External Audit Report 2016/17

London Borough of Harrow

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5 September 2017

Content

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This report is addressed to London Borough of Harrow (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. PSAA 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 PSAA's website (www.psaa.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 Andrew 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 (0207 694 8981, 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 3H.

Important notice

This report is presented in accordance with our PSAA engagement. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. This report is addressed to London Borough of Harrow (the Authority) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Authority. External auditors do not act as a substitute for the Authority'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.

Basis of preparation: We have prepared this External Audit Report (Report) in accordance with our responsibilities under the National Audit Office Code of Audit Practice (the Code) and the terms of our Public Sector Audit Appointments Ltd (PSAA) engagement.

Purpose of this report: This Report is made to the Authority's Governance, Audit, Risk Management and Standards Committee (GARMS) in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland) and other matters coming to our attention during our audit work that we consider might be of interest and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report or for the opinions we have formed in respect of this Report.

Limitations on work performed: This Report is separate from our audit opinion and does not provide an additional opinion on the Authority's financial statements nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit: Our audit is substantially complete but matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the GARMS meeting. The following work is ongoing:

- Financial statements:
  - Review of the data provided to the Authority's actuary;
  - Testing over grants income;
  - Review of compliance with the procurement policy;
  - Review of partnership working; and
  - Final review over the financial statements.
- Pension Fund
  - Receipt of third party confirmations for a number of investment managers and the custodian
- Completing the Whole of Government Accounts Audit and Pension Fund Annual Report audit.

In addition we have to complete our final partner review procedures and the normal completion procedures associated with an audit including receipt of the management representation letter and post balance sheet events review including consideration of the latest management accounts prior to signing.

Summary

Financial statements audit – see section 2 for further details

Subject to all outstanding queries and procedures being satisfactorily resolved we intend to issue an unqualified audit opinion on the Authority's financial statements for the deadline of 30 September 2017, following GARMS adopting them and receipt of the management representations letter.

We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements for the deadline of 30 September 2017.

We have substantially completed our audit of the financial statements subject to the matters set out on page 3. We have read the Narrative Report and reviewed the Annual Governance Statement (AGS). Our key findings are:

- There are four unadjusted audit differences, explained in section 2 and appendix 2.
- We agreed presentational changes to the accounts with Finance, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
- We will report that your AGS complies with delivering Good Governance guidance issued by CIPFA / SOLACE in April 2016.
- We reviewed the narrative report and have no matters to raise with you.
- We did not receive any queries or objections from local electors this year.
- Our review of the Pension Fund did not identify any errors or adjustments. We noted that one recommendation from the prior year had not been implemented on grounds of cost (and is now considered closed) and raised one additional recommendation in regard to journal controls, explained in appendix 2.

We are now in the completion stage of the audit and anticipate issuing our completion certificate on 29 September 2017. We also intend to issue our 2016/17 Annual Audit Letter in November 2017.

Value for money – see section 3 for further details

Based on the findings of our work, we are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We note that the management accounts for the first two months of the year indicate continued pressure on the budget. Whilst we currently anticipate issuing an unqualified value for money conclusion before the deadline of 30 September 2017 we will need to review the latest management accounts to confirm the latest position against budget and confirm our opinion.

Summary

Other matters

ISA 260 requires us to communicate to you by exception ‘audit matters of governance interest that arise from the audit of the financial statements’ which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions / objections, opening balances, etc.).

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority’s 2016/17 financial statements.

To ensure that we provide a comprehensive summary of our work, we have in Section Two:

- The results of the procedures we performed over the valuation of property, plant and equipment, the valuation of Pension Fund assets and Pension Fund liabilities which were identified as significant risks within our audit plan and which will form a part of our audit opinion;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence applied to key balances in the financial statements.

In Section Three we set out the results of our work in relation to the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

We identified four prior year recommendations that require further action by Management and where similar issues were identified during this years audit. We have made four new recommendations as a result of our 2016/17 work. The key recommendations relate to the CIES restatement and reviewing the likelihood of realised savings. All recommendations are shown in appendix 1.

We undertake other grants and claims work for the Authority. The Housing Benefit Claim falls under the PSAA arrangements but the other grant work does not fall under the PSAA arrangements. The status of our grants and claim work is summarised below:

- Housing Benefit Claim: Detailed testing commenced mid August and is currently still in progress, claim will be submitted in line with the 30 November 2017 deadline
- Teachers Pension Return: Audit complete currently going through our internal review process, Claim will be submitted in line with the 30 November deadline; and
- Pooling of capital Receipts Claim: Audit complete currently going through our internal review process , Claim will be submitted in line with the 30 November deadline

The fees for this work are explained in section two.

Financial statements audit

We audit your financial statements by undertaking the following:

Work Performed	Accounts production stage: Before	During	After
1. Business understanding: review your operations	✓	✓	–
2. Controls: assess the control framework	✓	–	–
3. Prepared by Client Request (PBC): issue our prepared by client request	✓	–	–
4. Accounting standards: agree the impact of any new accounting standards	✓	✓	–
5. Accounts production: review the accounts production process	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures	–	✓	✓
7. Representations and opinions: seek and provide representations before issuing our opinions	✓	✓	✓

We have completed the first six stages and report our key findings below:

1. Business understanding	In our 2016/17 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section.
2. Assessment of the control environment	We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We consider a number of recommendations raised in 2015-16 which relate to control weakness to still be outstanding these include bank reconciliation controls, journal control, PPE processes and not having a complete separation on Pension Fund bank account activity. We believe that these recommendations (see appendix 1) will strengthen your control environment. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work. We have chosen not to place reliance on their work due to the approach we adopted for the financial statements audit.
3. Prepared by client request (PBC)	We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with the Interim Technical Accounting Manager and this was issued as a final document to the finance team. We are pleased to report that this has resulted in good-quality working papers with clear audit trails. We continue to use KPMG sharepoint on the audit, which allowed the Authority to efficiently share working papers with the audit team.

Financial statements audit

4. Accounting standards	We work with you to understand changes to accounting standards and other technical issues. For 2016/17 these changes related to: • Updates to the presentation of the Comprehensive Income and Expenditure Statement and the Movements in Reserves Statement and the introduction of the new Expenditure and Funding Analysis; • Amended guidance on the Annual Governance Statement: the Authority has adopted the required disclosure around the Good Governance Framework and financial management; and • Changes in the format of the Pension Fund accounts: the Fund has adopted the required presentational changes to the Pension Fund account and Net Assets Statement. Recommended changes around the disclosure of transaction costs have not been adopted as these are not yet a requirement of the CIPFA code.
5. Accounts Production	We received complete draft accounts by 26 June 2017 in accordance with the deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We will debrief with Finance to share views on the final accounts audit which hopefully will lead to further efficiencies in the 2017/18 audit process. The Authority has strengthened its financial reporting by finalising the accounts in a shorter timescale. This puts the Authority in a good position to meet the new 2017/18 deadline. We thank Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.
6. Testing	We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. We have identified presentational changes to the accounts along with audit adjustments to property, plant and equipment and business rates provision which we have presented in appendix 2.
7. Representations	You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Director of Finance on 5 September 2017. We draw attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us.

Financial statements audit

Significant risk

We identified three significant risks specific to the Authority.

