Harrow Council

Report to the Audit Committee

on the 2006 Audit

Issued 22 September 2006

Contents

Deloitte.

Executive summary

Introduction	We have pleasure in setting out in this document our report to the Audit Committee of Harrow Council ('the Council') for discussion at the meeting scheduled for 25 September 2006. This follows our report to the meeting of this Committee on 12 September 2006. We have highlighted in the body of this report where we have been able to provide an update following further work or receipt of further information. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2006. This summary is not intended to be exhaustive but highlights the most significant matters that have come to our attention. It should, therefore, be read in conjunction with the report and the appendices thereto.
Responsibilities of the auditor and the Council and scope of our audit	We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including local authorities. As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities. Our main responsibility as your appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on: – the Council's accounts – whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are also responsible for the certification of grants. To date we have issued a report on the outcome of the use of resources assessment work carried out in Autumn 2005. We will issue an update to this following the completion of our 2006 work in October 2006. Separate reports will also be issued to management on the outcome of our data quality audit work and recommendations arising from our review of the annual accounts. We have not performed any separate, risk based performance studies in 2005-6.

Executive summary (continued)

Status of audit

We have substantially completed our audit in accordance with our Audit Plan which was presented to you in March 2005. There were no material changes to our scope of work or approach.

Certain procedures are still outstanding and need to be finalised before we can finalise our audit opinion:

- Audit of amounts capitalised in respect of the Business Transformation Project and certain other projects
- Audit of the Council Tax and Business Rates arrears balances where the audit has been complicated by problems over audit trail and reconciliation of system balances to the ledger
- Further verification work on samples for certain account balances
- Final internal review procedures
- Management representation letter
- Post balance sheet review procedures
- Review of revised financial statements document, taking into account the matters discussed in Appendix 2.

We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise from the completion of these matters after the time of submitting this report.

Our report on the accounts this year is to be given in two parts:

- a 'presents fairly' opinion on the accounts
- a value for money conclusion. This conclusion is a new feature of our audit report which was introduced by the Audit Commission's 2005 Code of Audit Practice.

The form of report we expect to issue (assuming satisfactory resolution of the matters noted as outstanding) is shown at Appendix 3. This is unqualified in respect of the 'presents fairly' opinion, but qualified in respect of the value for money conclusion.

Executive summary (continued)

Key areas of judgement and audit focus

We have identified the following key judgement areas as being critical to the 2005/06 accounts.

Bad debt provisions

We have discussed with officers the level of bad debt provisions recorded against the major categories of debt. Following those discussions, we understand that management has amended the draft accounts to include an additional provision of £1.6 million against Council Tax arrears. There is a remaining risk in respect of the recovery of PCT debt which, whilst not material, is nevertheless substantial. Officers recognise there is a risk of non recovery of elements of the debt. Research is currently underway to confirm and support the Council's position, but the Director of Financial and Business Strategy currently believes that the situation will be resolved without material adverse change to the position shown in the accounts. There remains sizeable potential financial exposure, however.

Premia arising on early redemption of PWLB debt

During the year the Council redeemed debt and replaced this with new debt. The premia payable to the PWLB on these transactions has been carried on the balance sheet and is being amortised over the period of the replacement loans. The Statement of Recommended Practice (SORP) on Local Government permits carry forward and amortisation of premia only in limited circumstances – the normal treatment is immediate write-off to the revenue account. Following consideration of relevant technical guidance, we have accepted management's treatment.

Capitalisation of expenditure

We discussed with officers the appropriateness (under the SORP) of capitalising certain schemes. We are in the process of completing enquiries in respect of certain schemes. The Council needs to continue to extend awareness of the accounting rules on capitalisation.

'Insurance provision'

The Council is carrying a provision of £2.3 million for claims which are covered by either external or internal insurance arrangements. The amount of the provision was initially not fully supported. We have now completed our work in this area. We have proposed an adjustment in respect of specific anticipated claims where there is uncertainty over insurance cover.

