

Audit Completion Report

London Borough of Harrow
Year ended 31 March 2021

November 2021



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Governance, Audit, Risk Management and Standards Committee
Harrow Council
Civic Centre
Station Road
Harrow
HA1 2XY

30 November 2021

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

Dear Committee Members

Audit Completion Report – Year ended 31 March 2021

We are pleased to present our Audit Completion Report for the year ended 31 March 2021. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 13 July 2021. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07387 242052.

Yours faithfully

Lucy Nutley
Mazars LLP

Mazars LLP – Tower Bridge House, St Katharine's Way, London, E1W 1DD

Tel: 020 7063 4000– www.mazars.co.uk

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01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Valuation of property, plant and equipment (including investment property valuations)
- Net defined benefit liability valuation
- Grant accounting
- Management override of controls; and
- Revenue recognition.

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements; unadjusted misstatements total £797,000. Section 7 outlines our work on the Authority's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021.

At the time of preparing this report, significant matters remaining outstanding are outlined in section 2. We will provide an update to you in relation to the significant matters outstanding through issuance of a follow up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



Audit opinion

We anticipate issuing an unqualified opinion, with the addition of an 'emphasis of matter' paragraph with respect to material valuation uncertainties attached to investment properties in the councils property portfolio and pooled property investments included within the London Borough of Harrow Pension fund. This is not a modification of opinion. Our proposed audit opinion is included in the draft auditor's report in Appendix B.



Value for Money

We anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our Value for Money work is provided in section 7 of this report.



Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the Authority's WGA submission. We are unable to commence our work in this area until such instructions have been received.



Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and to consider any objection made to the accounts. No such correspondence from electors has been received.

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02




Section 02:

Status of the audit

2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Closure procedures and review		Our final reviews and completion work needs to be performed, including a further technical review of the financial statements and consideration of post balance sheet events until the date of sign-off.
Events after the reporting period		Review of events after the reporting period, up to the point at which we sign our audit report
Review and closure procedures		Completion of audit file documentation and audit closure procedures. Final Engagement Lead file review
Whole of Government Accounts		Completion of audit procedures supporting the WGA return to the NAO.

-  Likely to result in material adjustment or significant change to disclosures within the financial statements.
-  Potential to result in material adjustment or significant change to disclosures within the financial statements.
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements.



03

Section 03:

Audit approach

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum date 13th July 2021. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum

Materiality

Our provisional materiality at the planning stage of the audit was set at £9.1m using a benchmark of 1.5% of gross revenue expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors, is £9.0m using the same benchmark. We also set a performance materiality of £6.3m based on 70% of financial statement materiality. Specific, lower, materiality levels were applied to certain disclosures such as related party transactions and Officer’s remuneration.

Reliance on internal audit

We have not placed formal reliance on the work performed by the Authority’s internal audit function. We have reviewed the functions work programme for the year and used this to inform and confirm our own risk assessment.

Use of experts

We have made use of two auditors' experts during our work. Details of the work provided are as follows:

- PwC: The NAO have appointed PwC to review the qualifications, resources, objectivity and approach of each of the actuaries involved in the production of IAS19 figures for Local Government Pension Schemes (LGPS). The assessment also looks at the approach taken by each actuary and considers the main assumptions used by each in order to value the schemes underlying assets and liabilities. We rely on the work of PwC to identify any further procedures that may be required with respect to defined benefit pension liabilities.
- Gerald Eve: The NAO appoint Gerald Eve to help inform auditors consideration of the movements in the values of property. Their valuation trends report provides an analysis of movements on certain valuation indices relevant to the consideration of different classification of land and buildings. We use the work of this expert to inform our expectations when auditing property valuations.



04

Section 04: **Significant findings**

4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 27 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks

Management override of controls	Description of the risk
	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. Due to 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.
	How we addressed this risk We addressed this risk through performing audit work over: <ul style="list-style-type: none">• Accounting estimates impacting 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.
	Audit conclusion We have no significant findings to report as a result of our work on areas subject to potential management override of controls.



