



Report for: **GOVERNANCE, AUDIT,
RISK MANAGEMENT
AND STANDARDS
COMMITTEE**

Date of Meeting: 23 May 2023

Subject: **INFORMATION REPORT**
Audit Completion Report 2021/22

Responsible Officer: Dawn Calvert, Director of Finance and Assurance

Exempt: No

Wards affected: All

Enclosures: Appendix 1 - Audit Completion Report 2021/22

Section 1 – Summary and Recommendations

This report provides the Committee with a completion report on the 2021/22 external audit, highlighting remaining outstanding areas.

Recommendations:

The Committee is requested to note the attached Audit Completion Report 2021/22 for the Council.

Section 2 – Report

Audit Completion Report 2021/22

1. This Audit Completion report 2021/22 (Appendix 1) has been prepared to communicate the completion of the audit of the Council's statement of accounts for the year ending 31 March 2022, highlighting remaining outstanding areas as set out in Section 02 (Status of the audit) of the report.
2. The Accounts and Audit (England) Regulations 2015, require Local Authorities to prepare Statement of Accounts in accordance with proper practices. Previous timetable deadlines have meant that the draft Statement of Accounts must be published by 31st May with the audited version being published by 31st July each year. Following the Coronavirus pandemic the legislative requirements have been relaxed and this has continued for 2021-22. The Accounts and Audit (Amendment) Regulations 2021 (SI 2021/263) revised the deadlines to 31st July 2022 for the draft accounts and 30th November 2022 for the audited accounts.
3. Whilst the draft accounts were published by the 31st of July 2022, the deadline for the audited accounts (30th of November 2022) was not met as the auditors experienced delays in finalising the audit work on the valuation of property, plant and equipment and investment property and there was a national issue in relation to accounting for infrastructure assets which impacted every local authority with material infrastructure balances.
4. The audit work was paused in November 2022 but commenced again in March 2023 and significant progress has now been made.
5. The executive summary of the report is as follows:
 - Audit opinion: Subject to resolution of the matters outlined in the report, the auditors anticipate issuing an unqualified opinion, without modification, on the financial statements.
 - Value for Money (VFM): The auditors have yet to complete their work on VFM and are currently discussing some risks of significant weaknesses in arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources.

- Whole of Government Accounts (WGA): The auditors have not yet to receive from the National Audit Office their list of sampled components for WGA. They are unable to discharge our full responsibilities until such instructions have been received.
 - Wider powers: The 2014 Act requires auditors 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. Whilst there had been some correspondence, there have been no objections made for 2021/22.
6. The significant findings of the audit are set out in Section 4 and the ones which will involve a change in the accounts are set below:
- Valuation of Property, Plant and Equipment (PPE) and Investment Property (IP): The auditors identified the need for material changes to the Council's valuation of its property, plant and equipment and investment properties.
 - Valuation of intangible assets: The auditors have concluded our work and have agreed with Council that some amendments to values and disclosures are made within the financial statements.
 - Valuation of Inventory: The auditors have spent a considerable amount of time on this matter including engagement with our financial reporting team. We have concluded our work and have agreed with Council that some amendments to disclosures are made within the financial statements.
 - Net defined benefit liability valuation: Due to the initially protracted nature of the 2021/22 audit arising from the impact of the implementation of the new ledger, issues with PPE and IP valuations and the national infrastructure issue, a new national issue has arisen that will impact the timing of concluding the audit. The issue relates to the Council's reporting of its assets and liabilities associated to its membership of the Harrow Pension Fund. More detail is set out in paragraphs 8.
7. Status of audit: At the date of this report there remain audit procedures that are in progress and areas where work continues with officers to resolve audit queries and agree material amendments to the financial statements. The national infrastructure issue has now been resolved with the publication of a statutory override. Subject to the resolution of outstanding queries, the auditors anticipate completing testing of significant risk areas by the end of May.
8. However, a further new national issue has arisen that will impact the timing of concluding the audit. The issue relates to the Council's reporting of its assets and liabilities associated to its membership of the Harrow Pension Fund. The draft Council accounts include values based on actuarial reports which use estimates at 31 March 2022 based on roll forward of information (e.g. membership data) since the last triennial review at 31 March 2019. On 1 April 2023 the Council received the latest triennial review from its actuaries, which provides more up to date data for 31 March 2022. These values are likely to

be materially different to the estimated values used for the draft accounts. Auditors cannot place any reliance on the new triennial valuation until the Pension Fund auditor has carried out audit procedures on the membership data that supports the valuation and they have appropriate assurance over the other assumptions applied by the actuary. This matter is currently being discussed at a national level and a resolution is being sought.