Executive summary (continued)

Key areas of judgement and audit focus (continued)

Pension liability in the Council's accounts

Whilst pension liabilities do not fall on the General Fund until contributions become payable, the pension liability at 31 March 2006 nevertheless forms a material account balance on the Council's balance sheet (£137 million at 31 March 2006). We have reviewed the assumptions used in valuing the scheme liabilities, which were within acceptable ranges.

Statement on internal control

In previous years the Council has made only a transitional statement on internal control as it did not have full arrangements to obtain the assurances necessary to support the Statement. This year it has implemented a management assurance process which is a positive development. Nevertheless, the Council considers, taking into account the outcome of the process, it was again not in a position to make a full Statement. We are content that there are no matters relevant to our responsibilities which require us to modify our opinion in respect of the Statement.

Other key areas of judgement and audit focus

Further discussion on the above key matters is included in the detailed section on the Key areas of judgement and audit focus, together with other key areas of judgement and audit focus identified in our audit plan.

Audit adjustments

For the 2006 financial statements our materiality was £2.9 million (2005: £2.7 million).

We report all individual identified misstatements in excess of £50,000, and other identified errors in aggregate. We consider identified misstatements in qualitative as well as quantitative terms.

For the purposes of our work on the Housing Revenue Account and Pension scheme statements, we set lower materiality thresholds of £173,000 (2005: £149,000) and £2.1 million (2005: £1.6 million) respectively.

Full details of the audit adjustments identified to date, whether recorded or not, are included in Appendix 2.

Accounting and internal control systems

We did not identify any material weaknesses in the financial reporting environment. We will be making some suggestions for further improvement after finalisation of our audit.

Executive summary (continued)

Value for money conclusion	We are required to give a value for money conclusion for the first time this year alongside our opinion on the annual accounts. As set out in Section 3, we expect that our conclusion on the Council's value for money arrangements, using the Audit Commission's criteria, will be qualified in respect of two matters. The qualifications all revolve around the overspend of £4.4 million in 2005/6 and the reserves position at 31 March 2006. The Council has identified the need to make further savings to avoid an overspend in 2006/7 and to start to rebuild reserves and has agreed a detailed savings plan, including monitoring arrangements, to deliver the required savings. In view of the size of the savings plan and the seriousness of the reserves position, members will need to continue to monitor this area closely.
Other matters to be referred to in our audit report	We are required to make reference in our audit report to the separate report we have issued on the Council's Best Value Performance Plan for 2005/6. Our audit report was issued in December 2005 and was unqualified and did not make any recommendations. Our work on the 2006/7 Best Value Performance Plan, issued in June 2006, is outstanding. We will carry out our work and report by the deadline for this of 31 December 2006. We have made no section 11 recommendations, reports in the public interest, or exercised any other special powers of the auditor during the year. There is therefore no exception reporting included with our draft audit report in respect of such matters.
Independence	In our professional judgement we are independent within the meaning of APB Ethical Standards and the objectivity of the audit engagement partner and audit staff is not impaired. Details of our consideration of independence, including fees for non-audit services, are included in section 5.

1. Key areas of judgement and audit focus

The results of our audit work on key issues and judgements are set out below.

Matters that give rise to the need for specific representation in the management representation letter or that result in an audit adjustment are highlighted in the 'Deloitte Response' section for each issue.

We are required under auditing standards to report back to you on risks identified in our audit plan. Our 2005/6 audit plan under which our audit of the 2005/6 accounts is carried out was issued in March 2005. This contained only limited detail on audit risks in relation to the 2005/6 accounts in view of its timing relative to the performance of our work. We have therefore provided information on the audit risks identified in our 2006/7 audit plan which are relevant to the 2005/6 accounts.

