London Borough of Harrow

External audit report to the Governance, Audit, Risk Management and Standards Committee on the audit of the year ended 31 March 2014

10 September 2014

Contents

I am delighted to present this report for the 2013/14 audit of the London Borough of Harrow

(Paul Schofield, Audit Partner)

A reminder of our audit plan:

- Materiality set at £7m
- Threshold for reporting misstatements set at £350k
- Significant risks over recognition of grant income and management override of controls.
- We have taken a substantive audit approach in accordance with our plan.

The findings from our work on the pension scheme will be provided in a separate report. Our grant certification work is ongoing and our conclusions on this will be reported to the Governance, Audit, Risk Management and Standards (GARMS) Committee in January 2015. To date we have identified no findings that would impact our audit opinion.

The big picture

The big picture

Significant audit risk	Conclusion
Grant income recognition	Grant income is a significant audit risk due to the requirement for management to consider each type of grant individually to consider appropriate treatment, and the associated judgement in relation to this. Grant income was £406.7m for the year (2012/13 £400.6m). Our testing concluded that grant income recognition is reasonable.
Management override of controls	We have not identified any material weaknesses in controls or any evidence of undue bias where management override takes place. In addressing this risk we consider journals and other areas of judgement, for example the new business rates claim provisioning.

Other areas of responsibility	
Value for Money (VFM)	In our audit plan issued on 14 March 2014, we communicated our preliminary assessment that we had not identified any significant risks in relation to our VFM responsibilities. We have since performed additional procedures to take into consideration any developments since our planning work was undertaken. This work did not identify any risks that have not been mitigated and so we anticipate issuing an unqualified VFM conclusion.
Annual Governance Statement	We are required to consider the completeness of the disclosures in the Annual Governance Statement and consider any inconsistencies between the disclosures and the information we are aware of from our work on the financial statements, value for money conclusion and any other procedures undertaken.
Whole of government accounts	The deadline for the audited return is 3 October 2014. We intend to complete our work in relation to the WGA to enable us to issue our assurance statement on the WGA return and our opinion on the financial statements at the same time.
Certification	We have issued our audit certificate on the 2012/13 financial statements on 5 September 2014. In the absence of receiving any enquiries from residents in relation to 2013/14 we expect to certify those financial statements at the same time as issuing our audit opinion and WGA assurance statement.
Pensions audit and grant certification	The pensions audit work is substantially complete and is summarised in a separate report presented to you. Grants certification procedures are ongoing and findings will be reported to you in January 2015 after completion of this work. The status of this work is consistent with previous years and does not prevent us issuing our opinion on the financial statements.

Audit progress and areas to complete

The following remaining areas remain outstanding at the date of this report and need to be completed in order to finalise the audit:

- Finalisation of amendments to the financial statements
- Completion of our work on the WGA
- Completion of internal quality assurance procedures
- Updating our review of events since 31 March 2014
- Receipt of signed management representation letter
- Receipt of remaining legal confirmation letters

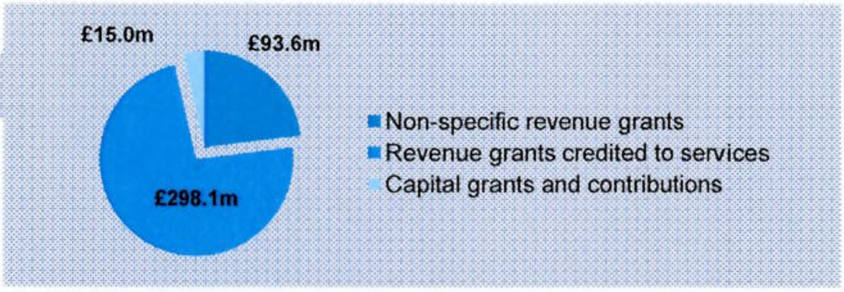
We will update you at the GARMS meeting on 17th September on our conclusions in relation to these matters.