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Valuation of Property, Plant and Equipment (Authority)	PPE, £1,142m, PY £1,030m	We undertook detailed testing of Property, Plant and Equipment as part of our final accounts audit, including specific testing of the asset valuation. We assessed the valuation methodology adopted by the Authority's valuer and found the method and assumptions used to be reasonable. We considered the basis on which the valuation has been carried out to ensure it is in line with *The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17*. We carried out testing to ensure that revaluation gains and losses have been correctly reflected in the financial statements. From this testing we identified two audit adjustments relating to the valuation of PPE: ▪ Two properties revalued in the year did not have their revaluation included within the PPE balance. ▪ The housing price index uplift applied to Authority dwellings was higher than that supported by sales data from the Land Registry resulting in a £11.3 million overstatement. This was not an error by the Authority, but arose from the need to utilise the Land Registry data available at the time of the accounts preparation. This data has subsequently been updated.
Pension liability including assumptions and having regard to the potential for significant changes arising from the LGPS Triennial Valuation (Authority and Pension Fund)	IAS 19 Pension Liability, £369m, PY £339m	As part of our audit of the Pension Fund, we sought to understand the controls in place to ensure the accuracy of the data used by the actuary and tested a sample of the data back to the systems and reports from which it was derived. This work focused on the data relating to the Authority itself as the largest member of the Pension Fund. We also review the assumptions adopted in calculating the pension liability included in the Authority's financial statements by having KPMG actuarial experts review the assumptions and methodology used by Hymans Robertson in their actuary's report and the accounting entries made in relation to those assumptions. We found that the assumptions used were in line with our expectations and that appropriate accounting entries had been made with regards to the IAS 19 liability.
Valuation of Pension Fund assets (Pension Fund)	Investments, £775m, PY £655m	We undertook testing of investments as part of our final accounts audit, including assessing the design and operation of controls in place, obtaining independent confirmations from Fund Managers to verify year end balances, undertaking substantive testing over sales and purchases made in the year, reviewing year on year movements and comparing performance to known benchmarks. We found investment balances to be accounted for accurately within the financial statements.

Financial statements audit

Other areas of audit focus

We identified three other areas of audit focus. These are not considered to be significant risks as they are less likely to give rise to a material error. Nonetheless these are areas of importance where we carry out audit procedures to ensure that there is no material misstatement.

Other areas of audit focus	Account balances effected	Summary of findings
Regeneration Program	Assets Under Construction, £86m, PY £92m	We undertook testing of assets under construction as part of our final accounts audit, including specific testing of the valuation of the Civic Centre. We have not found any misstatements relating to the regeneration programme as a result of this testing.
Grant Income Recognition	Capital Grant Income, £32m, PY £37m	We performed substantive testing over a sample of revenue and capital grants received during the year. We reviewed grant correspondence and assessed if the Authority has recognised the income in accordance with the CIPFA Code and grant agreement. We have not noted any issues as a result of this testing.
Calculation of Benefits (Pension Fund)	Pension Benefits, £32m, PY £31m	We performed sample testing over pension benefits. We have not noted any issues as a result of this testing.

Financial statements audit

Significant risks required to be considered by auditing standards

As noted in our planning we are required to consider for the Authority and Pension Fund two significant risks.

Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
Fraud risk from management override of controls	Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. We have not identified any specific additional risks of management override relating to this audit.	There are no matters arising from this work that we need to bring to your attention.
Fraud risk from revenue recognition	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. We do not consider this to be a significant risk for the majority of the Authority's income as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk for Authority Tax, Business Rates, Housing rents and social services income and do not incorporate specific work into our audit plan in these areas over and above our standard fraud procedures.	As we rebutted the fraud risk from revenue recognition we did not perform any specific procedures in this area. We considered the revenue risk of grant income as set out on page 9.

Financial statements audit

Judgements in your financial statements

We consider the level of prudence in key judgements in your financial statements. We summarise our view below using the following scale:

Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
Provisions	2	2	£10m (PY: £9m)	Our final accounts audit approach focused on the completeness of identified provisions and the reasonableness of the total balance. We performed substantive testing over the Insurance provisions balance (totalling £7.2m) confirming the accuracy of the calculation and methodology used. Our audit work has given us sufficient reasonable assurance that the provisions stated in the financial statements are materially accurate.
Accruals	3	2	£10m (PY: £17m)	Our procedures focused on considering the nature of accruals, selected on a sample basis, and whether the Authority has calculated the accrual using relevant supporting documentation. In addition we have undertaken a retrospective review of accruals made in 2015/16 and agreed them to subsequent cash payments made in 2016/17. Accruals have decreased significantly this year due to the completion of a number of projects that were accrued for in the prior year. Our final accounts audit procedures did not identify any adjustments to this balance. We are satisfied that the accruals made in 2015/16 were reasonable and in line with actual payments made. With the shorter closedown period from next year the Authority should consider it's financial reporting process throughout the year. Many transactions associated with the closedown process, such as accounting for accruals, will should become embedded as part of quarterly or monthly reporting.

Financial statements audit

Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
PPE: HRA assets	Pre adjustment 4 Post adjustment 2	2	£452m (PY:£374m)	The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The Authority has utilised an internal expert to provide valuation estimates. We reviewed instructions provided and deem that the valuation exercise is in line with the instructions. The Authority valuation takes place at 1 April and an uplift is then applied for the period to 31 March. We found that this uplift was optimistic (7.1%) compared with the data on the Land Registry website (4.2%). As noted above the difference was a result of updates to the Land Registry data following preparation of the accounts.
PPE: assets under construction	2	2	£1.1m (PY:£1.0m)	As part of our audit we have identified one transfer of an asset out of AUC that should have occurred in 2015/16. We therefore continue to recommend that Authority closely reviews each AUC asset to consider when these are appropriate to reclassify to a live asset class. **See prior year recommendation seven in Appendix One.**
Debtors provisioning	3	3	£17m (PY:£15m)	Our audit procedures considered the reasonableness of the methodology applied by the Authority in calculating this figure. We performed substantive testing over the Housing Benefits and Authority tax provisions (totalling £12m) to ensure the reasonableness and accuracy of these calculations. Our testing did not identify any concerns over these provisions.
Pension liability	3	3	£369m (PY:£339m)	Our audit work included a detailed consideration of the actuary's valuation and we performed substantive testing over the completeness and accuracy of data provided to the Actuary as the basis for their valuation. We are satisfied with the reasonableness of the actuarial valuation and its reflection in the year end accounts.

Financial statements audit

Narrative report of the Authority

We have reviewed the Authority's narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Pension Fund audit

The audit of the Pension Fund and the Pension Fund Annual Report is undertaken alongside the main audit. There are no specific matters to bring to your attention relating to the Pension Fund audit. The Authority has provided us with a draft Pension Fund Annual Report which we are reviewing to confirm that the Fund's financial statements are consistent with the Pension Fund financial statements included in the accounts of the Authority and confirm the information in the Fund's Annual Report is consistent with the Fund's financial statements. The deadline for the Authority to publish this is 1 December 2017 but we expect to be able to issue our audit report for the Pension Fund Annual Report in August 2017 to allow early publication.

Whole of Government Accounts (WGA)

HM Treasury has recently issued its guidance for completing the WGA and issued the consolidation packs that authorities need to complete. The deadline for the Authority to prepare the consolidation pack was 14 July 2017 with an audit deadline of 31 October 2017. We are in the process of reviewing your WGA consolidation pack. We aim to complete our work by the end of September 2017.

Queries from local electors

We did not receive any questions or objections from members of the public this year.

Audit certificate

In order for us to issue an audit certificate, we are required to have completed all our responsibilities relating to the financial year. In order to enable us to this we need to complete the work on the WGA and Pension Fund Annual Report, as detailed above. As we have not received any objections to the accounts from local electors, subject to satisfactory completion of the WGA and Pension Fund Audit, we expect to issue our audit certificate in September 2017.

Other grants and claims work

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements. The status of our grants and claim work is set out on page 5.

