



Annual Audit Letter 2015/16

London Borough of Harrow

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DRAFT - October 2016



Contents

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Page

Report sections

— Headlines 3

Appendices

1. Key issues and recommendations
2. Summary of reports issues
3. Audit fees

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andy Sayers, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This Annual Audit Letter summarises the outcome from our audit work at London Borough of Harrow in relation to the 2015/16 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

VFM conclusion	We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2015/16 on 28 September 2016. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources. To arrive at our conclusion we looked at the Authority's arrangement to make informed decision making, sustainable resource deployment and working with partners and third parties.
VFM risk areas	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.</p> <p>Our work identified the following significant matters:</p> <ul style="list-style-type: none"> — The Authority has significant savings targets to achieve in the coming years. The 2015/16 MTFP taken to the February 2015 Council meeting highlighted a finding gap of c.£23m for 2016/17 and c.£15m and c.£14m in 2017/18 and 2018/19 respectively. — In addition, the Authority has low general fund reserves of £10m. — We considered the budget setting and monitoring process, including how saving targets are monitored and reported. We reviewed a sample of specific savings targets and confirmed that there was adequate challenge and monitoring of the savings throughout the year. — We also considered the level of reserves, whilst we note that the Authority's reserves are low in comparison to other London Borough's, the low level of reserves is within the Council's financial plan and is a conscious decision. At the end of 2014-15 the General Fund Reserve balance was £10m. This remained consistent throughout 2015-16. As the reserves balance has not moved in year this demonstrates that the council was able to achieve its year end position without the use of its reserves. — We found the controls in place over financial planning and budget monitoring to be robust, however we did raise two medium priority recommendations in relation to improving the monitoring and reporting process of savings going forward.
Audit opinion	We issued an unqualified opinion on the Authority's financial statements on 28 September 2016. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the pension fund.
Financial statements audit	<p>Our audit, identified a total of four audit adjustments, that required reporting, these had a total value of £12.7 million. The largest of these adjustments was for £11.7m and related to the classification of PPE assets between operational and surplus assets.</p> <p>The remaining audit adjustments were not adjusted by management as they do not have a material impact on the financial statements. These uncorrected adjustments relate to PPE and include the omission of two assets from the revaluation cycle and the miscalculation of depreciation on PFI assets.</p> <p>We raised a total of 14 recommendations as part of our audit, all apart from one have been accepted by Management and have action plans in place to ensure they are implemented ahead of the year end.</p>

Headlines (cont)

Other information accompanying the financial statements	Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.
Pension fund audit	There were no significant issues arising from our audit of the pension fund and we issued an unqualified opinion on the pension fund financial statements as part of our audit report. We raised one high priority recommendation in relation to fully utilising the Pension Fund bank account for all pension transactions.
Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.
High priority recommendations	<p>We raised three high priority recommendations as a result of our 2015/16 audit work. These are detailed in Appendix 1 together with the action plan agreed by management. Our three high priority recommendations related to:</p> <ul style="list-style-type: none"> — The quality and review of PPE; — The processing of journals; and — Fully utilising the Pension Fund bank account. <p>We will formally follow up these recommendations as part of our 2016/17 work.</p>
Certificate	There is one outstanding objection relating to the 2014-15 accounts that we inherited from the previous Auditors. This objection remains outstanding as at the date of this report. As a result the 2014-15 certificate has not yet been issued and we are unable to issue our 2015-16 certificate until this objection is closed.
Audit fee	<p>Our fee for the 2015/16 audit of the Authority was £150,725 excluding VAT and £21,000 excluding VAT for the Pension Fund. This fee was in line with that highlighted within our audit plan agreed by the Governance, Audit, Risk Management and Standards Committee in January 2016. Our fee for the certification of grant claims for Housing Benefits is £27,735 excluding VAT.</p> <p>Fees for other grants and claims (Teachers Pension and Pooling Capital Receipts) are £6,500 excluding VAT.</p>