Significant audit risks

1. Grant income recognition

We consider grant recognition to be accurately accounted for

	Income (£m)
2013/14 Actual	**£406.7m**
2012/13 Actual	**£400.6m**



Nature of risk

We identified recognition of grant income as a significant risk due to:

- complex accounting for grant income, as the basis for revenue recognition in the financial statements will depend on guidance associated with each individual grant; and
- significant management judgement over determining if there are any conditions attached to a grant, and whether conditions have been met.

Total grant income recognised in the 2013/14 year is £406.7m (2012/13 £400.6m), and total capital grants deferred on the balance sheet in the 2013/14 year is £11.4m (2012/13 £2.4m).

Key judgement areas, its impact on the financial statements and our audit challenge

To address this risk we tested the design and implementation of key controls regarding the way in which the Council manages and recognises grant income. We did not identify any issues from this work, in the previous couple of years the central monitoring by Corporate Finance has improved significantly.

We performed detailed testing on a sample of revenue and capital grants received in the year. This involved reviewing the grant agreement and other correspondence associated with each grant selected, and then undertaking testing to assess whether the Council had recognised income in accordance with the CIPFA Code, the grant agreement and other correspondence. Where the grant was conditional on the Council spending the grant in a specific way, we obtained evidence that the conditions had been met. Furthermore, where carry forward amounts were recognised on the balance sheet, we performed a reconciliation of the movements in the year for the relevant grants.

No significant issues were identified from our detailed testing.

Deloitte view

Our testing did not identify any errors or issues.

2. Management override of controls

We have not identified any instances of undue bias in management override of controls

Nature of risk

International Standards on Auditing require us to presume a significant risk in relation to management override of key controls.

Our audit work is designed to test management override of controls and key estimates and judgements. We identified key judgements around the provision for NNDR appeals, valuations and the pensions liability to be areas of risk and have discussed our approach and findings in this area on the following pages. In this section, we will consider broader risks of management judgement.

Audit work completed to address this risk

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and specific judgement areas as per below:

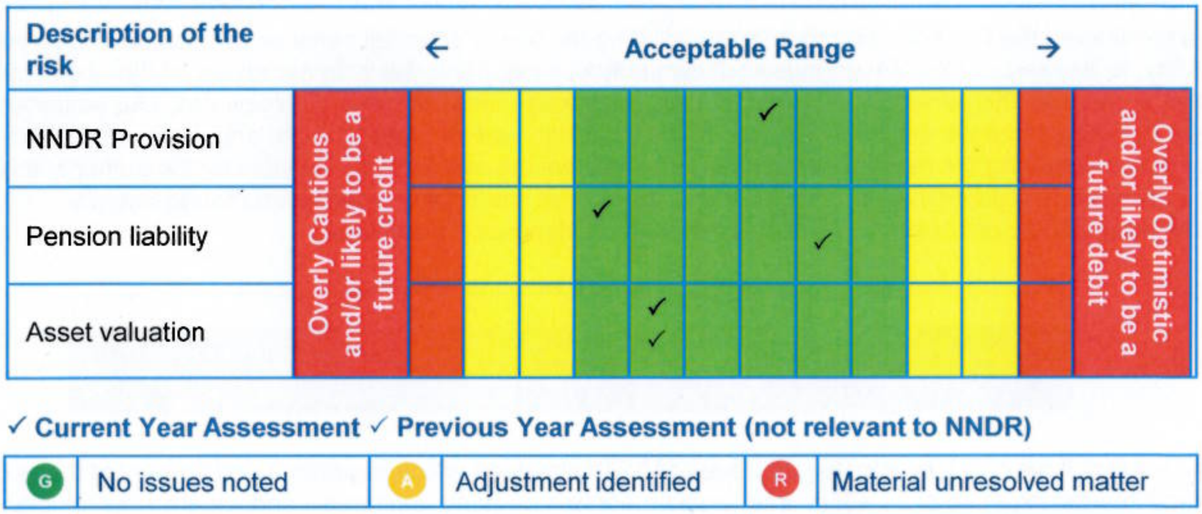
Journals

We have reviewed the Council's total population of manually entered journal entries for the year to 31 March 2014 and used analytic techniques to select a sample of journals with characteristics that may be indicative of a higher risk of fraud (for example, journals posted on a weekend, round number journals, duplicate journals etc.). We tested a sample of journal entries made throughout the year and to obtain assurance that entries had been properly authorised and reviewed, and that they made clear business sense.