Key issue	Background
Bad debt provisions	Bad debt provisions were a key area of focus this year following last year's audit when changes were needed to the accounts originally presented for audit.
	Deloitte Response
	We have concluded this year as follows in respect of the major debtor categories: 1. We noted that the provision against Council Tax arrears did not include a provision against debits raised in 2005/6, although historically the Council has been unable to collect approximately 1% of the net debit it raises each year. Officers have re-worked the calculation to take account of this observation. This shows the need for an increase in the original provision from £0.9 million to £2.5 million. **Update subsequent to 12 September 2006 Audit Committee Meeting** - An adjustment has been made to increase the provision by £1.6 million. We have considered the revised level of provision in the light of the past collection record. The provision made against the 2004/5 and 2005/6 debits imply an improvement in the end collection rate to 99.2% and 99.4% respectively. As we commented last year, whilst the Council considers that it has made improvements to the collection process in 2005, it is still too early to determine what effect this might have on long term collection rates. Conversely, in respect of some earlier years' debits, the Council will not need to achieve an end collection rate of 99.0% for the provision made to prove adequate. Overall, we believe that the revised provision falls within an acceptable range, but recommend that the Council carefully track trends in longer term collection rates and re-consider annually the appropriateness of the percentages used in the calculation of the bad debt provision in the light of these. *Continued over page*

	Deloitte Response
Bad debt provisions (continued)	*Continued* 2. Harrow PCT has disputed £1.5 million of the debtor balance outstanding, against which the Council has made a provision of £0.3 million. In addition, the PCT has indicated that it may request repayment of past contributions which it has paid if these are found to be in excess of the actual health element of costs incurred by the Council. It has also invoiced the Council for an amount of £0.3 million, the largest individual element being in respect of costs incurred in making medical assessments as part of the Blue Badge scheme for which no provision has been made in the accounts. The Director of Financial and Business Strategy prepared a separate briefing paper for your meeting of 12 September 2006 which we have considered. We have reviewed this and copies of correspondence with the PCT provided to us on 3 September 2006. **Update subsequent to 12 September 2006 Audit Committee Meeting** - Whilst the position taken by the Council on the level of provision made is not unreasonable, members should be aware in approving the accounts that there is an exposure of £1.5 million (excluding unspecified claims which the PCT has indicated in may bring forward in respect of past contributions previously settled). There is a further exposure of £0.5 million in respect of amounts due from two further NHS bodies which have again been disputed by the counterparty. The finance team has taken internal legal advice in respect of one of the debts and believes that the other is recoverable as it has been charged within a national framework and similar amounts billed previously have been paid by the counterparty. 3. No provision has been made against amounts overpaid to existing benefit claimants of £1.1 million. Whilst the Council can make deductions from ongoing entitlements, the rate of deduction it is permitted to make is small and there is a real risk that entitlement will cease before the full amount is recovered. In past year calculations the Council has estimated a provision of 10% of this balance and we have recorded an unadjusted error of this amount in Appendix 2.

Key issue	Background
Premia arising on early redemption of debt	The SORP requires immediate recognition of gains or losses arising on the repurchase or early settlement of borrowing except where the repurchase of borrowing was coupled with a refinancing or restructuring of borrowing with substantially the same overall economic effect when viewed as a whole. In that limited circumstance, gains or losses should be recognised over the life of the replacement borrowing. During the year the Council restructured £35.8 million of its loan portfolio at a cost of £8.6 million. This was replaced by new debt on a pound for pound basis. The overall effect on the loan portfolio is illustrated below in the comparison of the loan portfolio at 31 March 2005 with the portfolio at 2006 which has been adjusted to strip out the effect of new loans and existing loans maturing in the period:

	2006 Adjusted £m	**2006 Adjusted %**	**2005 £m**	**2005 %**
0-2 years	23	14%	13	8%
2-5 years	5	3%	20	12%
5-10 years	37	22%	34	20%
> 10 years	102	61%	100	60%
Total	**167**	100%	**167**	100%

The PWLB loan portfolio was wholly fixed rate at 31 March 2005. £20.8 million of the replacement loans were variable rate (i.e. c10% of the portfolio at the end of the year).