9. Value for Money (VFM) - Update on our auditor responsibilities relating to 2021/22

- Risk 1 – Financial Sustainability

The auditors identified a risk of significant weakness in relation to the need for the Authority to make significant savings of £3.4m in 2021/22. They have reviewed the development and implementation of the Medium Term Financial Strategy (MTFS) and could see evidence that it had taken into account factors such as funding restrictions, demand pressures and savings requirements. They are satisfied that there is no actual risk of significant weakness in the Council's arrangements.

- Risk 2 – Governance arrangements over the ledger migration: maintaining adequate historic accounting records

The auditors have identified a significant weakness in respect of the Council's governance of the implementation of its new ledger system and specifically the migration of data from the old system to the new. In their view, the weakness identified could lead to non-compliance with statutory requirements on the period of record retention and provides evidence of a weakness in the Council's governance arrangements for supporting its statutory financial reporting requirements.

They recommend that the Council completes a full validation exercise of all the data that has been transferred to the cloud-based storage solution to mitigate the risk of non-compliance with laws and regulations in respect of maintaining adequate accounting records.

In response to this, the council does not agree with this recommendation as the council has stored all the data (General Ledger and Accounts Payable & Receivable Ledgers) for financial years 2016-17, 2017-18, 2018-19, 2019-20, 2020-21 and the six month's data in 2021-22 in compliance with HMRC requirement.

As a requirement for the audit, the council has already carried out full reconciliation on the transactions for 2021/22 (which is the current year) and Mazars have obtained sufficient and appropriate evidence to support the audit of the 2021/22 accounts as requested and no issues have been identified.

Also, HMRC has just concluded a Business Risk Review and all the data requested for the review has been provided. The council is waiting for a final written confirmation on the conclusion from HMRC on this.

The Council will however consider, how much staff time will be required to recreate the trial balances for 2019/20 and 2020/21 from the historical transactional data stored on SharePoint as requested by

Mazars. This work will serve no purpose in terms of the validation of the 2021/22 accounts.

- Risk 3 – Effectiveness and coverage of internal audit

The auditors have identified a potential risk of significant weakness in the Council's governance arrangements for how it ensures that it makes informed decisions and properly manages its risks, including specifically how it gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.

During the course of 2021/22 the Council diverted internal audit resources onto a review of the fraud in the Highways department. This had the effect of reducing the number of internal audit reviews that were conducted during the year to support the Council's internal control arrangements, as used within the Annual Governance Statement.

The council's response is that the role of Internal Audit is to provide assurance on internal control, risk management and governance – this assurance can be provided in many ways and does not always result in an internal audit report.

The annual plan 2021/22 actually contained more than 44 reviews as some areas e.g., Schools, Covid grants and Risk Management in Decision Making cover more than one review. As mentioned above, not all reviews result in an audit report. The work and assurance provided by Internal Audit is evidenced in a number of different ways such as reports, by grant sign-off letters, Cabinet report sign-off and the annual review of governance Evidence Table and of course the Annual Governance Statement.

The following reviews were completed during 2020/21 as stated in the Internal Audit Year-end Report:

Housing Benefit – Evidence Based Control Self -Assessment

Treasury Management - Evidence Based Control Self -Assessment

Housing Rents - Evidence Based Control Self -Assessment

Business Rates - Evidence Based Control Self -Assessment

Capital Expenditure - Evidence Based Control Self -Assessment

Corporate Accounts Receivable - Evidence Based Control Self - Assessment

Corporate Accounts Payable - Evidence Based Control Self - Assessment

Payroll - Evidence Based Control Self -Assessment

Council Tax - Evidence Based Control Self -Assessment

Authorisation Testing - Testing to cover all Core Financial Systems + Pensions

Replacement ERP System - audit input to development of replacement ERP system

Annual Review of Governance

Management Assurance x3 (Resources, People, Community)

Risk Management in Decision Making – individual review and sign-off of the following reports:

- Renewal of the Additional Licensing Scheme for Houses in Multiple Occupation
- Re-procurement of Building Maintenance Covering Planned Preventative Maintenance /Compliance and Minor Works
- Delay to Implementation of the IT System Dynamics
- Leisure Contract – Future Delivery Options
- Renewal of Selective Licensing of private rented accommodation in the Wealdstone Ward
- West London Waste Authority Food Waste Funding
- The Council's Accommodation Strategy and the Harrow New Civic Centre
- Harrow Town Centre Public Spaces Protection Order
- Ministry of Housing, Communities and Local Government (MHCLG) Future High Street Fund
- Discretionary Business Rates Retail Relief Scheme for 2021/22
- Timetable for the Development of the Council's Policy Framework
- Appointment of Portfolio Holder Assistants
- Cabinet Advisory Panels, Consultative Forums and Appointment of Chairs
- Edgware Growth Area Supplementary Planning Document – consultation outcomes and amended version for adoption
- Modernisation and Organisational Recovery Funding
- Procurement of Pensions Administration System
- Revenue and Capital Monitoring 2020/21 – Final Outturn
- Extension of Housing Repairs Contracts
- Harrow Strategic Development Partnership – Contract Close and Establishment
- Draft Economic Strategy
- Homes for Harrow: Council House Building for Londoners Programme – Airspace Development
- Harrow Council's Domestic Abuse Service
- Addition of fifteen parks and gardens to the Local List of Historic Parks and Gardens – approval to adopt
- Long Lease Opportunity to provide newly built homes for use as temporary accommodation or discharge of homelessness duty
- Rough Sleeping Accommodation Programme (RSAP)
- Harrow Young People's substance Misuse Service
- Authority to Procure Liability & Property Insurance
- Re-procurement of Fuel Card Services Contract
- Q1 Revenue and Capital Monitoring 2021/22
- Maintained Schools Fire Door Upgrade Programme
- Harrow Community Infrastructure Levy (HCIL) – approval of Discretionary Social Housing Relief policy / statement
- Security, Health & Safety Compliance – Homesafe works request for additional budget

- Green Homes Grant Scheme – request to utilise grant funding for Phase 2 and future phases
- School Organisation Update and School Capital Programme
- Race Equality in Harrow Council
- Revised Statement of Principles (Policy) Gambling Act 2005
- Approval to consult on the Small Sites Design Code Supplementary Planning Document (SPD)
- Request authority to award the Housing domestic and commercial gas contracts
- “Kodak” Wealdstone Footbridge – Land assembly, Compulsory Purchase Order (CPO) and change in procurement approach.
- Grange Farm Regeneration – Phases 2 and 3
- Minor Works, Mechanical Works, Electrical Works, Planned Preventative Maintenance and Compliance and Professional Services Frameworks
- Milton Road Development – Commission to Harrow Strategic Development Partnership
- Short Breaks for Children and Young People with Special Educational Needs and Disabilities
- Household Support Fund
- Award of Contract for Provision and Hosting of Pensions Administration IT System
- Harrow Digital Infrastructure Strategy - Enabling Investment in Digital Infrastructure
- Draft Revenue Budget 2022/23 and draft Medium Term Financial Strategy 2022/23 to 2024/25
- Draft Capital Programme 2022/23 to 2024/25
- Q2 Revenue and Capital Monitoring 2021/22
- Estimated Surplus / (Deficit) on the Collection Fund 2021-22
- Calculation of Council Tax Base for 2022 – 2023
- Application to the Living Wage Foundation to become an accredited authority
- “Kodak” Wealdstone Footbridge – Compulsory Purchase Order (CPO) Process Initiation
- Calculation of Business Rates Tax Base for 2022-2023
- Fees & Charges 2022/23
- Accommodation Strategy Update
- Calendar of Meetings
- Housing Revenue Account Budget (HRA) 2022-23 & Medium-Term Financial Strategy (MTFS) 2023-24 to 2024-25
- Final Revenue Budget 2022/23 and final Medium Term Financial Strategy 2022/23 to 2024/25
- Final Capital Programme 2022/23 to 2024/25
- Annual Treasury Management Strategy Statement including Prudential Indicators, Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Annual Capital Strategy for 2022/23
- Borough Plan – Key Achievements and Future Intentions