4. Significant findings

Revenue recognition	Description of the risk
	<p>The risk of fraud in revenue recognition is presumed to be a significant risk on all audits due to the potential to inappropriately shift the timing and basis of revenue recognition as well as the potential to record fictitious revenues or fail to record actual revenues.</p> <p>Based on our initial knowledge and planning discussions we have concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Council's revenue income and expenditure. In particular we can rebut the revenue recognition risk for income derived from Council Tax, main revenue Grants and NNDR due to the low inherent risk associated with these amounts.</p> <p>For the Council we deem the risk to relate specifically to material income streams within the Council, where the level of inherent risk is higher.</p>
	<p>How we addressed this risk</p> <p>We addressed this risk by obtaining a detailed understanding of the Council's processes by which it ensures that revenue is materially recognised in the correct accounting year. We have performed:</p> <ul style="list-style-type: none"> • detailed testing of transactions within the 2020/21 financial statements to confirm they are accounted for in the correct year; • testing from receipts around the year-end to provide assurance that there are no material unrecorded items of income in the 2020/21 accounts.

Revenue recognition	Audit conclusion
	<p>Initial audit testing identified a small error which further work identified as having a potentially trivial effect on the income recorded in the financial statements. We have no significant findings to report as a result of our work on revenue recognition.</p>



4. Significant findings

Property, plant and equipment valuation (including investment property valuation)	Description of the risk
	<p>The Council has adopted a rolling revaluation model which sees other land and buildings revalued over a five year cycle, and may result in individual assets not being revalued for several years. This creates a risk that the carrying value of those assets that have not been revalued in year is materially different from the year end fair value.</p> <p>In respect of Council Dwellings, these are reviewed using a beacon valuation methodology, which values Council stock by grouping assets into type and using a nominated beacon asset for each group. The assessed value is uplifted based on an open market assessment then amended for an adjustment factor provided by MHCLG.</p> <p>Due to the high degree of estimation uncertainty associated with valuations, we have determined there is a significant risk in this area.</p>

How we addressed this risk

We addressed this risk by reviewing the approach adopted by the Council to assess the risk that assets not subject to valuation at year end are not materially misstated, and considered the robustness of that approach. We will also assessed the risk of the valuation changing materially in year, considering the movement in market indices between revaluation dates and the year end, in order to determine whether these indicate that fair values have moved materially. In addition, for those assets which have been revalued during the year we will:

- assess the valuer's qualifications;
- assess the valuer's objectivity and independence;
- review the methodology used; and
- perform testing of the associated underlying data and assumptions.

Property, plant and equipment valuation (including investment property valuation)	Audit conclusion
	<p>During our review of the Council's valuations we have identified a number of errors on individual valuations and the processing within the Councils records. Our work identified a number of instances where the Council's completed property valuations had not been correctly input into the fixed asset register, and hence were inaccurately recorded within the financial statements. This resulted in the net overstatement of valuations in the financial statements by an amount over our performance materiality level. Management have adjusted the financial statements for these errors, which have been summarised in the schedule of misstatements detailed in section 5 of this report.</p> <p>In addition, our testing of investment property confirmed the existence of material valuation uncertainty statements (MVU) due to the impact of covid-19 in the work of the valuers. The MVU on the properties were included where the property is of a specialised nature (golf courses and retail units) and work had been carried out earlier in the financial period. All of the valuations where MVU was included, which total value of £19.65m, have been performed by the council's external valuers and are part of the councils investment property portfolio totalling £77.16m.</p> <p>The council has included a disclosure of material uncertainty in the notes to the financial statements. We consider this to be fundamental to users understanding of the financial statements so intend to include an 'Emphasis of Matter' paragraph in respect of this disclosure.</p> <p>There are no other significant matters arising from our audit work on the valuation of property, plant and equipment and investment properties</p>

