



# Annual Audit Letter 2016/17 DRAFT

The London Borough of Harrow

—

October 2017



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The contacts at KPMG in connection with this report are:

**Andrew Sayers**  
*Partner*  
KPMG LLP (UK)

Tel: 07802975171  
Andrew.sayers@kpmg.co.uk

**Emma Larcombe**  
*Senior Manager*  
KPMG LLP (UK)

Tel: 07920257310  
Emma.larcombe@kpmg.co.uk

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://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 Andy Sayers, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers ([andrew.sayers@kpmg.co.uk](mailto: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](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This Annual Audit Letter summarises the outcome from our audit work at the London Borough of Harrow in relation to the 2016/17 audit year.

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

**VFM conclusion**

We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2016/17 on 29 September 2017. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.

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 the savings targets for 2017/18 are challenging 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 these overspends and through our discussions with the Director of Finance and Chief Executive recognise that tight control is being put on spending and savings.

This is an area that we will continue to review closely throughout 2017/18 through our discussions with Management.

**VFM risk areas**

We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.

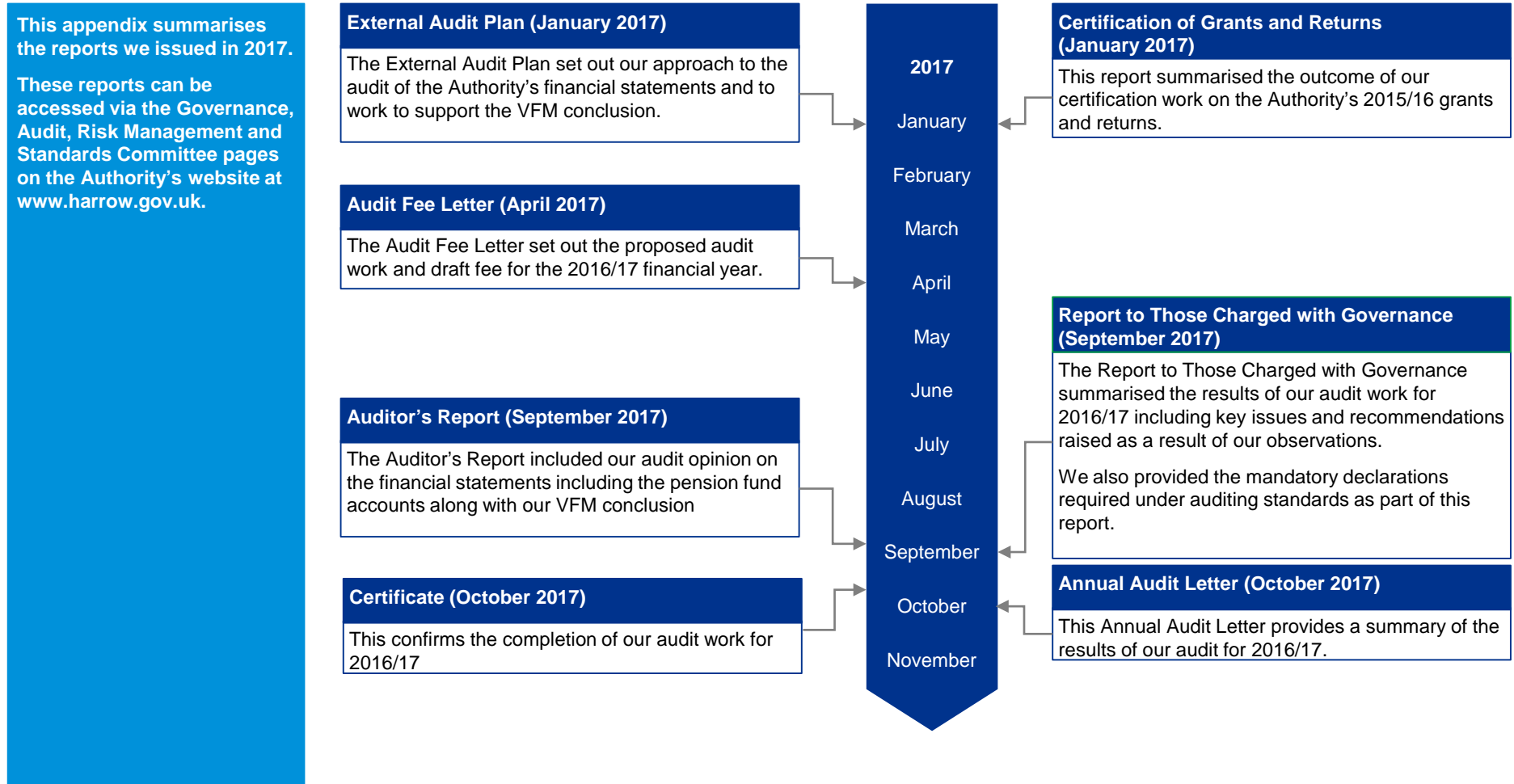
Our work identified the following matters:

- The Authority has significant savings targets with £83 million having to be achieved 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 considered the level of reserves, whilst we note that the Authority's reserves are low in comparison to other London Borough's, the low level of reserves is within the Council's financial plan and is a conscious decision.
- 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 it has robust financial planning arrangements in place.
- We considered the budget setting and monitoring process, including how saving targets are monitored and reported. We reviewed a sample of specific savings targets and confirmed that there was adequate challenge and monitoring of the savings throughout the year.
- We reviewed the spending control mechanisms put in place by the Authority to be reasonable and an appropriate step given the challenges faced.

**We have issued our certificate to confirm the completion of our audit responsibilities for the 2016/17 audit year**

<b>Audit opinion</b>	We issued an unqualified opinion on the Authority's financial statements on 29 September 2017. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the pension fund.
<b>Financial statements audit</b>	<p>Our audit, identified a total of six audit adjustments, that required reporting, these had a total value of £32.7 million. Two of these were amended by Management and totalled £26.7 million, The largest of these adjustments was for £15.4m and related to the netting off of expenditure and income within the restated CIES, there was no impact on the outturn position as a result of this adjustment.</p> <p>The remaining four audit adjustments were not adjusted by management as they do not have a material impact on the financial statements. These uncorrected adjustments relate to PPE valuations being missed off the fixed asset register, the calculation of an impairment and the NNDR provision on appeals. We raised a total of four recommendations as part of our audit, all have been accepted by Management.</p>
<b>Other information accompanying the financial statements</b>	Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.
<b>Pension fund audit</b>	There were no significant issues arising from our audit of the pension fund and we issued an unqualified opinion on the pension fund financial statements as part of our audit report.
<b>Whole of Government Accounts</b>	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.
<b>Certificate</b>	We issued our certificate on 18 October 2017. The certificate confirms that we have concluded the audit for 2016/17 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.
<b>Audit fee</b>	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. Further detail is contained in Appendix 2.

# Appendix 1: Summary of reports issued





# Appendix 2: Audit fees

This appendix provides information on our final fees for the 2016/17 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2016/17 planned audit fee.

### External audit

Our final fee for the 2016/17 audit of the London Borough of Harrow was £150,724, which is in line with the planned fee.

Our final fee for the 2016/17 audit of the Pension Fund was in line with the planned fee of £21,000.

### Certification of grants and returns

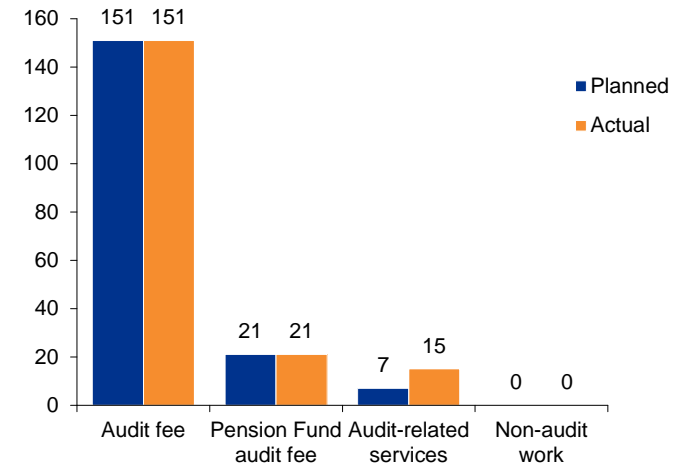
Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2018.

### Other services

We charged £7,000 excluding VAT for additional audit-related services for the certification of the Pooling of Capital Receipts grant claim and the Teachers Pension return, which are outside of Public Sector Audit Appointment's certification regime.

In addition, we charged £8,000, excluding VAT in relation to our work in relation to an objection in 2014/15 that concluded in November 2016.

External audit fees 2016/17 (£'000)





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