

Annual Audit Letter

London Borough of Harrow

Year ending 31 March 2020





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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for London Borough of Harrow (the Council) for the year ended 31 March 2020. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 6 July 2021 included our opinion that the financial statements:</p> <ul style="list-style-type: none">give a true and fair view of the Council's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; andhave been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20
Other information published alongside the audited financial statements	<p>Our auditor's report included our opinion that:</p> <ul style="list-style-type: none">the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.</p>
Reporting to the group auditor	<p>In line with group audit instructions, issued by the NAO on 4th November 2020, we reported to the group auditor in line with the requirements applicable to the Council's WGA return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified
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The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended. The audit report included emphasis of matter paragraphs:

- As detailed within our response to the significant risk over the valuation of the Council's Property, Plant and Equipment, our auditor's report includes an emphasis of matter paragraph with respect to the Council's disclosure of material valuation uncertainties in the valuations.
- As detailed within our response to the significant risk over the valuation of the Council's IAS19 pension liability, our auditor's report includes an emphasis of matter paragraph with respect to the Council's disclosure of material valuation uncertainties in the valuation of associated property investment funds.

Our opinion on the Council's financial statements was not qualified in respect of these matters.



2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified
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Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Governance, Audit, Risk management and Standards Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on 1.5% of Gross Revenue Expenditure.	£9.15m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£279k

Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - Officer's Remuneration - Exit Packages	£5k £5k
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2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified
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Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the GARMS Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
Management override of controls		
In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits	We addressed this risk through performing testing in respect of: <ul style="list-style-type: none">• Accounting estimates impacting on amounts included in the financial statements;• Consideration of identified significant transactions outside the normal course of business; and• Journals recorded in the general ledger and other adjustments made in preparation of the financial statements	There are no significant findings arising from our review of potential areas of management override
Revenue recognition		
Based on our initial knowledge and planning discussions we concluded we could rebut the presumption of a revenue recognition risk for the majority of the Council's revenue income. In particular we rebutted the revenue recognition risk for income derived from Council Tax, Grants and NNDR due to the low inherent risk associated with these amounts. We did not rebut the income risk relating to other material income streams within the Council, such as adult social care costs and charges for use of Council facilities, where the level of inherent risk is higher.	We addressed the risk by obtaining a detailed understanding of the Council's processes to recognise revenue in the correct accounting year. We performed the following work: <ul style="list-style-type: none">• detailed testing of transactions within the 2019/20 financial statements;• testing around the year-end to provide assurance that there were no material unrecorded items of income and expenditure in the 2019/20 accounts.	There are no significant findings arising from our review of revenue recognition



2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified	
Identified significant risk	Our response	Our findings and conclusions
Property, Plant & equipment valuation Where Council's assets are subject to revaluation, the year end carrying value should reflect the appropriate fair value. The Council has a rolling revaluation model covering a five year cycle, which may result in individual assets not being revalued for several years, which creates a risk that the carrying value of assets not revalued in year is materially different from the year end value. Due to the high degree of estimation uncertainty associated with these valuations, and the impact of the Covid-19 pandemic, we have determined there is a significant risk in this area. The Council's valuer applied a material valuation uncertainty paragraph to the valuations performed.	<p>We addressed this risk by reviewing the approach adopted by the Council to assess the risk, and considered the robustness of that approach.</p> <p>We also assessed the risk of the valuation changing materially in year, in order to determine whether these indicate that fair values have moved materially.</p> <p>In addition, for assets revalued during the year we:</p> <ul style="list-style-type: none">assessed the valuer's qualifications;assessed the valuer's objectivity and independence;reviewed the methodology used; andperformed testing of the associated underlying data and assumptions.	<p>The Council's valuer has included a material valuation uncertainty paragraph within their valuation report. The Council has included a disclosure of material valuation uncertainty of land and buildings in note 5.3 to the financial statements. In our view, this matter is fundamental to the users' understanding of the financial statements and as such we intend to include an 'Emphasis of Matter' paragraph in respect of this disclosure within our auditors report set out in Appendix B. This is not a modification of opinion.</p> <p>There are no further significant findings from our work on property, plant and equipment valuations.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified	
Identified significant risk	Our response	Our findings and conclusions
<p>Defined benefit pension liability</p> <p>The latest triennial valuations of London Borough of Harrow Pension Fund and the London Pension Fund Authority were completed at 31 March 2019. The valuation provides the basis of the associated net pension liability for the Council as at 31 March 2020.</p> <p>The valuation of the Council's net liability includes use of discount rates, inflation rates, mortality rates etc., Due to the high degree of estimation uncertainty associated with valuations, we determined this to be a significant risk.</p> <p>The Covid-19 pandemic has had an impact on all markets with significant impact on pension fund unquoted investment valuations as at 31 March 2020. There may be a greater level of uncertainty over valuations as a result of a lack of comparable market data.</p>	<p>We addressed this risk by reviewing the controls that the Council had in place over the information sent to the Scheme Actuary by the fund administrators (London Borough of Harrow Pension Fund). We also:</p> <ul style="list-style-type: none"> assessed the skill, competence and experience of the Fund's actuary; challenged the reasonableness of the assumptions used by the actuary as part of the annual IAS 19 valuation; carried out a range of substantive procedures on relevant information and cash flows used by the actuary as part of the annual IAS 19 valuation. <p>In response to the potential valuation uncertainty arising from the Covid-19 pandemic we have requested assurance from the Pension Fund auditor on the work performed on unquoted investment valuations.</p>	<p>London Borough of Harrow Pension Fund's financial statements included disclosures regarding material valuation uncertainty of its unquoted (level 3) investments. Linked to this matter, the Council included a disclosure of material valuation uncertainty of its share of the pension fund assets in note 5.3 to the financial statements. In our view, this matter is fundamental to the users' understanding of the financial statements and as such we intend to include an 'Emphasis of Matter' paragraph in respect of this disclosure within our auditors report set out in Appendix B. This is not a modification of opinion.</p> <p>There are no other issues arising from our work on the defined benefit liability valuation.</p>