Audit fees

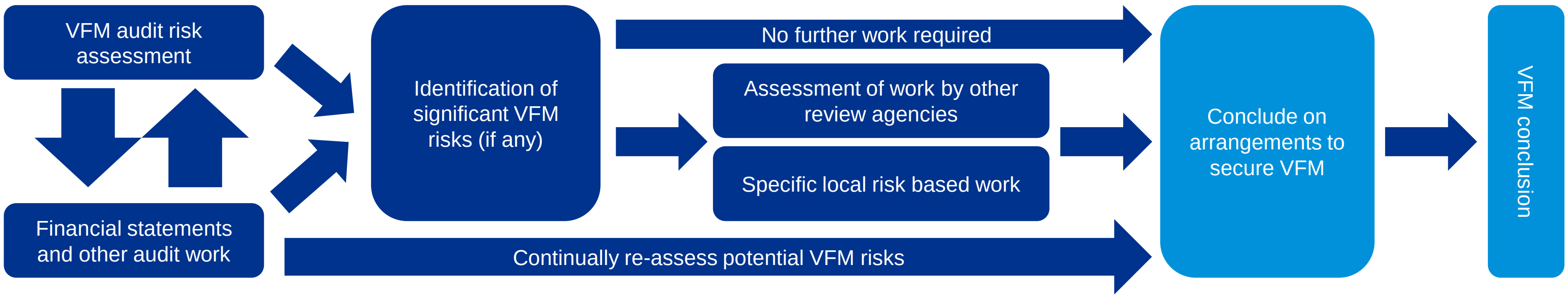
Our fee for the Authority audit was £150,724 excluding VAT (£150,724 excluding VAT in 2015/16), our fee for the Pension Fund audit was £21,000 excluding VAT (£21,000 excluding VAT in 2015/16). This fee was in line with that highlighted in our audit plan approved by GARMS on 31 January 2017.

Our work on the certification of Housing Benefits (BEN01) is not yet complete but is ongoing. The planned scale fee for this is £20,423 excluding VAT (£27,735 excluding VAT in 2015/16). Planned fees for other grants and claims which do not fall under the PSAA arrangements is £7,000 excluding VAT (£6,500 excluding VAT in 2015/16).

We have not completed any non-audit work at the Authority in year outside of the grant work noted above.

Value for money

Our value for money (VFM) work follows the NAO's guidance. It is risk based and targets audit effort on the areas of greatest audit risk. Our methodology is summarised below. We identified one significant VFM risk which is reported overleaf. Based on the findings of our work, we are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties. We note that the management accounts for the first two months of the year indicate continued pressure on the budget. Whilst we currently anticipate issuing an unqualified value for money conclusion before the deadline of 30 September 2017 we will need to review the latest management accounts to confirm the latest position against budget and confirm our opinion.



Summary of work completed over VFM criteria

Criteria	Work Completed
Informed Decision Making	• Review of financial reporting completed throughout the year • Review of Internal Audit Arrangements • Consideration of Annual Governance Statement
Sustainable resource deployment	• See work completed overleaf on significant risk area
Working with partners	• Obtaining an understanding of partnership arrangements in place • Reviewing procurement processes and policies • Reviewing a sample of procurement completed in year to determine if completed in line with expectations

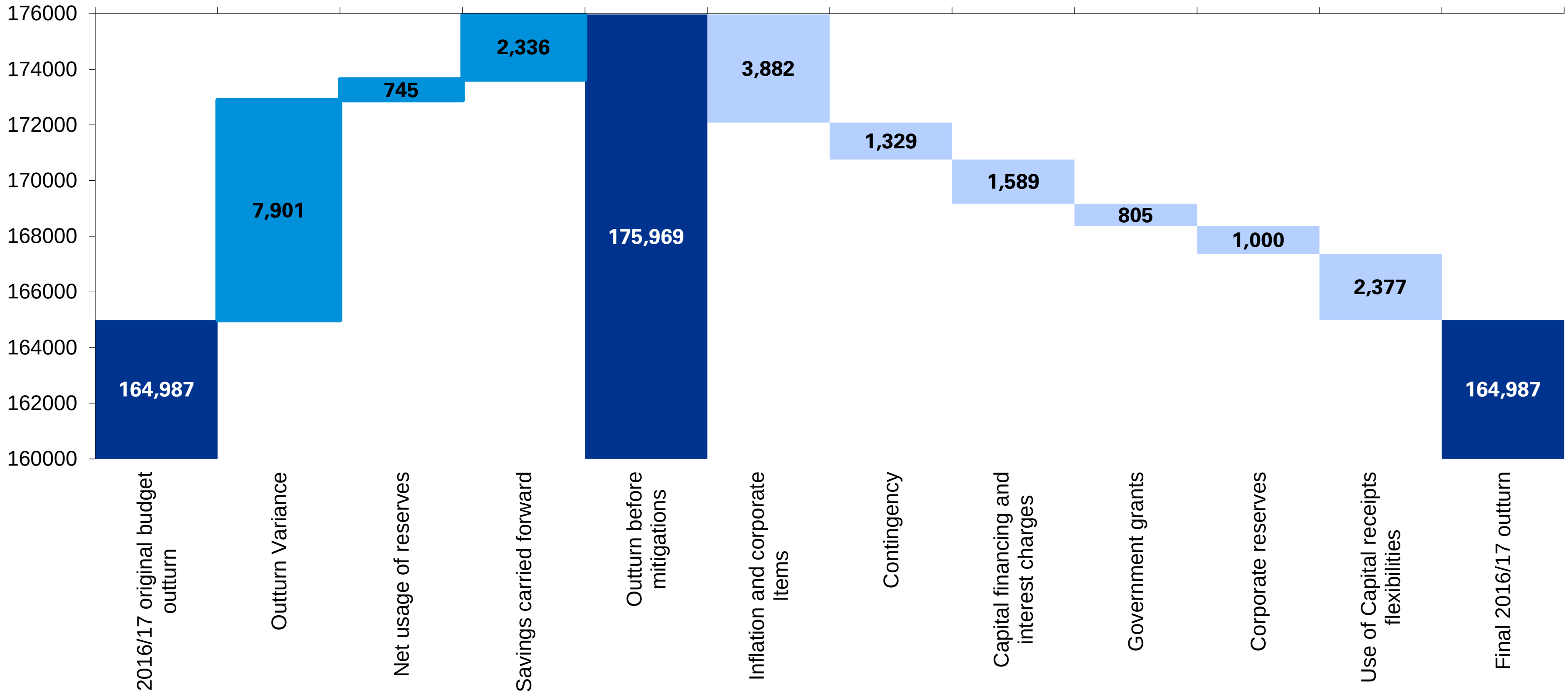
Value for money

Significant risk based VFM audit work

Below we set out the detailed findings of our significant risk based VFM work. This work was completed to address the residual risks remaining after our assessment of the higher level controls in place to address the VFM risks identified in our planning and financial statements audit work.

Significant VFM risk	Why this risk is significant	Our audit response and findings
Financial Resilience	The Authority needs to reduce its budget by £83 million between the period 2015/16 to 2018/19. The Authority's net controllable revenue budget of £141m is the element of the budget that the Authority can exercise control over and from where the savings must be found. We have reviewed the Revenue budget for 2016/17 and Medium Term Financial Strategy (MTFS) 2016/17- 2019/20 and noted that £30.9m savings were found in 2015/16 but a further £52.4m needs to be found over the three years to 2018/19. There is a risk that the Authority fails to use its resources in an economical, efficient, and effective way and falls short of it's savings targets. In addition the Authority has low general Fund reserves of £10m. These savings need to be achieved in an environment where external Funding is decreasing and pressure on service is increasing. Recognising this, the Authority needs to ensure that is has robust financial planning arrangements in place.	Our work in response to this risk has focused on: **Savings identification, monitoring and reporting** *Identification* We have reviewed the process that is in place for the identification of savings. Each Directorate are given savings targets to achieve each year and it their responsibility to identify the savings to be made. Savings are scrutinised and challenged by the relevant Directorate Commission Panel which is made up of Members and chaired by the relevant portfolio holder. To enable choice and flexibility more savings than are required are presented to the Panel. Only once the Commissioning panel have reviewed, scrutinised and approved the saving is it added to the Medium Term Financial Savings (MTFS) plan. We note that the process for building up a business case for savings varies across departments. **Recommendation four** *Monitoring* We reviewed a sample of 14 savings identified and monitored their progress through the financial year and to period 3 of 2017/18. This included having discussions with the relevant Director and Finance Manager for each area the savings related to and discuss how they approach and review the savings process. Discussions with the Directors identified that there was a strong awareness of the need to identify and deliver savings within an environment that was proving challenging in some areas for example Children's and Adult services where demand has increased significantly. Of the 14 savings we reviewed we identified that 5 where not achieved in 2016/17 and 6 where behind target. In all cases mitigations were identified by the Authority to address these savings gaps (see below).

