

# Audit Progress Report

London Borough of Harrow Council

30 November 2021



1. Audit Progress
2. Significant Weakness in the Council's Value for Money (VFM) Arrangements

# 01

Section 01:  
**Audit Progress**

# Audit Progress

## Purpose of this report

This report provides the Governance, Audit, Risk Management and Standards Committee (GARMS) with an update on progress in delivering our responsibilities as your external auditors and, in section 2, highlights the potential risk of there being a significant weakness in VFM arrangements relating to an identified fraud.

## Audit progress

**Financial Statements** – our audit work on the financial statements is substantially complete, as reported to GARMS on 30 November 2021. We anticipate issuing an unmodified opinion on the financial statements in the coming weeks.

In relation to our Whole of Government Accounts (WGA) work, we are currently awaiting group instructions from the NAO and the Council is also awaiting instructions for their WGA submission. The Council and external audit will complete their work upon receipt of the relevant instructions. This work will allow us to confirm that the Council's consolidation schedules were consistent with the audited financial statements.

**Value for Money (VFM) work** - we reported in our Audit Completion Report to GARMS on 30 November 2021 that we had not completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. We noted that we intended to report on these arrangements, in our Annual Audit Report, within three months of signing the financial statements. A reminder of the new requirements in relation to our VFM work and reporting is provided overleaf.

In this report we have noted a potential risk of there being a significant weakness in the Council's VFM arrangements. We also set out the work we intend to do against this risk. Where we do not consider that the risk has been fully mitigated at the point of Annual Audit Report, we will issue a recommendation in that report.

**Audit Certificate** - following the completion of our VFM and WGA work we will issue our audit certificate which formally closes the audit for the 2020/21 financial year. In the audit certificate, if we have identified a recommendation regarding a significant weakness in VFM arrangements this will be referenced in the Audit Certificate.

# Audit Progress

## External audit work on the Council's arrangements to deliver value for money in its use of resources

We reported during 2020/21 that the National Audit Office had updated their Code of Audit Practice and that this new Code applies from 1 April 2020. The new Code changes the work that auditors are required to do, and the related reporting, on the Council's arrangements to deliver value for money in their use of resources.

The changes to the reporting requirements means that from 2020/21 we no longer include a value for money conclusion in our Financial Statements Audit Report. We now report our commentary on the Council's arrangements to deliver value for money in a new Auditor's Annual Report (which replaces the Annual Audit Letter). The NAO Code requires that where auditors identify weaknesses in arrangements, we should report recommendations to GARMS (as those charged with governance) promptly through the year.

In carrying out our work we will comply with the NAO's guidance on value for money work, which identifies that the work must have regard to the following specific criteria:

- **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.

We are required to structure our VFM commentary on the Council's arrangements under these specified reporting criteria, which are expanded in the supporting guidance notes produced by the National Audit Office as detailed overleaf.

# Audit Progress

## External audit work on the Council's arrangements to deliver value for money in its use of resources (continued)

### Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services

- how the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them
- how the body plans to bridge its funding gaps and identifies achievable savings
- how the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- how the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system
- how the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

### Governance: how the body ensures that it makes informed decisions and properly manages its risks, including

- how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- how the body approaches and carries out its annual budget setting process
- how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed
- how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

### Improving VFM: how the body uses information about its costs and performance to improve the way it manages and delivers its services

- how financial and performance information has been used to assess performance to identify areas for improvement
- how the body evaluates the services it provides to assess performance and identify areas for improvement
- how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve
- where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

# 02

Section 02:

## **Risk of Significant Weakness in the Council's Value for Money (VFM) Arrangements**

# Identified risk of Significant Weakness in the Council's VFM Arrangements

## Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand the Council's arrangements and to identify risks that significant weaknesses in arrangements may exist. The table below outlines the risk of significant weaknesses in arrangements that have been identified during our audit work.

Risk of significant weakness in arrangements	Financial sustainability	Governance	Improving the 3E's	Planned Procedures
<p>In August 2021, the Council were alerted to allegations of fraud and corruption, that are currently subject to a criminal investigation by the Police.</p> <p>Allegations of fraud and corruption indicate a possible significant weakness in relation to the operation of internal controls and the achievement of value for money.</p>		●		<p>Internal Audit have undertaken initial work to establish the cause and quantum of the fraud, which is ongoing and will be reported to GARMS in due course.</p> <p>The Chief Executive has commissioned an independently led review of the Communities directorate to establish causality and lessons learned.</p> <p>Our work will include, but will not be limited to:</p> <ul style="list-style-type: none"> <li>• Review of the internal audit findings and recommendations and consideration of management's progress in their implementation</li> <li>• Consideration of the independent review findings and recommendations and of managements' progress in their implementation</li> </ul> <p>For both reviews we will consider if where controls weaknesses are identified, this constitutes a significant weakness in the arrangements for the Council that ensures they can gain assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud</p>

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