<table>
<tr><th>Continued</th><th>Deloitte Response</th></tr>
<tr><td>Premia arising on early redemption of debt (continued)</td><td>Selection of the appropriate accounting treatment for the premia revolves around interpretation of the requirement that replacement loans have the 'same overall economic effect' as the original loans and its application to the specifics of a particular transaction. In determining the accounting treatment, officers have considered the SORP guidance notes. The notes advise that the transaction can be taken to have the same economic effect where "the size of the authority's overall loan portfolio, or the part of its loan portfolio affected by the restructuring, remains approximately the same". The Council's view is that this is the case with this transaction. The SORP guidance provides one source of guidance, but do not form part of the SORP and is not therefore mandatory. A further source of guidance is Urgent Issues Task Force Abstract 8 (UITF 8) which set out a series of conditions which must be met for carry forward to be appropriate, including that the replacement borrowing and the original borrowing are both fixed rate, the replacement borrowing is of a comparable amount to the original borrowing and the maturity of the replacement borrowing is not materially different from the remaining maturity of the original borrowing. UITF 8 has subsequently been withdrawn. Whilst practitioners and auditors still regard the guidance within UITF 8 as appropriate, it is therefore also not mandatory.

This is a grey area which requires the exercise of judgement. In considering the UITF guidance we have had regard to the CIPFA guidance notes which support the position that it is appropriate to make judgements at the level of the portfolio as a whole. Taking into account both sets of guidance, we have accepted officers' views that (a) the change in maturities for the portfolio of loans as a whole and (b) the shift from 0% to 10% in variable rate debt are not sufficiently large to indicate a change in the substance of the borrowing as a whole. We therefore accepted that the balance should be capitalised and spread forward over the period of the replacement loan.

We note that CIPFA is considering making amendments to the 2007 SORP which would mean that the Council would no longer be able to carry premia arising from the repurchase of loans on its balance sheet. Recognising the impact of this on many local authorities on transition, CIPFA is exploring ways in which this can be mitigated with the Government. We recommend the Council keep abreast of developments in this area in view of the magnitude of the sums involved.</td></tr>
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Key issue	Background
Capitalisation of expenditure	We discussed the accounting treatment of capital expenditure in three principal areas. Firstly, we found that expenditure incurred in acquiring, developing and implementing a social services system included training costs of £75,000. These do not relate to getting the fixed asset into working condition and should not have been capitalised. We have yet to receive information in relation to the capitalisation of expenditure incurred as part of the Business Transformation Project (BTP). Secondly, we discussed the treatment of subsequent expenditure on existing assets, typically in the form of replacing, restoring or modifying components of that asset. Financial Reporting Standard 15 sets out rules on when such expenditure should be capitalised and when it should be expensed. In particular, where the Council has determined not to account for tangible fixed assets as several different asset components or to depreciate part of the asset over a different timescale from the rest of the asset, the cost of replacing, restoring, overhauling or inspecting the asset or components of the asset is not capitalised, but instead is recognised in the revenue account. Last year we recommended that the full scope of each scheme and the justification for its treatment be documented at the time of compiling the capital programme. Thirdly, we discussed the treatment of expenditure incurred during the early stages of a project. Costs are ineligible for capitalisation where they relate to activity that takes place before the intention to acquire or construct a particular fixed asset has been confirmed.

	Deloitte Response
Capitalisation of expenditure (continued)	In respect of the first issue, not all costs incurred in relation to a capital project can be capitalised – allowable costs must be directly attributable to bringing the asset into working condition and not for some ancillary purpose. We recommend going forward that the need to further analyse costs on a scheme in making the revenue/capital split is reinforced with those responsible for making that determination. We have included the adjustment of £75,000 on our list of unadjusted errors. We await further information on amounts capitalised in relation to BTP, but understand that the Council received accounting advice on the treatment of expenditure on the BTP so that officers believe the risk of error to be small. In respect of the second issue, the Council does not generally account separately for different components of assets. The area where greatest judgement is required is highways, where the SORP offers only limited guidance on the accounting for infrastructure assets. Our detailed testing of amounts coded to capital schemes did not identify any individual amounts where the accounting was clearly inappropriate. Last year we recommended that the full scope of each scheme and the justification for its treatment is documented at the time of compiling the capital programme. This would be too late for the 2005/6 capital programme, but we expect to see improved documentation in place for the 2006/7 capital programme. In respect of the third issue, we found two schemes where we had concerns. The first related to a scheme to develop the Harrow-on-the-Hill site. Costs in connection with the development phase have been capitalised, including the feasibility study. A second deals with the preparation of plans for the development of schools which may only be implemented in the medium to long term. We have not yet completed all of our enquiries into these schemes.