Our testing did not indicate any instances of undue bias in management override of controls

We did not identify any significant transactions outside the normal course of business or transactions where the business rationale was not clear.

Accounting estimates



The key estimates are discussed further on the following page and we consider the judgements taken to be acceptable. In the course of our work we also considered the reasonableness of provisioning methodology (e.g. in relation to bad debt and restructuring) and identified no cause for concern or indication of bias.

Deloitte view

No errors in excess of our reporting threshold were identified from this work.

3. Areas of judgement

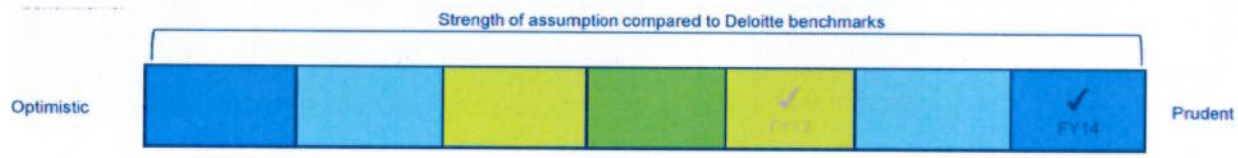
Management judgement is required in relation to the following areas

Localisation of business rates

- The Government introduced a business rates retention scheme from 1 April 2013. The intention behind the scheme is to provide a direct link between business rates growth and the amount of money councils have to spend on local people and local services.
- The introduction of the scheme required the Council to make new or changed accounting entries. We have performed substantive testing on business rates, and not identified any material misstatements or significant disclosure deficiencies.
- The accounting and estimation processes for appeals against rateable values require the exercise of management's judgement, this is especially challenging in this first year where there is limited experience of appeals and limited externally available data for management to base their assumptions on. We discussed with management the process followed to calculate a provision for appeals, which we also tested for completeness and accuracy based on a review of the calculation and challenge of the assumptions made by management. Management prepared more detailed calculations as a result of this challenge. The Valuation Office has not issued claim data since October 2012 and as such we believe the provision to be understated as a result of this, however our own provision estimate reflecting potential claims up to 31 March 2014 did not identify an understatement in excess of our reporting threshold.

Valuation of pension liability

- 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. This is not considered to be a significant risk as this does not impact the general fund, which is a key focus of users of the financial statements.
- The net liability relating to the pension scheme is substantial, amounting to £338m at 31 March 2014 (£323m at 31 March 2013), 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.
- 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 of the reasonable range. In assessing the reasonableness we identified that the assumptions adopted by the authority this year were more prudent than in the prior year – as a result, the difference between management's assessment of the provision (£338m) and our benchmark position was £79m.



- The Council have correctly adopted the revised IAS19 standard, which required a restatement of the prior period interest expense of £3.435m. The restatement was deemed reasonable and we are satisfied that the related disclosure is sufficient. Typically a restatement will be the subject of a separate note in the financial statements, however we are satisfied that the explanations included in the policies and pensions note will suffice.