Value for money



The graph above shows that despite being c.£10m above budgeted outturn the overspend has been fully mitigated by the Authority to enable a breakeven position to be achieved for 2016/17. To achieve this the Authority has made savings through not using inflationary provisions, using the earmarked homelessness provisions, utilising the contingency Fund and making use of the DCLG Capital Receipts Flexibility Scheme.

The movement on reserves has resulted in a net reduction in reserves of £745k.

Value for money

Our audit response and findings

Our consideration of the Authority's 2017/18 savings have identified that 13% of savings were reported as being fully achieved at the end of period 3 and 51% identified as on track for being delivered. However, 13% are identified as being not achievable. Of this c.£1m relate to adult services. The remaining schemes 23% are only considered to be partially achievable in year. Details have been set out in the September Cabinet report, however it is noted that directorates are still expected to meet any shortfalls.

Discussions with the Director of Finance have identified that further controls have been implemented in 2017/18 to mitigate against savings not achieved and seek to future proof spending for remainder of the year. These controls include a spending freeze across the Authority and recruitment controls whereby all new recruitment requires sign off by the Director of Finance and the Chief Executive.

In addition all one-off income or savings received or achieved in year will be retained centrally by Finance (rather then remain within Directorate control) to enable a reserve to be built up for 2018/19 when pressures are expected to increase.

We note that the Authority is currently reviewing scheme savings in future years including Project Infinity and the regeneration program to ensure that the proposed savings remain realistic. If deemed appropriate these will be removed from the future savings tracker.

Reporting

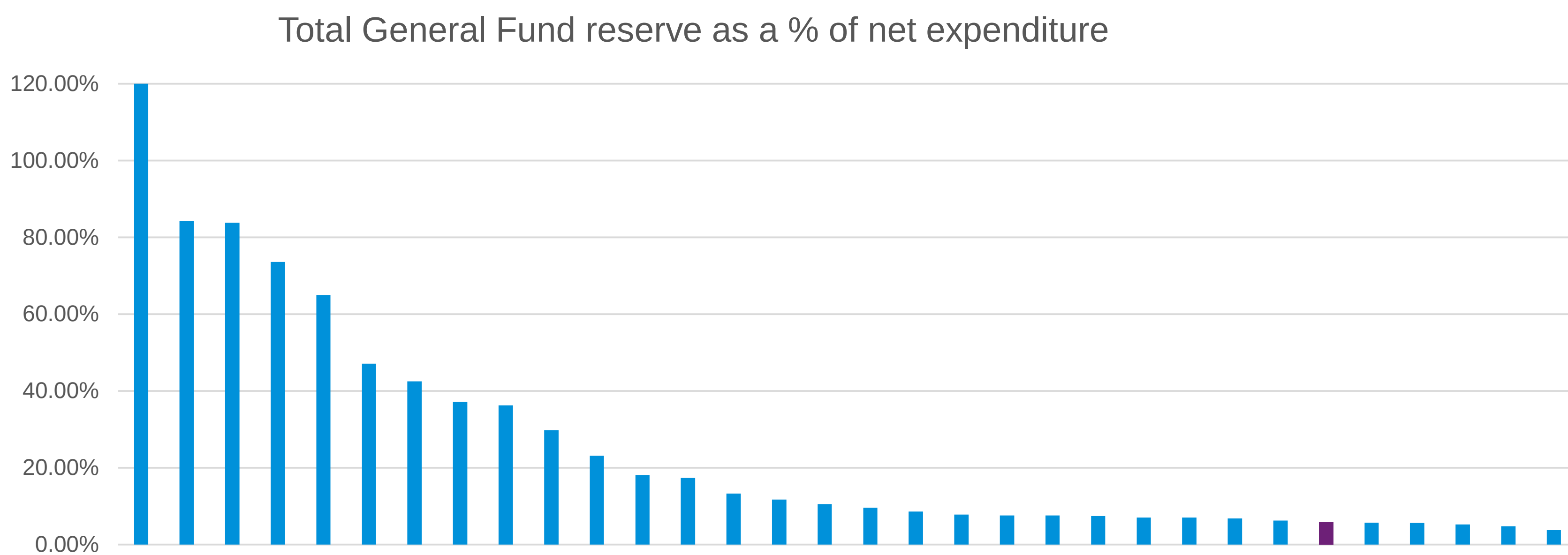
The MTFS is monitored on a monthly basis and is RAG rated based on the level of savings achieved. We note that for the 2017/18 the Period 2 numbers were taken to the July Cabinet for the first time to increase transparency and accountability of the savings being achieved. Reports presented to the Cabinet provide detail as to the current performance of the Authority against budget and against the savings tracker.

Level of reserves

We have considered the Authority's level of reserves. While we note they are low compared to other London Borough's (as depicted overleaf), the low level of reserves is within the Authority's financial plan and is a conscious decision. At the end of 2015/16 the General Fund Reserve balance was £10m. This remained consistent throughout 2016/17. As the reserves balance did not move in year this demonstrates that the Authority was able to achieve its year end position without the use of its general Fund reserves, albeit advantage was taken of the capital receipts flexibility available.

When the Authority's available reserve balance is considered in terms of both General Fund and Earmarked General Fund reserves (excluding school reserves) the total value of £38.5m (£32.9m in 2015/16) is more in line with other Authority's. We note that a number of the Authority's earmarked reserves to be broad and general enough to allow the Authority to utilise these balances if their current General Reserve balance should be insufficient. The earmarked reserves also include amounts to help Fund savings initiatives.

Value for money



The graph above shows the total general Fund reserves for all London boroughs as a percentage of total expenditure. This shows that whilst not the lowest reserve balance Harrows reserves (shown in purple) are at the bottom of the range of reserve balances for an organisation of its size.

We note that as London Boroughs vary how they manage reserves the above is indicative only.

Value for money

Our audit response and findings

2016/17 Outturn

We reviewed the outturn position against original plans this can be seen on page 16. The balanced budget position was achieved including savings of £13.9m despite £3.4m of savings schemes not being achieved in year and £4.7m of schemes only being partially achievable per the February 2017 Cabinet report. Where savings were not achieved directorates were able to Fund these shortfalls through alternative one-off reductions. Total savings for fully or partially achieved in 2016/17 equated to 2.4% (3.6% in 2015/16) of total cost of service expenditure.

2017/18

The Authority’s 2017/18 budget was approved by Cabinet in February 2017. The Authority has set a savings target of £10.2 million for 2017/18 with a further £15.8 million of savings to be implemented in 2018/19 and a further £4.9 million in 2019/20. As of August 2017, the Authority reported that 13% of 2017/18 savings (c.£1.2 million) have been fully achieved with a further 51% (c.£5.1 million) on track to be fully achieved by the year end. The Authority currently considers 13% (c.£1.3 million) of savings to be unachievable c.£1 million of these relate to adult services. The remaining schemes 23% are only considered to be partially achievable in year as at August 2017, if all of the partially achievable schemes are not achieved along with those already identified as not achievable there would be an additional £3.7m of pressure on year end to achieve a breakeven position. The partially achievable schemes are closely monitored by the Finance team and the Corporate Board. Actions plans are established to address these shortfalls and mitigating savings are expected to be achieved if the full saving is not achievable in year.

Our review of the quarter one revenue position shows an overspend in children's of c.£3.5m primarily driven through overspends in accommodation and placement costs and increased agency costs. Overspends across all other directorates total c.£2m, however this is mitigated in part by c.£2.4m that will be utilised from reserves leaving a total overspend of c.£3.5m. We also note that there are concerns over that the Adult services budget may not be delivered within budget at year end due to increasing pressures on services and potential reduction in Funding.

The Authority currently has a reported gross pressure of c.£6m for 2017/18, reducing to £3.5m after the use of reserves, set aside for such purposes, to cover redundancy costs, regeneration and agreed initiatives. The £3.5m net pressure is mitigated by, technical accounting adjustments of c.£1.4m, one off income received of c.£850k and the spending freeze controls of c.£1.3m.