4. Significant findings

Net defined benefit pension scheme liability valuation	Description of the management judgement
	<p>The latest triennial valuation of the Harrow Pension Fund was completed as at 31 March 2019. As an admitted body within each fund, the valuation also provides the basis of the associated net pension liability for the Council as at 31 March 2021.</p> <p>The valuation of the Council's net liabilities includes use of discount rates, inflation rates, mortality rates etc., all of which should reflect the profile of the Council's employees and other appropriate data.</p> <p>Due to the high degree of estimation uncertainty associated with the valuations, we have determined there is a significant risk in this area.</p>
	<p>How our audit addressed this area of management judgement</p> <p>As the Council is the Fund administrator, we have addressed this risk by reviewing the controls that the Council has in place over the information sent to the Scheme Actuary, Hymans Robertson.</p> <p>We have 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.

Net defined benefit pension scheme liability valuation	Audit conclusion
	<p>There have been no significant findings arising from our audit procedures to review the defined benefit pension scheme liability valuation. We are satisfied the balances and associated disclosures are materially accurate.</p> <p>London Borough of Harrow Pension Fund's financial statements intend to include disclosures regarding material valuation uncertainty of its level 3 investments in pooled property funds. The Harrow pension fund holds £61.6m in pooled property funds, of which the majority (88%) relates to the council as the largest participant in the scheme. This value is material to the London Borough of Harrow.</p> <p>The Council intends to make a disclosure of material valuation uncertainty of its share of the pension fund assets in note 5.4 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>



4. Significant findings

Other key areas of management judgement and enhanced risks

Grant accounting	<p>Description of the management judgement</p> <p>As a result of the impact of the pandemic on the financial demands on the council, in terms of reduced income and increased and new expenditure patterns and the overall impact on the financial position of the council, there has been a provision of material revenue grant funding by Central Government.</p> <p>The funding has been through a number of separate grants and in respect of different areas of lost income or increased expenditure, with some of the grants having specific conditions for use or being directed as funding for specific items of expenditure. As a result individual grants will, under the requirements of the CIPFA code, have different accounting requirements and as such each will require separate analysis to ensure the accounting treatment is appropriate.</p>
	<p>How our audit addressed this area of management judgement</p> <p>We discussed the Council's approach to considering the terms and conditions associated with each of the grants received, and the proposals for accounting, ensuring these accounting proposals were in line with the requirements set out in the CIPFA code.</p>
	<p>Audit conclusion</p> <p>There have been no significant findings arising from our audit procedures to review grant accounting. We are satisfied the balances and associated disclosures are materially accurate and appropriately accounted for within the financial statements.</p>



4. Significant findings

Qualitative aspects of the Authority's accounting practices

We have reviewed the Authority's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Authority's circumstances. The accounts have been prepared on the correct (continued provision of service) going concern basis.

Draft accounts were provided by the authority on 15 July 2021 and were of a high quality. Supporting working papers were made available prior to the commencement of the audit and were of a high quality. Staff members were timely and extremely thorough in response to evidence requests and audit enquiries.

Significant matters discussed with management

We have discussed the following significant matters with management:

- The impact of Covid-19 on the council and the associated impacts this may have on the risks of material misstatement to the valuation of property, plant and equipment, the assessed provision for expected credit losses and the potential overall impact on the council's financial position.
- The impact of the forthcoming changes to the main accounting system used by the Council and the timelines for implementation and the associated impacts on the preparation and finalisation of the 2020-21 financial statements.
- Going concern and the basis of management's assessment of its current position. We have reviewed management's initial assessment and considered this against budget forecasts and cabinet finance papers to support the judgement.

Significant difficulties during the audit

During the course of the audit, we did not encounter any significant difficulties and we have had the full co-operation of management.



4. Significant findings

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability 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 powers as part of our 2020/21 audit.

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. No such objections have been raised.

Modifications required to our audit report

We have not identified any issues which would result in us proposing to issue a modified audit opinion. Our draft audit report, in full, is set out in Appendix B.