4. Areas of judgement

Management judgement is required in relation to the following areas

Valuation of properties

- There are a number of areas of complexity to the valuation of properties:
    - the CIPFA Code has been updated in the current year to provide clarification on the frequency of revaluation of property, plant and equipment.
    - judgement over assumptions and methodology used to value the various types of land and property.
- 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, were reasonable.
- We identified a number of findings, which have been discussed in the insights and observations section. The recommendations identified did not lead to material misstatement.
- Consistent with previous years, as at 1 April 2013, the Council Valuers have used the Beacon method to value 20% of the HRA portfolio in the current year as part of the rolling revaluation program. The remainder of the portfolio is updated to 1 April 2013 by a desktop indexing exercise using the results of the full valuation and market indices. At year end the movement in indices over the year is considered by the finance team and where material this is adjusted for at year end. We have re-performed this calculation and have noted that there was a change in the index data between the date of management's preparation and the date of our audit, resulting in a difference of £4m. Management has not adjusted for this difference and this is not included in the schedule of misstatements given the judgemental nature of this difference. In the current year the movement was only 4.1% however in another year this movement may be significantly larger and CIPFA's requirements would need to be taken into account in the valuation process.
- In addressing the changes to the CIPFA Code, management have introduced a desktop valuation process to consider the valuation at 1 April 2013 of those assets in the 4th year since revaluation (20% of the general fund portfolio is subject to a full valuation each year) and those with a brought forward value of over £2m. The value of those other land and buildings not revalued at 1 April 2013 was £59m. Management consider that there has been no material change in the period since the last valuation and 31 March 2014. We have considered the results of management's impairment review of individual assets, together with build cost and market indices providing information on general price change. No issues were identified from this testing. CIPFA discourages the use of indices without the involvement of a valuer.

Value for money conclusion

1. Value for Money (VfM)

We anticipate issuing an unmodified audit report in respect of the VFM conclusion

Background

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".

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2014
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.

Audit work completed to address the significant risk

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

- the Council'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 our responsibilities;
- any work mandated by the Commission – of which there was none in 2014; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

Procedures performed

In our audit plan issued to you on 14 March 2014, we reported that we had undertaken a preliminary assessment and had not identified any risks to our value for money conclusion that required further work to be performed. However, we also reported that we would need to consider any additional sources of information subsequent to the date of issuing our planning report.

Additional information considered includes the Head of Internal Audit annual report, cabinet and audit committee papers, and the draft annual governance statement, as well as the results of our own audit procedures and the year end outturn reported by the Council in the draft financial statements.

Specific areas of follow-up as part of the procedures noted above included the actions taken in response to the low level of reserves, the future funding gaps highlighted in the MTFS, and the potential reinstatement of the CEO post. These have been further discussed on the following page.

On completion of these procedures we concluded that there were appropriate controls in place to secure value for money. On the next page we set out in more detail the specific areas we considered in reaching that conclusion. We expect to issue an unqualified value for money conclusion.

2. Value for Money (VfM)

We anticipate issuing an unmodified audit report in respect of the VFM conclusion

Low level of reserves

- The Council has low reserves to draw on in challenging economic times. We have used the Audit Commission's Financial Ratios tool which confirms reserves are low compared to other London boroughs. However in the last 5 years the council has performed at or better than budget as a result of a strict spending protocol and has gradually increased its reserves.. Additionally the budget is balanced for 14/15, although we have noted an increase in forecast funding gaps in 15/16 and 16/17, which are discussed below. Approved savings of £12.9m built into 2014/15 budgets are on track to be achieved.
- Benchmarking against other London Boroughs, using Audit Commission data, highlights that the Council has a low spend per head and has low grant-funding – this reduces the impact that future central cuts can have on the Council but also limiting the ability of the council to meet future spending cuts.
- The council are starting to use their experience of low spend per head to drive relationships with third parties, for example pooling of resources and back office functions. However with limited reserves they will need to continue to monitor results against budget on an ongoing basis and deploy the spending protocol where necessary. Funding gaps in future years have a significant bearing on the options available to the authority as the reserve position is not strong.
- Notwithstanding the future funding gaps (discussed below), we are satisfied that the authority's historic ability to manage their finances within budget does not make this an area for qualification.

Future funding gaps

- We have reviewed the latest MTFS, and all cost savings programmes to address this risk. The latest MTFS (February 2014) shows funding gaps of £24.75m and £20.8m for 15/16 and 16/17 respectively, although the Council are developing proposals to address these gaps which we have discussed with the S151, the Head of Paid Service and the Leader of the Council. These discussions confirmed that members and officers are fully involved and supportive of achieving these plans. We also note that a balanced budget was set for 14/15. As above, the authority has a strong track record of delivering their savings plans.
- Since February 2014 the Council have developed a savings plan of approximately £75m in the next 4 years, which is due to be formalised in October 2014. The plans consist of a number of different strategies, which we have reviewed in detail and consider achievable. The immediate focus of this savings plan is to address the funding gaps in the next 2 years.
- The Council has demonstrated that they are considering innovative measures to reduce the funding gaps. The cost saving measures are reported on a monthly basis by management and quarterly to cabinet, which highlights that the funding gaps are being monitored and considered meticulously.