Conclusion

The Authority has a number of challenges in order to continue to achieve a balance budget going forward. We consider the arrangements that the Authority has put in place to ensure that savings are identified, monitored and reported to be appropriate and we have seen the Authority increase its spending controls in 2017/18 in order to build up a reserve to meet known challenges for 2018/19. Members and Officers are aware of the challenges facing the Authority and are invested in achieving savings and looking for new ways of working and income streams.

However, we note that as at August 2017 there are signs that meeting the savings target for 2017/18 may be challenging with c.£3.7m at risk of not being achieved and pressures across Directorates of c.£6m (although we note c.£2.5m will come from reserves) alongside concerns about further demands on Children's and Adult services putting increased pressure on achieving breakeven position. We recognise the additional controls that the Authority has put in place to mitigate theses overspends and through our discussions with the Director of Finance and Chief Executive recognise that tight control is being put on spending and savings.

At the time of this report we recognise the current pressures on the Authority but do not consider these issues to impact upon our VFM conclusion. However prior to us signing our audit opinion we will review the P4 results for any further adverse impact on finances that could have a bearing on our opinion.

Recommendations raised and followed up

Recommendations raised as a result of our work in the current year are as follows:

Priority rating for recommendations					
❶	Priority one: issues that are Fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
1	❷	**CIES Working Papers** The CIES is currently populated by extracting trail balance data from excel and then adjusting this data within an excel spreadsheet into the format required for the financial statements. This is a complex excel spreadsheet with a number of tabs and where data pulls through in to the CIES in a number of different ways. We have found that only one member of staff, the Interim Corporate Financial Accountant – Closing, has an adequate working knowledge of the spreadsheet to respond to audit queries in this area. The spreadsheet can also be difficult to follow given the range of adjustments used. We would recommend that the Authority ensures that additional staff develop a working knowledge of the CIES spreadsheet and the principles behind it in order to ensure that there are no knowledge gaps should the Interim Corporate Financial Accountant – Closing leave or be absent. The Authority should also consider incorporating a user guide into the spreadsheet to enable ease of use.	The Interim Corporate Financial Accountant – Closing of Accounts has worked closely with the permanent officers of the Central Finance Team during the closure and production of the 2016/17 Statement of Accounts. There is still an element of need for permanent staff to fully understand the mechanics of the complex excel spreadsheet which is core to the production of the main financial statements. Officers will ensure that on going training and coaching will be undertaken prior to the 2017/18 closedown period. Officers will produce a detailed user guide for the understanding and use of the excel spreadsheet. Responsible Officer : Interim Technical Accounting Manager Due Date : November 2017

Appendix 1

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date
2	2	**Pension Fund Journals Authorisation** We have identified one individual that has authorised a number of Pension Fund journals above their authorisation limits per Authority guidelines in the year. We have reviewed email confirmation that this officer was given separate authority to authorise these journals. However, to align with best practice and avoid any confusion around authorisation limits we recommend that the Authority either formalises this arrangement within the Scheme of Delegation or require these journals to be authorised by an officer with a higher authorisation limit.	Officers will review the scheme of delegation to ensure authorisation is done at the appropriate level. The Head of Treasury and Pensions will be added to the scheme of delegation to authorise journals over £500,000. Responsible Officer : Head of Treasury and Pensions Due Date : Complete
Value for money			
3	2	**Medium Term Financial Savings (MTFS)** Our review of the MTFS identified some instances of future savings included in the tracker that are considered to be unachievable. In particular, Project Infinity with total costs of c.£6m currently included in the forward looking MTFS. We recommend that consideration be given by Management to the removal of projects that are considered to be under realisable to ensure that the appropriate level of savings can be identified going forward.	The three year MTFS is subject to an annual refresh process that reviews what is in the current MTFS for future years and moves the MTFS on for another year. The review includes assessing the progress on future year savings and their achievability. As part of the refresh process the decision will be made as to whether the saving can remain within the budget or needs to be removed and replaced with an alternative proposal. Responsible Officer : Director of Finance Due Date : September 2017
4	2	**Business cases** Through our discussions with finance managers and Directors we have identified that there is an inconsistent approach to how savings business cases are developed across the Authority. We recommend that the Authority look to identify areas of good practice across the directorates for business case development and look to develop a standardised template for all significant savings targets. This should enable more robust and transparent challenge of savings that is consistent across the organisation.	There is a standardised template for the presentation of savings (S1) which is challenged as part of the budget setting process. The extent to which business cases are prepared to underpin the summary S1 depends upon the value, complexity and nature of the proposal. Detailed business cases are prepared and robustly challenged for the more significant or complex initiative by the monthly Commercial and Contracts Board. A standardised template is not considered appropriate because 'one size fits all' does not really work when saving proposals differ widely. However the recommendation is accepted in the sense of reviewing the process for significant savings with a view of making it consistent across the organisation. Responsible Officer : Head of Strategic Business and Finance Due Date : September 2017

Appendix 1

Recommendations raised and followed up

We have followed up the recommendations from the prior year's audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding (including partially implemented)
14	10	4

Where a recommendation is not considered to be implemented we have not re-raised it for 2016/17 but have left it open for Management to action.

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at August 2017
Financial statements				
1	❶	**Quality and review of PPE** 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: ▪ 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 We recommend going forwards the Authority 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 Authority 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.	**Accepted** 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. **Responsible Officers:** Head of Corporate Estate / Technical Accounting Manager **Due Date:** February 2017	**Partially Implemented** We have not identified as many audit adjustments and issues in relation to our audit work as in 2015/16. All PBC items provided were subject to review before being added to SharePoint. However, we have found that one asset revalued in the year did not have the revalued amount entered onto the fixed asset register and therefore we consider there to be further room for improvement.

Appendix 1

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at August 2017
Financial statements				
2	❶	**Processing of Journals** Our documentation of the Authority's journals processes identified a central finance team who post all journals required for both the Authority and the Pension Fund. Journals are requested and authorised by appropriate individuals throughout the Authority, however only the central finance team are able to post these journals onto the ledger. While this demonstrates strong segregation of duties in the control, from our discussions with the Authority 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 Authority's monthly budget monitoring processes however this is only likely to identify large journals. We recommend the Authority 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 Authority and has been posted accurately, in line with the initial request.	**Accepted** 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. Processing of journals will be discussed at the next Finance Team meeting and training provided where required **Responsible Officer:** Interim Technical Accounting Manager **Due Date:** Implemented (August 2016)	**Implemented** We have reviewed the monthly sample test implemented by management and confirmed that it has been implemented appropriately.

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at August 2017
Financial statements				
3	❶	**Use of Pension Fund bank account** The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 required that all pension schemes have their own back 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." 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 Authority's bank account. As a result, the Fund is not fully compliant with the requirements of the legislation. 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.	**Not Accepted** 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. Each month, Pension Fund related expenditure (particularly employee / employer contributions) and income transactions processed through the Authority's bank account are identified. A monthly cash transfer is made from the Authority into the Pension Fund account and, at year end, the appropriate debtor is shown in both the Pension Fund and the Authority's accounts.	**Not implemented** The Authority continues to process a number of Pension Fund transactions through the main Authority bank account. As at 31 March 2017 there was £1.062 million of Pension Fund cash held by the Authority. As the Authority does not plan to implement this recommendation for reasons of cost effectiveness we now consider this recommendation closed.