As described within our response to the significant risks surrounding the valuation of the council’s property, plant and equipment (including investment property) and the net defined benefit pension scheme liability valuation, our draft auditor’s report set out in Appendix B includes ‘Emphasis of Matter’ paragraphs with respect to the disclosure of material valuation uncertainties on investment property valuations and material valuation uncertainties attached to pooled property funds held by the Pension Fund. Our opinion on the financial statements is not qualified in respect of these matters.



05

Section 05:

Internal control recommendations

5. Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Recommendations
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	1
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	5
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0



5. Internal control recommendations

Significant weaknesses identified to internal controls

IT logical security – Level 1

Description of deficiency

During the course of the IT audit we found the following issues surrounding logical security:

- 20 leavers could have accessed accounts post leaving, of which 11 had direct access to SAP
- Within SAP, 106 users were identified as having access to SU01, the ability to create and remove users
- A number of users had access to critical SAP profiles giving them unrestricted access to all areas
- SAP password parameters did not align with best practice.

Potential effects

The above findings have a number of potential impacts:

- Employees who have left the authority may still have access to financial data and the ability to process transactions, resulting in financial loss.
- Excessive use of SU01 access rights increases the risk of 'ghost users', which may enable individuals to misappropriate funds and data.
- Access to all elements of SAP profiles removes effective segregation of duties and increases the potential for misappropriation of funds and inappropriate accessing of areas.
- The use of weak passwords increases the authorities susceptibility to cyber attacks.

Recommendation

We are aware that the authority is in the process of moving to a new accounting system. We recommend that the following are implemented as soon as possible:

- Processes are put in place to ensure access rights for all leavers are rescinded on the final day of service and a periodic review of access rights is undertaken to identify any users with access rights that aren't appropriate.
- Privileged access rights such as SU01 are reviewed to ensure their use and issue are kept to a minimum.
- Standard users should be reviewed to ensure no staff are allocated unrestricted access rights.
- The Council's password policies should be updated to ensure they align with generally accepted best practice.

Management response

A review of internal controls will ensure that once an officer has been made a leaver and after their last day of service, they are removed from the SAP system (Dynamics going forward). In addition, there are strict controls over the returning of LBH laptops on the last day of an employee's service. Officers will regularly test that these controls are working correctly.

Only LBH staff who either work in IT or the SAP / Dynamics Support Team plus specific external consultants who support the Harrow system will have access to SU01.

All user permissions are based on least privilege and the Role-Based Access Control model and password policies are in line with industry best practice (8+ characters, complex). Officers will ensure that all system password requirements meet industry best practice.

Officers will review and periodically check that the access control policy procedures are working effectively to prevent any unauthorised access to all areas of a system.

5. Internal control recommendations

Other weaknesses identified to internal controls

IT operations – Level 2

Description of deficiency

During the course of our detailed IT audit work we noted the following issues:

- While the IT system back up policies and procedures were documented, these were last reviewed and updated in February 2016 and a number of the provisions under the guidance were outdated.
- Although an IT business continuity plan was documented, this had not been reviewed and updated since July 2018 and a number of the provisions under the guidance were outdated.

Potential effects

The reliance on outdated backup policies and procedures will result in a lack of understanding and policy compliance and could ultimately result in a loss of data for the Council

Further, the existence of an outdated business continuity plan may result in a lack of staff understanding of policies and processes, and may give rise to a lack of productivity and functionality during periods of IT disruption.

Recommendation

The council should ensure the relevant policies are updated to reflect current business software and practises as part of the current system upgrade and then be subject to regular periodic review, update and testing.

Management response

The move to outsourced cloud services has fundamentally altered the Council's data backup / recovery processes. Assurance of Council data is now largely achieved through the contractual provisions with a range of cloud service providers, IT will consolidate these arrangements into an updated business continuity plan by the end of March 2022 and will update quarterly.