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified
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Our audit approach

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Our auditor's report, stated that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2020.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>The Council has well developed arrangements setting out how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable. GARMS fulfils the expected functions of such a committee and has continued to meet regularly throughout the year, receiving reports of internal and external audit, and challenged the findings and recommendations as appropriate.</p> <p>The Corporate Risk Register is formally reported regularly to GARMS with a supporting analysis detailing movements in risk levels. There are a number of developed risk registers at service levels which are also subject to regular review and challenge.</p> <p>The Council has a detailed Treasury Management Strategy with regular reporting throughout the year. Decisions on treasury management are linked to the Medium Term Financial Strategy and capital programme of the Council.</p> <p>There has been regular reporting to Cabinet of performance and financial performance throughout the year, with a Medium Term Financial Strategy (covering the period to 2021/22) for the year ended 31 March 2020.</p>	Yes



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion		Unqualified
Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>The Council achieved its planned savings during 2019/20, leading to a balanced outturn and a bolstering of reserves to support the 2020/21 financial position. The final financial outturn was very close to the projected position throughout the year. The Council has a good track record of achieving savings during the financial year.</p> <p>As in the prior year, there was a significant underspend against the capital plan, which as part of the MTFS refresh necessitated by the Covid-19 pandemic, is being subjected to detailed review. Large variances in capital spend were recorded generally as a result of delays to planned schemes including the Harrow Strategic Development Partnership and redevelopment work at the Depot. £94m had been set in the Capital plan for property investment, which is being reconsidered in line with CIPFA guidance on local authorities borrowing to invest. As with revenue, detailed reports setting out variances and reasons have been presented to the Council throughout the year.</p> <p>During the year, a balanced budget was set for 2020/21 alongside an identified savings gap of £22.592m in the two years to follow (£11.414m in 2021/22 and £11.178m in 2022/23). During the year expected savings have been identified by Directorates and subjected to a robust challenge as to the likelihood and extent of achievement. Regular reporting to Cabinet and the Council reported on the level of savings proposed, progress in achieving them as well as additional pressures that had been identified.</p> <p>The MTFS as agreed during 2019/20 was challenging and has been further challenged by the impact of the Covid-19 pandemic, with lost income and additional expenditure being incurred. The Council are applying robust challenge to saving and spend projections for future years across all Directorates. Financial reporting to Council has included details associated with the Council's response to the Covid-19 pandemic, and its potential longer term impact, as this has developed.</p>	Yes



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion		Unqualified
Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>The Council's Constitution details the arrangements for contracting with third parties. The Council has written procedures for procuring products and services.</p> <p>During the year, in a focussed inspection, Ofsted awarded the Council's Children and Families service a judgement of 'Good' and highlighted positive outcomes for children, strong leadership and good partnerships.</p> <p>The Health and Well Being Board is responsible for the Harrow Better Care Fund plan. The Board, made up of representatives from the Council, NHS Harrow CCG and the voluntary sector monitors the outcomes and performance of this plan.</p>	Yes

Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant audit risk. The work we carried out in relation to significant risks is outlined below.

Risk	Work undertaken	Conclusion
Financial Sustainability The Council's Medium Term Financial Plan identified the need to make significant savings.	<p>We addressed this risk by</p> <ul style="list-style-type: none"> • Reviewing the controls put in place by the Council to ensure financial resilience, including the development and implementation of the Medium Term Financial Plan, and that this has taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, and the pandemic impact. • Reviewing management actions and mitigations to deliver the budgeted position. 	We have no significant issues arising from our work to report and note that the Council is continuing to respond to the challenges presented by the Covid-19 pandemic.



4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	(N/A)
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers. The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data, and to carry out certain tests on the data. We have completed this work and submitted it to the NAO.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.



5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Governance, Audit, Risk management and Standards committee in January 2020.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£116,057	£116,057
Additional fee for work required to meet regulatory requirements	N/A	TBC
Other non-Code work – grant claim assurance	£24,750	£24,750

Fees for other work

We confirm that we have not undertaken any non-audit services for the Council in the year.



6. FORWARD LOOK

Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1st April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work on value for money arrangements will focus on three criteria, specified in the revised Audit Code:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under the new Audit Code we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.



6. FORWARD LOOK

Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and our view as to whether recommendations have been implemented satisfactorily.

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is released

Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>



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