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at August 2017
Financial statements				
			The Authority 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. **Responsible Officer:** Treasury and Pension Fund Manager	
4	2	**Journals Authorisation** Our controls testing identified 2/25 journals that had been inappropriately authorised. The authorising individuals were found to have authorised journals whose value were in excess of their maximum authorisation limit per the Authority's guidelines. Individuals across the Authority should be reminded of their authorisation limits and the importance of passing on requests received which are above their limit. Each member of the central finance team should have access to the authorisation limit guidelines and check approvals against this guideline prior to posting the requested journal. In the long term the Authority should investigate the use of the SAP workflow to electronically authorise and post journals. Journals authorisation limits can be set up within the system, to ensure journals are automatically sent to the most appropriate individual for authorisation.	**Accepted** Officers have been reminded of their authorisation limits and enhanced controls will be undertaken through the recently introduced monthly sample testing of journals. The Authority has previously investigated the use of SAP workflow to electronically authorise and post journals, but the IT enhancement costs were expensive. With the review of the whole journal process and the monthly sample testing officers believe that the new controls will significantly improve the process and authorisation of journals. **Responsible Officer:** Interim Technical Accounting Manager **Due Date:** Implemented (August 2016)	**Implemented** We confirmed that monthly sample testing of journals has been implemented, which includes a check that authorisations are within an individual's limit. Other than the issue identified in current year recommendation 2 above, we have not found any instances of individuals authorising journals above their limits.

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at August 2017
Financial statements				
5	2	**Bank Reconciliations** Our review of the January 2016 and March 2016 bank reconciliations identified weaknesses in the knowledge of the individuals performing this control. Reconciling items could not be explained without further investigation being completed. We found the control was being performed "verbatim", following a process established by previous team members, without the current individuals fully understanding the purpose of the control and the work being completed. We recommend the Authority review their bank reconciliation control to ensure a full understanding of the nature of the control and the activities being performed. Details of the reconciling items should be included and explained within the reconciliation. Where there is a change in team members the Authority should ensure there is a sufficient handover process involving training as to the purpose of procedures being performed.	**Accepted** The bank reconciliation procedure and process has many different income streams and timings of electronic processing which makes it a complicated reconciliation to maintain. Officers recognise that a review of the current process is needed and will work closely with their colleagues in the cashiers section to develop the full understanding of the reconciliation and it's controls. Officers have already planned improvements which will ensure any such reconciling items are identified and processed in a timely manner. **Responsible Officer:** Interim Technical Accounting Manager **Due Date:** Implemented (August 2016)	**Not implemented** Our review of the March 2017 bank reconciliation found that, in line with prior year, officers were not able to provide explanations for all reconciling items without further investigation. It is also noted that the list of reconciling items included transactions going back until 2011/12. We continue to recommend the Authority considers reviewing its bank reconciliation process and works to eliminate historical reconciling balances.

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at August 2017
Financial statements				
6	2	**Revaluation Report** Our expert review of the Authority's 2015/16 revaluation report has identified the following improvement points which if implemented would enhance the quality and reliability of the year end revaluation report: ▪ It is recommended that the schedules that form the appendices should show aggregated valuations for each category of property valued and that these totals should be quoted (in numbers and words), together with the relevant valuation date(s), within the body of the main (written) valuation report. This could become important; if the written report should become separated from the supporting appendices this could create confusion regarding the property values to which the written report relates. RICS best practice suggests that the valuation should be expressed in both numbers and words together with the date of valuation. ▪ The Valuation Report does not make clear the particular valuation method adopted for properties other than where DRC is used. The Valuers have made reference to current market conditions including prime yields however the valuation report does not contain details of assumed yields or rents and as a consequence does not provide comparable evidence of either. A similar situation applies to the application of DRC methodology. The valuation report contains no details to support the valuation or any assumptions or estimates made. The Valuation Report does not identify any of the key valuation considerations. The credibility of the Valuation Report would be enhanced by the inclusion of this information together with some evidence in support of any valuation assumptions or estimates.	**Accepted** Officers acknowledge the presentational improvements recommended and these can be incorporated in future revaluation reports, including sign off of the service level agreement by both parties (Estates and Finance). Much of the additional data referred to in the recommendation is available in other reports, and the location of such data can be referenced in the main report and made available as necessary. **Responsible Officers:** Head of Corporate Estate / Interim Technical Accounting Manager **Due Date:** November 2016	**Implemented** The schedules that form the appendices have been updated in 2016/17 to show the aggregated value of each category of property revalued. The valuation report specifies the different valuation approaches used, and refers the user to detailed reports that are available for each property. We have reviewed an example of such a report and confirmed it includes a detailed description of the valuation methodology used. We have confirmed that the 2016/17 SLA between the finance and estates teams had been signed before the work was undertaken.

Appendix 1

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at August 2017
Financial statements				
		▪ Where assets are valued by another third party the reason for this and the results of their review (and the Authority's assessment of the appropriateness of their review) should be clearly detailed within the report. It should be clear why, on what basis and what instructions these external valuations have been prepared in order for a third party to assess the reliability of the external valuations. In addition our controls testing identified the SLA between the Finance and Estates team at the Authority regarding the completion of revaluations has not been signed for the 2015/16 year. The Code recommends there to be a signed SLA in place for all valuation engagements. The Authority should ensure the SLA is signed by both teams on an annual basis.		
7	2	**Existence of prior year transactions** Our year end substantive testing identified: •One operating lease which was terminated early in 2013/14 had continued to be recognised in 2014/15 and 2015/16; and •One building which was completed in 2014/15 but was not transferred from Assets under construction (AUC) to operational until 2015/16. These issues were thought to be due to a lack of communication between the Corporate Finance Team and other Directorates across the Authority. We recommend the Authority review all operating and finance leases on an annual basis to ensure they still exist at the financial year end. In addition all assets classified as AUC at the year end should be reviewed to ensure these projects are still AUC and have not been completed during the financial year.	**Accepted** Changes to current procedures and processes will be introduced to avoid the repeat of the two circumstances identified. All leases (both finance and operating) will be reviewed to ensure they still exist under their contract terms or whether they have expired within the financial year in question. Each asset classified as AUC will be individually reviewed for their progress and completeness. **Responsible Officer:** Interim Technical Accounting Manager **Due Date:** March 2017	**Not implemented** As part of our audit we have identified one transfer of an asset out of AUC that should have occurred in 2015/16. We therefore continue to recommend that Authority closely reviews each AUC asset to consider when these are appropriate to reclassify to a live asset class.

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at August 2017
Financial statements				
8	2	**Capital approval process** Following the acceptance of an objection on the 2014/15 accounts from the previous auditors we have reviewed the capital approval processes in place at the Authority. Whilst we acknowledge that some changes have been made since the period we were reviewing, we have identified a number of areas we recommend the Authority reviews and strengthens its processes and controls. Without a robust capital approval process there is a risk that capital spend is not sufficiently scrutinised which could result in Authority Funds being inappropriately utilised. We recommend that the Authority: □Complete a full review of the capital approval process, documenting the process through which approvals are obtained i.e. through the Capital Forum, Cabinet etc., and at which point in the timeline approval should be sought. Staff involved in the process should then be reminded of the need to adhere to these timelines and processes. □We recommend that detailed minutes are retained for all Capital Forum meetings that clearly document what discussions were had and what the resulting actions were e.g. approve, request for further information or reject. □For projects which are deemed to be of a politically sensitive nature, we would recommend that there is portfolio holder sign off and involvement at an early stage of the process. This involvement should be clearly documented and retained with project documents.	**Accepted** Officers will review the full capital approval process in accordance with the external auditor's recommendation, record through minutes the decisions / actions of the capital forum and for those schemes of a political nature ensure portfolio involvement (and sign off) at an early stage of the process. **Responsible Officer:** Head of Strategic & Technical Finance **Due Date:** September 2016	**Implemented** We have reviewed the authorisation of the Authority's capital plan at the December 2016 Cabinet meeting and found the record of this authorisation to contain an appropriate level of detail.