Approach to Valuations – Level 2

Description of deficiency

Our audit work has highlighted that the council made use of multiple external valuers to assist in the year end valuation of the investment property portfolio. We noted that 4 separate external valuers have been used across the councils investment property portfolio.

Potential effects

The use of a range of valuers may give rise to issues surrounding the consistency of approach that is employed whilst valuing properties. Whilst we noted no significant findings as a result of our investment property valuations testing, we consider the council may be able to achieve some economies of scale by using fewer valuers.

Recommendation

Given the above, we would recommend the council reviews the list of properties for which external valuation experts are required and reviews its approach to the appointment of external valuers.

Management response

The Covid-19 pandemic meant no site visits could be undertaken to inspect and value the investment properties. For this reason, the Council used valuers who had both knowledge and the specialist experience of these assets. The investment properties are sited around different parts of the country and some are of a specialist nature (i.e. golf course / hotel).

Going forward officers will consider the procurement of all such investment property valuations through one valuer.

5. Internal control recommendations

IFRS 16 readiness – Level 2

Description of deficiency

Our audit work highlighted leases, where the council is the lessor, that had been recognised within the operating leases disclosure. Review of the lease terms concluded that these items should have been disclosed as finance lease arrangements, with the affected assets to be excluded from the balance sheets and future commitments disclosed separately. As the affected lease is trivial we have agreed with management that the disclosure in respect of the issue will not be amended in the current year.

However, in identifying this issue we have also identified a small number of leases that will fall within the scope of IFRS16, but not the current leasing standard. These leases will therefore require to be brought onto the balance sheet for the first time in 2022-23.

Potential effects

The Council will require to quantify the financial impact on the balance sheet of the implementation of IFRS 16 in their 2021-22 financial statements. Without a full review of all leases held, including those at peppercorn rentals, there is a risk that this disclosure could be materially misstated.

Recommendation

Given the authority has sufficient time available prior to the mandatory implementation deadline, we recommend that the Council performs a thorough review of leases held and their value to quantify the overall impact of implementation of IFRS16 for disclosure in the 2021-22 accounts and beyond.

Management response

In preparation for the 2022-23 Statement of Accounts (comparatives required for 2021-22) the Council has carried out a thorough review of leases held for which the Council is lessee. An estimate of the impact of IFRS16 on the balance sheet has been calculated. On the basis of the estimate the impact on the accounts of IFRS16 is not expected to be material. A detailed IFRS16 calculation will be prepared for inclusion in the 2022-23 accounts.

PPE valuations process – Level 2

Description of deficiency

Our audit identified a number of instances where the Council’s completed property valuations had not been correctly input into the fixed asset register, and hence were inaccurately recorded within the financial statements. This was due to issues in the valuations process resulting in incorrect balances being provided to the fixed asset register gatekeeper. This resulted in the overstatement of valuations in the financial statements, which have been corrected by management.

Potential effects

The misstatement of property valuations in source documentation will lead to the balance sheet being incorrect.

Recommendation

Management should make the best use of all of the available information to them. In order to minimise the occurrence of such errors, we recommend:

- In order to ensure management are using all information provided by the valuers, management should perform reconciliations between valuations input spreadsheet and fixed asset register
- Greater challenge of the valuation provided to management to be input into the accounts.

Management response

Officers acknowledge that human error allowed several individual file valuations not to be updated on the summary schedule that was forwarded for inclusion in the fixed asset register.

Going forward Corporate Estates will carry out sample checks to confirm all updated valuations have been included on the summary schedule and will insert an additional check column within the workbook to acknowledge that all valuations have been correctly incorporated.



5. Internal control recommendations

Migration to Dynamics accounting system – Level 2

Description of deficiency

We have noted the Authority plans a hard close of the finance side of the current SAP system at the end of November 2021 following a full migration of the finance side to Dynamics. Payroll will remain in SAP for the immediate future.

Potential effects

2021-22 will be the first year end on the new accounting system. Given the year end close will require the ‘splicing’ together of data from two systems and first close of a new accounting system, there is scope for considerable delays and ‘teething’ issues.