- Programmes and Services for Children and Young People in partnership with the Voluntary and Community Sector
- Q3 Revenue and Capital Monitoring 2021/22
- Harrow Strategic Development Partnership – Progress Update
- Careers, Information, Advice, Guidance and Support Services to Young People in Harrow
- Procurement of new contract for corporate IT software including Microsoft
- West London Low Carbon Procurement Charter, Policy and Toolkit
- Water Services Procurement
- Authority to Procure Civil Enforcement Agents (CEA)
- Award of £150 Energy Rebate to households occupying properties within Council Tax Bands A to D and authority to design and implement a Discretionary Energy Rebate Scheme in line with Government guidance

Risk Register - Update of the Q1, Q2, Q3, Q4 Corporate Risk Register including quarterly reporting to CSB and GARMS Committee, update of Q1, Q2, Q3, Q4 Resources Risk Register and quarterly reporting to Resources DMT

Highways System Review

Bus Subsidy Grant – review and signoff

Woodlands Primary School

Whitchurch Primary & Nursery School Finance Review

Whitchurch Primary & Nursery School Governance Review

Cedars Manor Finance & Governance Review

SFVS – review of School Financial Value Standards self- assessments completed by schools and the provision of assurance to the S151 Officer to enable sign off of the statutory return

Together with Families (Troubled Families Grant) – sample testing and provision of assurance on 4 claims submitted in the year

Professional Advice - A range of professional advice has been provided to managers during 2020/210 including: Purchase Card Policy; Adults Financial Assessments; Schools – student bursary and wellbeing fund, payroll and authorisation queries; Leaseholder charges

Depot Redevelopment Project – Additional Works Follow-up Review

Covid Grants – testing was undertaken on the following grants during 2021/22 to provide assurance that grant conditions had been met in compliance with the grant requirements:

- Culture Recovery Fund Round 2
- Culture Recovery Fund Round 3
- Community Testing Funding
- Test & Trace Grant

As clearly stated in the Internal Audit Year-End Report for 2021/22 this equated to 50% of the plan being completed

When considering whether this is a significant or a minor weakness in the governance arrangements the following should be taken into account:

- The key piece of governance work that supports the Annual Governance Statement, the annual governance review, was completed as part of the plan
- Work on the Council's core financial systems was completed as per the plan
- Sufficient internal audit work was completed to enable the HIA to provide an overall audit opinion in compliance with the Public Sector Internal Audit Requirements
- The work on the Highways fraud involved the review of the breakdown of internal controls including the arrangements to prevent and detect fraud
- The planned internal audit work on how the Council manages its risks via the Corporate Risk Register was completed
- The planned work on the risk management implications of decisions, directly supporting the Cabinet to ensure that it makes informed decisions was completed as part of the plan

Therefore, whilst it is a fact that a reduced number of internal audit reviews were completed during the year as the key elements of the plan were completed this represents only a minor weakness in governance as recognised in the AGS and agreed by the GARMS Committee, the Chief Executive and the Leader of the Council.

Legal Implications

There are no direct legal implications arising from this report.

Financial Implications

There are no direct financial implications arising from this report.

Risk Management Implications

Risks included on corporate or directorate risk register? **No**

Separate risk register in place? **No**

The relevant risks contained in the register are attached/summarised below. **n/a**

Equalities implications / Public Sector Equality Duty

Considering the Council's Public Sector Equality Duties under the Equality Act 2010, s.149, is integral to the decision- making process.

Was an Equality Impact Assessment carried out? No

There are no direct equalities implications.

Council Priorities

The external audit provides assurance that the Council has managed its finances and delivered value for money in accordance with all the Council's priorities.

Section 3 - Statutory Officer Clearance

Statutory Officer:

Signed by the Head of Strat & Tech Finance (Deputy s151 Officer)

Sharon Daniels

Date: 19 May 2023

Statutory Officer:

Signed on behalf of the Monitoring Officer

Caroline Eccles

Date: 19 May 2023

Chief Officer:

Signed by the Chief Financial Officer

Dawn Calvert

Date: 19 May 2023

Mandatory Checks

Ward Councillors notified: NO, as it impacts on all Wards

Section 4 - Contact Details and Background Papers

Contact: Yinka Ehinfun (Chief Accountant)

Email: Yinka.Ehinfun@harrow.gov.uk

Background Papers:

1. Audit Completion Report 2021/22

If appropriate, does the report include the following considerations?

- | | |
|----------------|----|
| 1 Consultation | No |
| 2 Priorities | No |