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at August 2017
Financial statements				
9	3	**Documentation Limitations** Our year end substantive testing has identified the following limitations in the availability of documentation: •Leases agreements to supporting the leases classification were not available for 1/5 operating leases and 1/5 finance leases selected for testing. This is thought to be due to staff turnover and the age of the leases (commenced in 2010), •Completion statements to support the transfer of assets from AUC to operational were not available for 1 item in our sample. We were able to physically verify the operational use of this asset to provide sufficient audit assurance. While sufficient audit evidence could be gathered to provide assurance for our final accounts audit the Authority should ensure documentation is available to support all transactions forming the financial statements. We recommend the Authority ensure processes are put in place to allow for the efficient transfer of knowledge and documentation ahead of team changes. Teams outside of Corporate Finance who hold this documentation should be reminded of the importance of maintaining a sufficient audit trail.	**Accepted** Officers will ensure that all Directorates are aware of the importance of the availability of contractual and audit trail documents and that they are filed in directories that can be accessed by new incoming staff. Processes and procedures for the holding of documentation will be reviewed and updated to ensure access is available regardless of which Directorate hold the information. **Responsible Officer:** Interim Technical Accounting Manager **Due Date:** October 2016	**Implemented** During our 2016/17 audit we have not identified any transactions for which supporting evidence has not been able to be provided.

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at August 2017
Financial statements				
10	3	**Accuracy of data input** Our testing has identified the following instances where incorrect data has been input on to the Authority's SAP system. We have identified: •Revised Useful Economic Lives for 23 assets were incorrectly entered onto the FAR system, resulting in an incorrect depreciation charge being recorded onto the ledger and in the draft accounts •The value of proceeds received from the disposal of 1/25 assets entered at the incorrect value on the ledger We recommend, as part of the year end process, the Authority perform spot checks over the accuracy of data manually input onto the FAR. This will help to identify any inaccuracies in the details being entered and the fields are being used.	**Accepted** Procedures and processes will be further enhanced to ensure adequate review of specific calculations and working papers. Where appropriate spot checks and cross checking of particular figures will be undertaken to prevent a reoccurrence of similar instances that arose during the recent audit. **Responsible Officer:** Interim Technical Accounting Manager **Due Date:** April 2017	**Implemented** All working papers provided in response to out initial PBC request had been subject to review before being added to sharepoint. We have not noted any errors in our audit that specifically relate to the accuracy of data input.

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at August 2017
Financial statements				
11	3	**Community Assets** The Authority currently recognises Community Assets at a cost of £886k with an associated accumulated depreciation asset balance of £885k. From our review of the Authority's accounting policies we note the Authority holds all community assets at a nominal value of £1. Our FAR testing found the Authority to recognise 88 community assets. As such we would expect the cost of community assets to be £0k or £1k if the Authority wished to demonstrate that it does hold some community assets. The Authority is unable to explain what the £886k cost relates too and appears to be a historic balance which is rolled forward each year. This has been reported as an unadjusted audit different in Appendix two of this report. While there is no impact on the net book value of the asset base, we believe the current disclosure to be misleading with regards to the number of assets owned by the Authority. We recommend for the 2016/17 financial year the Authority tidy up its PPE disclosure note to ensure it is an accurate reflection of the Authority's asset base.	**Accepted** Officers will correct the PPE disclosure note for the 2016/17 financial year to correctly show the value of community assets **Responsible Officer:** Interim Technical Accounting Manager **Due Date:** April 2017	**Implemented** The cost of community assets per the 2016/17 accounts is disclosed as £1,000 in line with our expectation.
12	3	**Risk Management** While we have found the Council to have both a risk appetite statement and a risk strategy in place, we note that these have not been updated since 2012-13. We understand from our review of the AGS that this is acknowledged as a minor governance improvement area and will be reviewed during 2016-17. We recommend the Council review its risk appetite and risk strategy statement on an annual basis to ensure they remain relevant and accurate. In addition, we would recommend that the risk register is updated on a recurring basis throughout the year, as and when Council level risks are identified by Directorates.	**Accepted** The recommendation is agreed in principle but is subject to the resources and, as agreed with the Chief Executive during the annual governance review process, an options paper will be presented to CSB to enable a decision to be made on how to proceed. **Responsible Officer:** Head of Internal Audit **Due Date:** November 2016	**Accepted** The risk register has been updated during 2016/17.

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at August 2017
Value for money				
13	2	**Savings Monitoring** Our Value for Money review identified the Authority does not continue to monitor savings projects, which are not achieved in the year, following the financial year end. Without continuing to monitor these projects the Authority cannot be certain these schemes are fully implemented. There is a risk that identified savings are never implemented and are Funded each year through various one-off savings or other identified savings. As such there is still the potential for future savings to be made by departments, as the schemes identified to Fund the gap could be factored into the departments future annual budget setting. We recommend going forwards the Authority continue to monitor savings plans in full until they are fully implemented (banked) or it is formally decided by the Cabinet to no longer proceed with the identified plan. There is a risk with the current process that the Authority is not being fully efficient as they are not delivering identified savings that could further their achievement of value for money.	**Accepted** Progress against savings built into the annual budget are reported to Cabinet alongside the budget monitoring update three times per annum (Quarters 1, 2 and 3). In addition a separate report goes to Cabinet in July which reports on the progress on savings as at month 2. The outturn report, normally taken to June Cabinet, will include a year end analysis of achievement against savings to ensure any savings not fully achieved in year continue to be monitored into the following year or included in the budget refresh process. **Responsible Officer:** Director of Finance **Due Date:** March 2017	**Implemented** We have confirmed that quarterly reports submitted to Cabinet outline progress against savings targets. The year-end outturn report presented to the June 2017 Cabinet meeting included a summary of savings made against plan and outlined which of those savings were to be included within the budget for 2017/18.

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at August 2017
Value for money				
14	2	**Reporting year end performance** Our review of the MTFS reports presented to Cabinet throughout the financial year found that the Authority does not formally report a detailed yearend report of the savings achieved in year against those planned at the beginning of the year. While regular saving tracker positions including a projected year end outturn are reported to Members at Cabinet throughout the year, a full yearend outturn position would be beneficial. We recommend in the future a savings outturn report is presented to the May/June Cabinet following the end of the financial year. It should clearly detail which savings schemes have been implemented in year. Where schemes are partially implemented an estimate of value of saving achieved to date should be depicted. Where schemes are not achieved in year, details should be provided as to why the scheme has not been achieved, how the saving has been Funded in the year, and what actions will be taken in the future to ensure implementation of the saving. Actions should be identified and progress against these actions should continue to be monitored until the scheme is implemented in full.	**Accepted** Officers do keep Members informed through out the year of the achievement of the savings plans implemented in the Authority's budget. There are four such updates to Cabinet (July Cabinet for period to month 2; September Cabinet for quarter 1; December Cabinet for quarter 2 and February Cabinet for quarter 3). It is acknowledged that in future the year end outturn of savings should be included in the outturn report to June Cabinet to show the more specific information on the achievement of savings at year end. **Responsible Officer:** Director of Finance **Due Date:** June 2017	**Implemented** The year-end outturn report presented to the June 2017 Cabinet meeting included a summary of savings made against plan and outlined, providing a higher level of detail than in the quarterly reports.

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects:

- Material errors by **value** are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements;
- Errors which are material by **nature** may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff; and
- Errors that are material by **context** are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2016/17, presented to you on 31 January 2017

Materiality for the Authority's accounts was set at £8 million which equates to around 2% of gross expenditure.

Materiality for the Pension Fund was set at £10 million which equates to around 2% of gross assets.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to Governance, Audit, Risk Management and Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance, Audit, Risk Management and Standards Committee any misstatements of lesser amounts to the extent that these are identified by our audit work. Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. *ISA 450* requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £400,000 for the Authority and less than £500,000 for the Pension Fund.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Governance, Audit, Risk Management and Standards Committee to assist it in fulfilling its governance responsibilities.

Audit differences

Unadjusted audit differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Governance, Audit, Risk Management and Standards Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Governance, Audit, Risk Management and Standards Committee, details of all adjustments greater than £400,000 are shown below.