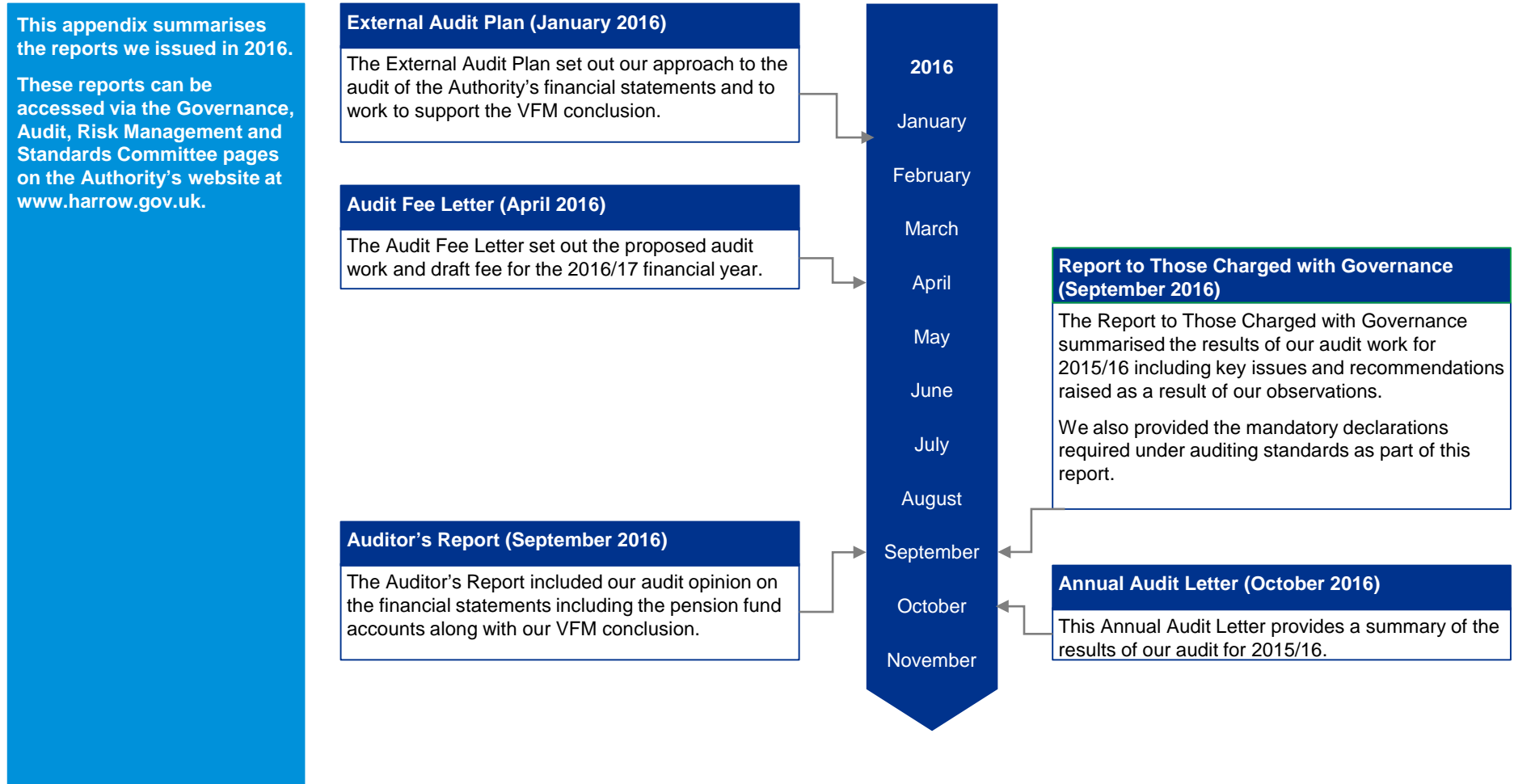
Appendix 1: Key issues and recommendations

No.	Issue and recommendation	Management response / responsible officer / due date
1	<p>Quality and review of PPE</p> <p>Our final accounts audit identified a number of proposed adjustments to the PPE balance which we would expect management to have identified as part of their review of the financial statements. The adjustments included:</p> <ul style="list-style-type: none"> ▪ The omission of two assets from the revaluation process despite being recorded as requiring a full inspection in year ▪ Annual depreciation charge for PFI assets calculated post year end revaluation ▪ £11.72m of assets incorrectly classified as operational land and buildings <p>We recommend going forwards the Council performs a thorough review of the PPE balance to identify similar avoidable adjustments prior to submitting the accounts for audit. Checks of accuracy of data input and reconciliations to ensure the completeness of the information provided should be performed. The Council should ensure a robust quality review process is in place ahead of the 2016/17 year end audit to identify avoidable misstatements in the accounts.</p>	<p>Accepted</p> <p>Officers acknowledge the recommendations raised and the need to improve certain procedures and processes. To prevent such occurrences happening again additional controls (reconciliations / review of accounting guidance) will be implemented.</p> <p>Responsible Officers: Head of Corporate Estate / Technical Accounting Manager Due Date: February 2017</p>
2	<p>Processing of Journals</p> <p>Our documentation of the Council's journals processes identified a central finance team who post all journals required for both the Council and the Pension Fund. Journals are requested and authorised by appropriate individuals throughout the Council, however only the central finance team are able to post these journals onto the ledger.</p> <p>While this demonstrates strong segregation of duties in the control, from our discussions with the Council we understand there is no process to review the completeness and accuracy of the journals posted by this team. Without an independent review there is a risk that fraudulent, erroneous or inaccurate journals are posted. The risk of inappropriate journals being authorised is mitigated from the Council's monthly budget monitoring processes however this is only likely to identify large journals.</p> <p>We recommend the Council introduce a control to perform a sample review of journals posted on a monthly basis to ensure the journal posted was requested by an appropriate individual in the Council and has been posted accurately, in line with the initial request.</p>	<p>Accepted</p> <p>Officers have already identified the need and recently put in place a monthly sample testing and review of journals. The review currently under taken by the interim Technical Accounting Manager checks the accuracy, validity and correct authorisation of the journal. The testing will also assess the completeness of supporting documentation.</p> <p>Processing of journals will be discussed at the next Finance Team meeting and training provided where required</p> <p>Responsible Officer: Interim Technical Accounting Manager Due Date: Implemented (August 2016)</p>

