsthat warrant disclosure to the GARM committee.

We are finalising our review of the financial statements at the time of writing and we will provide an update on the position at the meeting. This will take account of any events up to the date of approval of the financial statements that may need to be taken into account.

Prior period adjustment

A prior period adjustment of £12.8m has been made by the council in the 2012/13 Accounts. This arose from the incorrect application of the useful economic life and the resultant under-charging of depreciation in prior periods. This adjustment corrected the net book value of the assets.Typically a change in useful economic life would be accounted for prospectively and hence management have applied judgement in concluding that the original useful economic life was in fact allocated in error.

Appendix 2: Independence – fees charged during the year

The professional fees earned by Deloitte in respect of the period 1 April 2012 to 31 March 2013 are as follows:

		2012/13 £'000	2011/12 £'000
Fees payable in respect of our work under the Code of Audit Practice	[1]	193	271
Fees payable in respect of our work under the Code of Audit Practice – extensions to audit work	[2]	8	12
Fees payable in respect of the WGA return		5	5
Fees payable in respect of the certification of grants	[3]	43	110
Fees payable in respect of our work on value for money/use of resources	[4]	-	54
Fees payable in respect of our work under the Code of Audit Practice in respect of the Pension Fund		21	35
Other	[5]	16	-
Audit services provided		286	487

[1] The2012-13scale fees that the Audit Commissionhas setinclude 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.

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

[3] For 2012-13, the Audit Commission has replaced the previous schedule of maximum hourly rates with a composite indicative fee for grant certification work. 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.

[4] For 2012-13, the VFM conclusion work does not have a separate fee allocated to it by the Audit Commission.

[5] Other relates work for the 2011-12 audit and relates tooverruns charged additional workrequired to finalise the audit of the financial statements.

At the time of writing we are working on queries received in relation to the proposed development of Whitchurch Playing Fields for which we have not yet agreed a fee with management.

Appendix 3: Management representation letter

This representation letter is provided in connection with your audit of the financial statements of London Borough of Harrowfor the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of London Borough of Harrow as of 31 March 2013 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the applicable accounting framework and the Accounts and Audit Regulation 2003 (as amended).

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, as set out in the terms of the audit engagement letter.
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of *IAS24 "Related party disclosures".*
4. 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.
5. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to this letter.[*This appendix has not been included in this report as these are detailed in Appendix 1]*
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. We are not aware of events or changes in circumstances occurring during the period which indicates that the carrying amount of fixed assets or may not be recoverable.
8. Except as disclosed in the Statement of Accounts, as at 31 March 2013 there were no significant capital commitments contracted for by the Council.

Appendix 3: Management representation letter

9. *We are satisfied that the holiday pay accrual represents our best estimate of the holiday pay liability as at 31 March 2013.*

10. *We are satisfied that the banking arrangements in place between London Borough of Harrow and West London Waste Authority are deemed to be satisfactory and that no material qualitative or quantitative error arises in the Council's records as a result of control weaknesses identified in the year.*

11. *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.*

12. *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 2012/13.*

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

14. *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 2012-13, and our most accurate available information on the valuation of these assets.*

15. *We confirm that there are no under-utilised assets and that there are no plans in place to demolish or make any changes to assets which would cause a change in carrying value.*

16. *The annual governance statement is representative, to the best of our knowledge, of the events arising, activities undertaken and performance of the Council in the financial year.*

17. *We are satisfied as to the appropriateness and reliable operation of the new control environment that has been implemented as a result of the closing of account codes which were still live in the prior year.*

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

Appendix 3: Management representation letter

Information provided

19. We have provided you with:

    - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
    - Additional information that you have requested from us for the purpose of the audit; and
    - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

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

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

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

23. 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.

24. We are not aware of any fraud or suspected fraud thataffects 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.

25. 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.

26. We are not aware of anyinstances of non-compliance,or suspected non-compliance, with laws, regulations and contractual agreementswhose effects should be considered when preparing financial statements

27. 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.

Appendix 3: Management representation letter

28. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. On the basis of legal advice we have set them out in the attachment with our estimates of their potential effect.

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

30. 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 Board of Directors