Authority unadjusted audit differences						
#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
1	Dr Impairment Expense £1,908k, Dr Surplus on Revaluation of Property, Plant & Equipment Assets £303k	Dr Revaluation Reserve £303k, Dr Capital Adjustment Account £1,908k	Cr PPE £2,211k		Dr Unusable Reserves £2,211k	Two assets that were valued in the year were included in the financial statements at their pre-revaluation total. The adjustment is the effect of bringing the revaluation into the accounts.
2	Dr Donated Assets £540k, Cr Impairment Expense £540k					The Authority has recognised donated assets in respect to schools Funded by the Education Funding Agency transferred to the Authority in the year. For one of these schools only the new building was revalued and hence the total revaluation amount should have been recognised as a donated asset. However, the donated asset was lowered by the existing cost attributed to an old school building. The value of the old building should have been impaired as it is no longer operational.
3	Cr NNDR Appeals Provision Expense £440k	Cr Collection Fund Adjustment Account £440k		Dr NNDR Appeals Provision £440k	Dr Unusable Reserves £440k	The Authority's NNDR appeals provision calculation is arithmetically incorrect and has not been appropriately reflected in the accounts. Upon recalculation of the value by KPMG using the Authority methodology, we found the Authority's share of the provision to be overstated by £440k.

Audit differences

Authority unadjusted audit differences						
#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
4	Dr Impairment Expense £2,860k	Dr Capital Adjustment Account £2,860k	Cr PPE £2,860k		Dr Unusable Reserves £2,860k	In March 2017 it was identified that Pinner Wood School had a possible impairment due to a chalk mine being found under the building. The estimated value of the capital repairs required for this building are £2.86m, split between investigative work and structural work. An impairment should be recognised to reflect the lower value of the building at year-end, with the impairment being equal to the value of the works required. Such an impairment has not been recognised in the draft financial statements.
	Dr £4,631k	**Dr £4,631k**	**Cr £5,071k**	**Dr £440k**	**Dr £4,631k**	**Total impact of uncorrected audit differences**

Unadjusted Lease Disclosure Difference

Additionally, we have identified through our testing of operating lease commitments (lessor), one lease commitment recorded in the accounts where there was no lease agreement in place and one lease commitment which had been calculated on the basis of an out-of-date annual rent figure. The net effect of these errors would be to reduce operating lease commitments due to the Authority by £1,506k.

Audit differences

Adjusted audit differences

To assist the Governance, Audit, Risk Management and Standards Committee in fulfilling its governance responsibilities we present in the tables below a summary of adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Authority adjusted audit differences

#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
1	Dr Surplus on Revaluation of Property, Plant & Equipment Assets £11,281k	Dr Revaluation Reserve £11,281k	Cr PPE £11,281k		Dr Unusable Reserves £11,281k	The Authority applies an indexation uplift to Authority dwellings to get from the valuation date of 1 April 2016 to the balance sheet date. The uplift is based on land registry sales data for Harrow. At the time of accounts preparation, the Authority made an appropriate estimate of a 7.03% uplift. However, changes in the underlying Land Registry data between the time of accounts preparation and audit resulted in a difference in the appropriate uplift percentage, with this being revised to 4.21%.
2	Dr Other Operating Expenditure £15,401k, Cr Other Operating Revenue £15,401k					In the draft CIES the Authority recognised the net expenditure on support service cost. The appropriate treatment would have been to recognise the total income and expenditure incurred by these cost centres. The net approach used also means that the employee benefit expense recognised in note 5.25 is understated, as it does not include the costs for employees or agency staff on support service cost centres. The value of this understatement was £23,442k. We note that as part of the restatement of the prior year CIES that a similar adjustment is also required.
	Dr £11,281k	**Dr £11,281k**	**Cr £11,281k**		**Dr £11,281k**	**Total impact of corrected audit differences**

Appendix 4

Audit independence

This appendix communicates all significant facts and matters that bear on KPMG LLP's independence and objectivity and informs you of the requirements of *ISA 260 (UK and Ireland) Communication of Audit Matters to Those Charged with Governance.*

Integrity, objectivity and independence

We are required to communicate to you in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and audit team. We have considered the fees paid to us by the Authority for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies all KPMG LLP audit partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings. Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: instilling professional values; communications; internal accountability; risk management; and independent reviews. We would be happy to discuss any of these aspects of our procedures in more detail. There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed.

Audit matters

We are required to comply with *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance* when carrying out the audit. ISA 260 requires that we consider the following audit matters and formally communicate them to those charged with governance:

- Relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement lead and audit staff;
- The general approach and overall scope of the audit, including any expected limitations thereon, or any additional requirements;
- The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Authority's financial statements;
- The potential effect on the accounts of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements;
- Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the Authority's financial statements;
- Material uncertainties related to events and conditions that may cast significant doubt on the Authority's ability to continue as a going concern;
- Disagreements with Management about matters that, individually or in aggregate, could be significant to the Authority's financial statements or the auditor's report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter;
- Expected modifications to the auditor's report;

Audit independence

- Other matters warranting attention by those charged with governance, such as material weaknesses in internal control, questions regarding management integrity, and fraud involving management; and
- Any other matters agreed upon in the terms of the audit engagement.

We continue to discharge these responsibilities through our attendance at Governance, Audit, Risk Management and Standards Committees, commentary and reporting and, in the case of uncorrected misstatements, through our request for management representations.

Auditor declaration

In relation to the audit of the financial statements of the London Borough of Harrow and Harrow Pension Fund for the financial year ending 31 March 2017 we confirm that there were no relationships between KPMG LLP and London Borough of Harrow and Harrow Pension Fund , their directors and senior management and their affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity. We summarise below the non-audit services that we have provided, the fee, the potential threats to auditor independence and the associated safeguards in place.

Description of non audit services	2016/17 fees	Potential threat to auditor independence	Associated safeguards in place
Teachers Pensions Grant	£3,500 excluding VAT	We have considered the potential threats to independence in regard to this work and consider the following to be relevant. • Management • Self-review • Self-interest	**Management** • Separate engagement letter in place that sets out that there is no assumption of management responsibilities. • Our work is limited to undertaking specific agreed upon procedures. **Self-review** • The work does not involve the preparation of any financial information. • Our work does not involve judgement and are statements of fact based on agreed upon procedures. **Self-interest** • The fee for the work is not material to KPMG. We note that work on these grants is often undertaken by the external auditors.
Pooling of capital receipts grant	£3,500 excluding VAT		
Total fees	**£7,000, excluding VAT**		
Total fees as a % of the external audit fees	4%		

Appendix 5

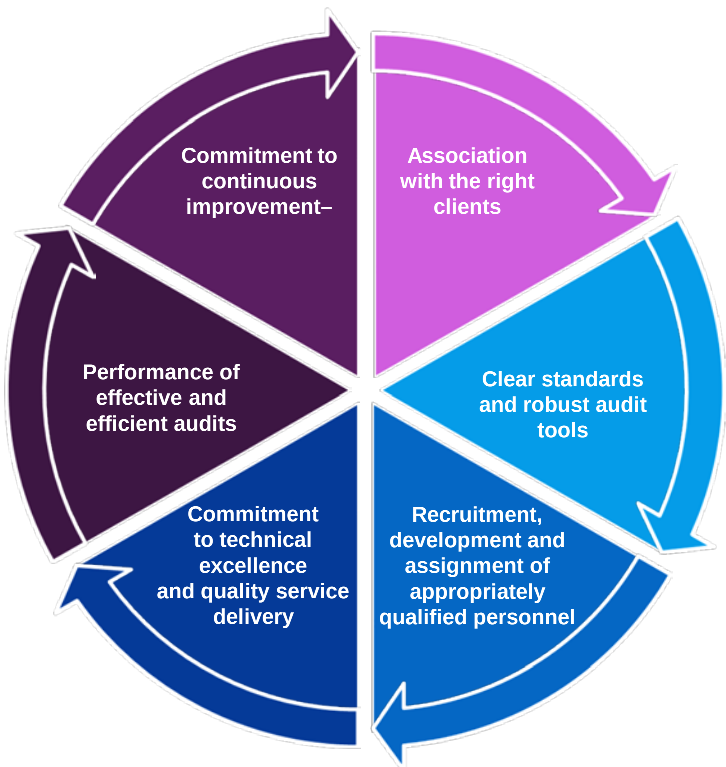
Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the Fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

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