Recommendation

We would recommend the council run a ‘dress rehearsal’ of the year end closure. This process will help the Authority to understand its new system and identify any close down issues prior to the year end. This will allow work arounds to be implemented before the full year end close down.

Management response

Officers within Finance have already started on reconciliation checks to ensure closing balances from SAP are carried forward as the opening balances in the Dynamics system. Officers will ensure all data and reconciliations are up to date and year end reports tested to allow a dry run of an accounts closedown under Dynamics by the end of February 2022.



06

Section 06:

Summary of misstatements

6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold of £272k for adjustment of £10.9m. The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: General Fund Cr: Expenditure		292	292	
Adjustment for a prior year cut-off error where a proportion of an HRA invoice relating to 2019-20 had been incorrectly recorded in 2020-21					
2	Dr: Creditors Cr: General Fund		388	388	
Adjustment required to remove the historic imbalance that exists between the collection fund creditors in the collection fund statement and balance sheet as a result of an error made in the recording of transactions in previous years					
3	Dr: Revenue Cr: General Fund	409			409
Prior year cut-off errors identified where income relating to 2019-20 had been recorded in 2020-21 as information was unavailable at the completion of the draft financial statements for the prior year.					
Total unadjusted misstatements		409	680	680	409

Disclosure amendments

We also identified an issue with the operating lease disclosure. A trivial (balance sheet impact) finance lease had been disclosed as an operating lease within the operating lease disclosure. The authority have elected to not amend for the issue given the trivial nature.



6. Summary of misstatements

Adjusted misstatements

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Creditors Cr: Debtors		301	301
	Both debtors and creditors were initially overstated. This was in respect of a credit adjustment relating to adult social care client monies held as at the end of 2019-20 processed through debtors. The adjustment was not removed at the start of the period, overstating both debtors and creditors. As such both have been reduced.			
2	Dr: Impairment charge Cr: Revaluation Reserve Cr: Property plant and equipment Dr: Capital Adjustment account Cr: General Fund	10,607	10,607	3,392 7,215 10,607
	Adjustment made as a result of the inclusion of incorrect valuations within the fixed asset register resulting in a number of over and under valuations or PPE within the financial statements. The adjustments as detailed are the net movements and impacts on the revaluation reserve and impairment charge.			
Total adjusted misstatements		10,607	10,908	21,515

Disclosure amendments

During our testing we identified one significant disclosure amendment. We identified that the council had incorrectly restated prior year comparatives in relation to DSG balances in the draft 2020/21 accounts. The regulation did not come into force until 2020/21 and so the amendment should not have been made. Upon request the Authority made the required amendment. Other disclosure adjustments made have no impact on the substance of the financial statements.



07

Section 07:

Value for Money

7. Value for Money

Approach to Value for Money

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 and sets out the reporting criteria that we are required to consider. The reporting criteria are:

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

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

The table overleaf outlines the risks of significant weaknesses in arrangements that we have identified, the risk-based procedures we have undertaken, and the results of our work.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report within 3 months of the financial statements.

Status of our work

We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2021. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however we continue to undertake work on the Council's arrangements.

Our draft audit report at Appendix B outlines that we have not yet completed our work in relation to the Council's arrangements. As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report within 3 months of the financial statements.



Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

Dear Lucy

London Borough of Harrow - audit for year ended 31 March 2021

This representation letter is provided in connection with your audit of the financial statements of London Borough of Harrow ('the Council') for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Director of Finance and Assurance that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.



Appendix A: Draft management representation letter

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates are reasonable, including:

- those measured at current or fair value; and
- provision for NNDR Appeals.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.



Appendix A: Draft management representation letter

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Director of Finance and Assurance for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
 - o management and those charged with governance;
 - o employees who have significant roles in internal control; and
 - o others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council’s financial statements communicated by employees, former employees, analysts, regulators or others

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council’s related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.