CEO Position

- Reinstatement of CEO post is currently under review, having been deleted in December 2013 by the former council and replaced with the appointment of 'Head of Paid Services'. At the time the deletion of CEO was made we considered the threat this would have to the authority achieving ongoing value for money and were satisfied that the responsibilities of the new post holder addressed those risks. The cost of this post is circa £200k per annum, so the monetary impact is not considered material in the context of the audit.
- There have been no instances of control weakness identified during our detailed audit work as a result of the deletion of the post in 13/14. However, the post had only been deleted for 4 months of the financial year.
- If the post is reinstated in 14/15, whilst the cost per annum is not material to the council there could be public challenge in relation to reinstatement of a post that was previously determined as surplus to requirements. If the post remains deleted, the value for money risk should be monitored to ensure no lack of control is identified, and new lines of responsibility do not result in bias across the directorates.

Insight and observations

Our observations on your financial statements and annual governance statement

We have reviewed the Council's annual governance statement and financial statement disclosures and suggested some changes to management

Annual Governance Statement

We have read the annual governance statement and considered against other sources of information we have reviewed as part of our audit procedures. We have suggested some changes which management has accepted and amended in the subsequent version of the Annual Governance Statement.

Financial statements

We considered the draft financial statements presented for audit to be complete. The explanatory foreword has been developed from the prior year and is of a good standard. As part of our procedures we have proposed a number of amendments to the presentation and disclosure of the draft financial statements. We consider the majority of these to be minor in nature, but have identified the more significant changes made in Appendix 1.

Internal control observations

We have identified risk management and control observations which we have discussed with management, the most significant of which are detailed below:

<table>
<tr><th>Description</th><th colspan="2">Observation and Deloitte recommendation</th><th>Status</th></tr>
<tr><td rowspan="3">Property valuations</td><td colspan="2">Whilst undertaking detailed testing on the Council's asset valuations, we identified a number of recommendations:

• Componentisation de minimus level: The Council have a £4m threshold for componentisation when considering the depreciation of buildings. This was agreed between Deloitte and Harrow on IFRS conversion in 2010/11. Sector best practice that has emerged since conversion suggests that a lower threshold should be determined. Although there is no guidance provided by CIPFA on the level an authority should adopt, our expert valuers (DRE) have recommended that the council lower the threshold to £1m to cover approximately 25%-30% of the portfolio (currently 5%).

• The approach to applying obsolescence to buildings is not defined: The Council's valuers consider the depreciation of buildings based on the physical nature of the building as well as the functionality and economic obsolescence. We would recommend in future that the valuers are more explicit in how they reflect obsolescence. Best Practice reflects separate factors for physical, functional and economic to show a more transparent approach.

• Reflecting purchasers' costs in valuations: We noted that where car parks have been valued using the investment basis, a 5% deduction has been applied to the value to reflect purchase costs. There is an expectation that purchasers' costs should be reflected in valuations at 5.8% to more accurately reflect actual stamp duty costs and associated fees.</td><td rowspan="3"></td></tr>
<tr><td colspan="2">Management response
• Componentisation de minimus level – Over the past few years the asset values have increased due to revaluations and therefore the current threshold of over £4m covered approximately 36% of the total land and building assets which were considered for componentisation during 2013/14. As agreed with the auditors in 2010/11 a review of the policy will be carried out on a regular basis which is due in 2014/15. The threshold for de minimus level will be considered as part of the materiality review.