Appendix 1: Key issues and recommendations

No.	Issue and recommendation	Management response / responsible officer / due date
3	<p>Use of Pension Fund bank account</p> <p>The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 required that all pension schemes have their own bank account effective 1 April 2011. Specifically the regulations state the following: “On and after 1st April 2011, an administering authority must hold in a separate account kept by it with a deposit-taker in accordance with this regulation —(a) all monies held by the authority on that date; and (b) all monies received by it on or after that date for the purpose of its pension fund.”</p> <p>Although a separate bank account has been set up for the Fund, it is not being used for all pension fund transactions. We understand a number of historic income and expenditure transactions are still processed through the Council’s bank account. As a result, the Fund is not fully compliant with the requirements of the legislation.</p> <p>It should be noted that, since 1 April 2015, the Pensions Regulator now has an oversight role in relation to scheme administration and governance. As such, the Fund may be subject to increased levels of external scrutiny in future. We recommend the Fund amends all historic processes to ensure all pension fund specific transactions are processed through the Fund bank account. We recommend the bank account is put into full use in order that the Pension Fund is fully compliant with all regulations.</p>	<p>Not Accepted</p> <p>In accordance with the legislation the separate bank account was opened from 1 April 2011 and, since then, an increasing number of transactions have been processed directly through the account. These include the pensioners’ payroll, transfers in and out of the Fund, lump sum and death benefits payments, the receipt of contributions from admitted and scheduled bodies and income from the property investment manager. The account is reconciled monthly.</p> <p>Each month, Pension Fund related expenditure (particularly employee / employer contributions) and income transactions processed through the Council’s bank account are identified. A monthly cash transfer is made from the Council into the Pension Fund account and, at year end, the appropriate debtor is shown in both the Pension Fund and the Council’s accounts.</p> <p>From the time the account was established every effort has been made to maximise its use consistent with the Council’s existing systems and the costs and risks associated with changes. This will continue to be the case.</p> <p>However, the Council uses a commercial software package (SAP) and substantial support would be needed from them to make any system changes necessary. For all transactions to go directly through the Pension Fund account, changes would be necessary for the following processes: accounts payable / purchase orders; accounts receivable; VAT; payroll tax deductions; manual cheque payments; receipt of foreign currency payments.</p> <p>The Council is of the view that to make the changes necessary for the Pension Fund bank account to directly process all transactions would entail certain costs and uncertain risks which cannot be justified at this time.</p> <p>Responsible Officer: Interim Treasury and Pension Fund Manager</p>

Appendix 2: Summary of reports issued



Appendix 3: Audit fees

This appendix provides information on our final fees for the 2015/16 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2015/16 planned audit fee.

External audit

Our final fee for the 2015/16 audit of the Authority was £150,752, which is in line with the planned fee.

- An additional fee in relation to consideration of a formal objection to the 2014-15 accounts will be charged following the completion of our work. This fee will be agreed with the Authority and the Public Sector Audit Appointments once our work is completed.

Our final fee for the 2015/16 audit of the Pension Fund was in line with the planned fee of £21,000.

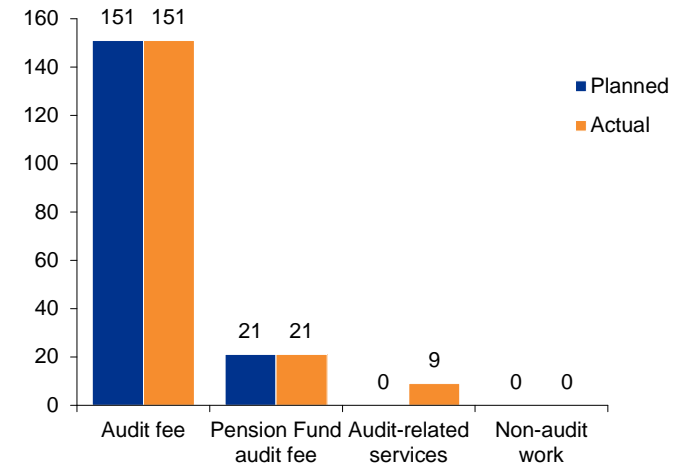
Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2017.

Other services

We charged £6,500 excluding VAT for additional audit-related services for the certification of the Pooling of Capital Receipts grant claim and the Teachers Pension return, which are outside of Public Sector Audit Appointment's certification regime.

External audit fees 2015/16 (£'000)





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