Appendix A: Draft management representation letter

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Group accounts

I confirm I consider where any of the Council's subsidiary companies and / or joint ventures have not been included within the group accounts prepared, their inclusion would not have a material impact on the accounts.

Unadjusted misstatements

All unadjusted misstatements above triviality have been listed in the appendix to this letter.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Public Finance Initiative

I confirm that, to the best of my knowledge, there have been no significant contract variations agreed during the year. There have also been no off-programme lifecycle expenditures.

Yours sincerely

Dawn Calvert
Director of Finance and Assurance, Section 151 Officer
Date:



Appendix A: Draft management representation letter

Appendix – Unadjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: General Fund Cr: Expenditure		292	292	
Adjustment for a prior year cut-off error where a proportion of an HRA invoice relating to 2019-20 had been incorrectly recorded in 2020-21					
2	Dr: Creditors Cr: General Fund			388	388
Adjustment required to remove the historic imbalance that exists between the collection fund creditors in the collection fund statement and balance sheet as a result of an error made in the recording of transactions in previous years					
3	Dr: Revenue Cr: General Fund	409			409
Prior year cut-off errors identified where income relating to 2019-20 had been recorded in 2020-21 as information was unavailable at the completion of the draft financial statements for the prior year.					
Total unadjusted misstatements		797	292	292	797

Appendix B: Draft audit report

Independent auditor’s report to the Members of London Borough of Harrow

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of London Borough of Harrow “the Council” for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, Housing Revenue Account, Collection Fund Account and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2021 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – the valuation of land, buildings and, investment property and pension fund pooled property investments

We draw attention to Note 5.3 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council’s land, buildings and investment property, and the valuation of the Council’s share of the Harrow Pension Fund pooled property investments. As disclosed in Note 5.3 to the financial statements, the Council’s and Pension Fund valuers included a ‘material valuation uncertainty’ declaration in their reports because of the Covid-19 pandemic. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Finance and Assurance’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.



Appendix B: Draft audit report

Our responsibilities and the responsibilities of the Director of Finance and Assurance with respect to going concern are described in the relevant sections of this report.

Other information

The Director of Finance and Assurance is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Director of Finance and Assurance for the financial statements

As explained more fully in the Statement of the Director of Finance and Assurance’s Responsibilities, the Director of Finance and Assurance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Director of Finance and Assurance is also responsible for such internal control as the Director of Finance and Assurance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance and Assurance is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Director of Finance and Assurance is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



Appendix B: Draft audit report

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, the Local Government and Housing Act 1989 and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Director of Finance and Assurance's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Governance, Audit, Risk Management and Standards Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Governance, Audit, Risk Management and Standards Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Governance, Audit, Risk Management and Standards Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Director of Finance and Assurance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.



Appendix B: Draft audit report

Report on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have not completed our work on the Council’s arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.

We will report the outcome of our work on the Council’s arrangements in our commentary on those arrangements within the Auditor’s Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor’s responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.



Appendix B: Draft audit report

Use of the audit report

This report is made solely to the Members of London Borough of Harrow Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to:

- satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack.

Lucy Nutley
For and on behalf of Mazars LLP

Tower Bridge House
St Katharine's Way
London
E1W 1DD

Date



Appendix C: Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.



Appendix D: Other communications

Other communication	Response
Compliance with Laws and Regulations	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations.</p> <p>We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.</p>
External confirmations	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
Related parties	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"> a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going Concern	<p>We have not identified any evidence to cause us to disagree with the Director of Finance and Assurance that the London Borough of Harrow will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p>
Subsequent events	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>

Appendix D: Other communications

Other communication	Response
Matters related to fraud	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and GARMS, confirming that</p> <ul style="list-style-type: none"> a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: <ul style="list-style-type: none"> i. Management; ii. Employees who have significant roles in internal control; or iii. Others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.



Mazars

Tower Bridge House
St Katharine's Way
London
E1W 1DD

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.