• Obsolescence – Comment noted. Valuers have followed the guidance in GN6 of the Red Book, March 2012 where there is no absolute requirement to separately consider the different categories of obsolescence to avoid double counting. The assets, in the majority schools, that are valued under DRC are not subject to economic obsolescence due to the shortage of school places. The remaining elements of obsolescence, physical and functional, are, in the opinion of valuers, too closely linked to be able to separate without resulting in double counting, as discussed in paragraph 9.14, hence the use of a single obsolescence factor.

• Purchasers costs – comment noted and an appropriate percentage will be applied to the cost depending on the stamp duty thresholds.</td></tr>
<tr><td>Timeframe: 2014/15 valuation</td><td>Owner: Head of Service Corporate Estate and Head of Technical Finance and Accountancy</td></tr>
</table>

Key: Completed | Partially complete | Not yet completed

Internal control observations

We have identified risk management and control observations which we have discussed with management, the most significant of which are detailed below:

<table>
<tr><th>Description</th><th colspan="2">Observation and Deloitte recommendation</th><th>Status</th></tr>
<tr><td rowspan="3">Infrastructure Assets</td><td colspan="2">As part of our substantive testing of PPE we selected a sample of infrastructure assets from the fixed asset register to gain assurance over their physical existence. For 13 of the 15 in our sample, we were unable to trace from the fixed asset register to the records maintained by the infrastructure department and as a result we performed alternative procedures to gain assurance over this balance. We concluded that there is insufficient linkage between the records maintained by the infrastructure department and the labelling of assets on the fixed asset register. There is a risk that assets have been disposed of or replaced and the financial records have not been not updated.

We recommend that a reconciliation between the fixed asset register and the infrastructure department records is maintained, and that assets are labelled on acquisition in a sufficiently detailed manner to ensure they can be identified throughout their lifetime.

There are expected changes to infrastructure accounting in the 2014/15 accounting code, which should be considered when implementing this recommendation.</td><td rowspan="3">•</td></tr>
<tr><td colspan="2">Management response
Due to the nature of these assets (e.g. Roads, Bridges, etc.), the disposals are very unlikely. However, robust disposal procedures are already in place so any disposals are accounted for correctly in the asset register. The depreciation, policy reflects the general life of these assets and any significant capital programme to replace this class of asset is reviewed to ensure that the asset is not materially misstated.
As part of the implementation of Infrastructure accounting code for the 2016-17 accounts, the fixed asset register will be reviewed to ensure it complies with the code and the asset management plan on infrastructure.</td></tr>
<tr><td>Timeframe: 2015/16</td><td>Owner: Head of Technical Finance and Accounting</td></tr>
</table>

Key: Completed | Partially complete | Not yet completed

Internal control observations

We have identified risk management and control observations which we have discussed with management, the most significant of which are detailed below:

Description	Observation and Deloitte recommendation	Status
Maintenance of creditor ledgers	We have reviewed the creditors ledgers in detail as part of our substantive audit procedures. We identified a number of debit items relating to credit notes, which had not been cleared from sundry accounts payable ledger. When a credit note is received, the system applies this against the next invoice to be paid to that supplier until the credit note amount is cleared. If there are no invoices to pay at the time then it remains as a debit until an invoice is received. As a result where transactions between a supplier and the council have ceased, debit items remain on the ledger indefinitely. The aggregated debit amounts are not material (£344k), however the balance is accumulating on this account each year. We recommend that the ledger is reviewed periodically, and debits balance cleared with former suppliers where possible. **Management response** Procedures will be implemented for a regular review and recovery from the suppliers. **Timeframe:** 2014/15 **Owner:** Shared Services Service Manager	

Description	Observation and Deloitte recommendation	Status
Cost Centre Allocation	We identified limited controls over the allocation of transactions to the appropriate cost centres in relation to income, which resulted in year on year differences in allocation. There is a need for consistency to allow Corporate Finance to make meaningful review of management reporting. The results of our testing however has not identified a material misstatement to the financial statements. In 13/14 the Council identified a VAT issue, which was caused by the incorrect allocation of income, and in the past we identified instances of grossing up of income with budgeted amounts. We recommend that controls are established to prevent posting to unauthorised accounts, and that information is circulated to the relevant employees to provide clear guidance on usage of cost centres. **Management response** As part of the SAP improvement programme, the income codes are currently being reviewed and restructured. This will be implemented in the various interfaces from the feeder systems along with training to the various user groups **Timeframe:** 2014/15 **Owner:** Head of Technical Finance and Accounting	