Key issue	Background
'Insurance provision'	Claims made in areas covered by either the Council's insurance or self insurance arrangements are captured on the claims system at the amount claimed, less any anticipated recovery from the insurers. Where the claim lapses or the Council's brokers advise a revised amount, this is updated on the claims system. The amount on the system at the end of the year was £3.3 million. This was reduced by £1.0 million. We understand that the purpose of this adjustment is to reflect the likelihood that some claims will not be settled or will be settled at a lower amount than that originally recorded on the claims system. The adjustment was not fully supported, however, except as the product of a series of adjustments made during 2005/6. **Update subsequent to 12 September 2006 Audit Committee Meeting** - Additionally, the Council anticipates that it may receive claims following the rescinding of a planning consent. The insurers have provisionally indicated that the claim is not covered by the terms of the Council's insurance, but is seeking further legal advice. Officers have indicated that they will take further legal advice should the outcome of the insurer's deliberations be adverse to the Council.

'Insurance provision' (continued)	Deloitte Response
	Update subsequent to 12 September 2006 Audit Committee Meeting - In response to our request to provide evidence supporting the amount of the adjustment made to claims system, officers have provided historical data on the outcome of claims. As the current claims system is not able to provide data we have needed to make further assumptions in using this data to consider the reasonableness of the provision. Based on this work, we consider the provision made to be within an acceptable range of potential estimates. In carrying out our review of the reasonableness of the provision, we have (a) considered claims received since the year end which arise from events prior to 31 March 2006 and (b) ignored internal claims. We recommend that the Council develop further its methodology for calculating the amount of its year end claims provision for financial reporting purposes and review the assumptions made at each year end. In respect of the specific claim following the rescinding of planning consent, there are different claims on the Council. In respect of the largest potential area of claim, we have accepted that it is not possible to make a reasonable estimate of the amount of claim, if any, so that disclosure of this element as a contingent liability is appropriate. Other claims are currently assessed to be more likely than not to be settled, so that provision should be made for these. We have recorded a potential misstatement in respect of this. Recognition of a reimbursement from the insurers is on the basis that any asset arising is separate from the related obligation. Consequently, such a reimbursement should be recognised only when it is virtually certain that it will be received consequent upon the settlement of the obligation. This is a higher test than for the recognition of the liability and, given that the legal position concerning whether the claim is within the scope of insurance has yet to be established, we do not believe that recognition of an asset for reimbursement by the insurers is appropriate at this time.

Key issue	Background
Pension liability in the Council's accounts	Whilst pension liabilities do not fall on the General Fund until contributions become payable, the pension liability at 31 March 2006 nevertheless forms a material account balance on the Council's balance sheet (£137 million at 31 March 2006). The valuation of the pension scheme liabilities involves considerable exercise of judgement. In our 2006/7 audit plan we noted that a number of auditors last year reported concerns over assumptions used by actuaries in estimating pension liabilities, in particular the selection of appropriate and up-to-date mortality tables.