Key: Completed | Partially complete | Not yet completed

Internal control observations

Update on prior year recommendations made

Description	Observation and Deloitte recommendation	Status
Increased use of SAP to reduce manual journals	In 12/13 we raised a finding regarding the Council's accounting software (SAP), which we deemed was not set up in a way to facilitate a clean and swift year end close the books process. We recommended the system be improved/developed in 13/14. The system has not been significantly changed in 13/14, and thus we consider that this recommendation is not yet completed. **Management update on recommendations not yet implemented** Limited progress during 13/14 resulting from a pending decision on future of SAP and the upgrade which halts all the development work for approximately 4 months.	

Description	Observation and Deloitte recommendation	Status
Adoption of FReM	In the Council's 2012/13 Accounts, the FReM requirements were not adopted in the Explanatory Foreword. We recommended that the Council adopted the new FReM requirements in the Explanatory Foreword to the Accounts and includes additional disclosures. In our review of the 2013/14 financial statements we have noted that the Council has expanded its discussion on areas such as risk assessment procedures, performance against budget and strategic priorities of the Council. **Management update on recommendations not yet implemented** N/A – implemented	

Description	Observation and Deloitte recommendation	Status
Use of DRC on valuation of assets	In 2012/13 Depreciated Replacement Cost (DRC) methodology had been applied in the valuation of certain Land 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. Red Book Guidance is to use this as a method of last resort, and best practice would be to use the comparable method. We recommended that there should be consideration of the most appropriate methodology applied in valuing each asset as DRC may not be the most appropriate valuation methodology. In 13/14 the council adopted the following process for valuations: the valuers assess the most appropriate basis for valuation using their professional judgement. The valuations are reviewed each year by senior colleagues to ensure that the process is followed and that there is a consistency of approach. **Management update on recommendations not yet implemented** N/A - implemented	

Key: Completed | Partially complete | Not yet completed

Internal control observations

Update on prior year recommendations made

Description	Observation and Deloitte recommendation	Status
Timely Addressing of Complaint Investigations	It came to our attention during the course of 12/13 audit procedures that an investigation relating to a councillor's personal conduct had not been concluded. We recommended that established reporting protocols were followed to ensure all complaints relating to councillors' conduct are addressed in a timely manner. In 13/14 all of the S151 officer's direct reports have been advised via email that if they feel a particular issue or complaint is not being resolved in a timely manner then they have the right to raise the issue directly with the monitoring officer. Additionally, the intranet provides guidance and protocol for HR issues.	●
	Management update on recommendations not yet implemented N/A - implemented	

Description	Observation and Deloitte recommendation	Status
Separate bank accounts	In 12/13 West London Waste Authority (WLWA) did not have its own bank account; instead its transactions were processed by the Council in its account. We recommended that a separate bank account be setup for WLWA do reduce the risk of error in the cash balance. From 01/04/14 WLWA have their own bank account and accounting system.	●
	Management update on recommendations not yet implemented N/A – implemented	

Description	Observation and Deloitte recommendation	Status
Authorisation of journals	Our prior year journal testing highlighted that journals over £20,000 are required to be authorised and reviewed on an ad-hoc basis. We noted that journals were often only authorised after they have been posted. We recommended that authorisation of journals should be performed prior to posting, and this should be evidenced by dated signatures. A new email confirmation process went live in January 2014 to ensure that the relevant authorisers are alerted on creation of the journal. These require authorisation before they can be posted, which has been confirmed through our detail testing. Therefore we consider this recommendation implemented.	●
	Management update on recommendations not yet implemented N/A - implemented	

Key: Completed | Partially complete | Not yet completed

Responsibility statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Governance, Audit, Risk Management and Standards Committee discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report;
- Our internal control observations; and
- Other insights we have identified from our audit.

What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the board.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by Management or by other specialist advisers.
- Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

- This report should be read alongside the supplementary "Briefing on audit matters" circulated to you previously.
- We will update you if there are any significant changes to the audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Deloitte LLP
Chartered Accountants

St Albans
10 September 2014

This report has been prepared for the Governance, Audit, Risk Management and Standards 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.

Appendices

Appendix 1: Audit Adjustments

Corrected Misstatements

We have not identified any corrected misstatements.

Uncorrected Misstatements

We only report to you uncorrected misstatements that are either qualitatively material or exceed the clearly trivial threshold of £350,000, as set out below:

		Assets DR / (CR) £'000	Liabilities DR / (CR) £'000	Reserves DR / (CR) £'000	I&E DR / (CR) £'000
Factual misstatements					
- Debtor & Creditor Understatement	**[1]**	691	(691)		

[1] From our review of the accruals listing, we noted £691k debits that should have been posted to prepayments.

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 misstatements that warrant disclosure to the GARMS 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.

Scoping of material account balances, classes of transactions and disclosures

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 performed procedures to review and understand significant movements in all material balances compared to the prior year. We reviewed break downs of current year balances to assess whether they contained any unusual items and we considered, based on our prior year audit knowledge, whether there was a history of error in the accounts balance.

Appendix 2: Independence and fees

We confirm our independence, and set out below our audit fees for 2013/14

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

Independence confirmation	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	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	There are no other relationships with the Council and its known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

The table below details our audit fees and non-audit fees for the year ending 31 March 2014 for those services for which we have been engaged or proposed for as at the date of this report.

		Current year £'000	Prior year £'000
Fees payable in respect of our work under the Code of Audit Practice	[1]	193	193
Fees payable in respect of our work under the Code of Audit Practice – procedures performed in relation to questions and objections from residents		8	8
Fees payable in respect of our work under the Code of Audit Practice – WGA return		5	5
Fees payable in respect of the certification of grants		40	43
Fees payable in respect of our work under the Code of Audit Practice in respect of the Pension Fund		21	21
Other	[2]	-	16
Audit services provided		**267**	**286**

[1] As set by the Audit Commission 2013/14 fees remain the same as 2012/13. We are seeking a further £2,750 in relation to our work on the business rates claim provision – management have approved this amount however Audit Commission approval outstanding.

[2] Other relates to work for the 2011-12 audit. Specifically overruns charged for additional work required to finalise the audit of the financial statements.

Appendix 3: Management representation letter

The draft management representation letter for the 2013/14 audit is set out below. Non-standard representations are highlighted in italics. Any further recommendations required based on the results of our outstanding audit procedures (refer Big Picture) will be communicated separately in advance of the Audit Committee meeting.

(Council Letterhead)

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

[Date]

Our Ref: PJS/AP/2014

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of the London Borough of Harrow for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the London Borough of Harrow as of 31 March 2014 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 Companies Act 2006. We are aware that under Section 501 of the Companies Act 2006, it is an offence to mislead a company auditor.

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 do not intend to liquidate the Council or cease trading as we consider we have realistic alternatives to doing so. 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.

Appendix 3: Management representation letter (continued)

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

7. Except as disclosed in the Statement of Accounts, as at 31 March 2014 there were no significant capital commitments contracted for by the Council.

8. *We are satisfied that the holiday pay accrual represents our best estimate of the holiday pay liability as at 31 March 2014.*

9. *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.*

10. *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.*

11. *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 2013/14.*

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

13. 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 third party advice we have set them out in the attachment with our estimates of their potential effect. No other claims in connection with litigation have been or are expected to be received.

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 2013-14, and our most accurate available information on the valuation of these assets.*

15. We confirm that there are no under-utilized 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 (continued)

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 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.

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 any instances of non-compliance, or suspected non-compliance, with laws, regulations and contractual agreements whose 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.

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.

Appendix 3: Management representation letter (continued)

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 London Borough of Harrow