Pension liability in the Council's accounts (continued)	Deloitte Response
	We have reviewed the assumptions used in valuing the scheme liabilities, which were within acceptable ranges. Mortality has a significant impact on the liabilities of a scheme and is a material assumption which now has a significant impact on the value of the liabilities and service cost. The UK actuarial profession has recently established that there is evidence to suggest that mortality is improving at a far greater rate than previously anticipated, and there is currently much focus on the mortality assumption adopted by organisations. The actuaries have confirmed that the tables used were the 92 tables projected to calendar year 2004 with various adjustments for different categories of members. Officers have confirmed that in their view these are appropriate. Some organisations are planning to disclose the mortality assumption they have adopted for the first time this year and Harrow may wish to consider disclosure of this assumption. A particular issue this year follows the Local Government Pension Scheme (Amendment) Regulations 2006, SI 2006/966, which made a number of changes to Local Government Pension Scheme benefits with effect from 1 April 2006, including the right of scheme members to elect to take an enhanced tax free lump sum in return for a reduced annual pension. The terms on which the scheme allows for commutation are not actuarially neutral and there is a net benefit to employers of scheme members electing to take enhanced lump sums. To the extent that members take-up these benefits, therefore, the liabilities and service costs calculated under Financial Reporting Standard 17 (FRS17) will be less than currently valued. The extent of the difference in the liabilities resulting from this change will depend on the numbers of members taking up the option, the type of members and the extent to which they take the full lump sum. Since members have not been able to commute in such a way before, it is difficult for actuaries to come up with a reasonable "best estimate" assumption based on past experience. It is considered that it would be time consuming and costly for the actuaries to run all the valuations to reflect this. The Council uses Hymans who we understand have assumed a 0% take-up across their client base. Other actuaries we understand have assumed a 50% take-up. Many companies and organisations ignore cash commutation for the purposes of their FRS17 calculations so we do not consider the approach of ignoring this change to be unreasonable. LAAP Bulletin 65 recommends that disclosure is appropriate and we recommend that the accounts be amended for this. **Update subsequent to 12 September 2006 Audit Committee Meeting** - We have proposed an adjustment where the pension liability for added years had been double-counted with an accrual of £0.9 milion. The effect is presentational only.

Key issue	Background
Statement on internal control	In previous years the Council has made only a transitional statement on internal control as it did not have full arrangements to obtain the assurances necessary to support the Statement. This year it has implemented a management assurance process, which is a positive development. Nevertheless, the Council considers, taking into account the outcome of the process, it was again not in a position to make a full Statement.

Deloitte Response

We have had discussions with officers over the detail of the management assurance process and the wording of the Statement on Internal Control.

The management assurance process involved managers confirming the status of a list of key controls and governance arrangements within their respective areas of responsibility. This produced valuable information on areas where further action is needed. We have recommended for future exercises that the process is more closely aligned with the existing risk management process. This will assist in the systematic collection of assurances over the effective operation of all key controls which the Council has identified as mitigating the key risks to the delivery of its strategic objectives.

We asked officers to reconsider the drafting of the section of the report on significant internal control weaknesses to focus attention on a smaller number of the most significant control deficiencies arising in the period, in particular financial management and financial standing issues, with a clear explanation of the actions taken or planned in response to these. **Update subsequent to 12 September 2006 Audit Committee Meeting -** The Council has made some revisions in finalising the Statement. Whilst we believe there is merit in future years in preparing a more focused document and to refining the management assurance process in the manner described, we are content that there are no matters relevant to our responsibilities which require us to modify our audit opinion in respect of the Statement.

Key issue	Background
Group accounts	In our 2006/7 audit plan we noted that SORP 2005 makes mandatory the provisions relating to the preparation of group accounts which were introduced under transitional arrangements as part of SORP 2004. We understood at that time that Harrow did not anticipate the need to prepare group accounts on the basis that it did not have material interests which required consolidation. The Council carried out a review of its relationships and delivery vehicles. The more significant entities and arrangements considered were: – Pooled budget arrangement with Harrow PCT – West London Waste Authority (WLWA). – Harrow Consortium Special Needs. – The BTP – Transport for London – Breakspear Crematorium – Grants to voluntary organisations and London Borough Grants Committee. Officers concluded in each case that the entity/arrangement fell outside of the group boundary as the Council did not exercise control.

Group accounts (continued)

Deloitte Response

Pooled budget arrangements would normally be considered to be joint arrangements which would require proportional consolidation in both the entity only accounts and in group accounts. The amounts involved are immaterial.

There is an argument for accounting for WLWA as an associate as the Council is able to exert some influence over the decision-making process through its voting rights, although the number of participants may mean in practice that the Council is unable to exercise significant influence. Exclusion on the basis of materiality would in any case not be inappropriate.

Update subsequent to 12 September 2006 Audit Committee Meeting - We understand that Breakspear Crematorium is no longer a joint committee, but managed in part for the benefit of Harrow residents by Hillingdon Council under a Service Level Agreement. The documentation we have seen suggests that the property assets are under shared ownership and should therefore in any case be recorded on the Council's balance sheet to the extent of its share (one third). The revenue account is immaterial.

We concur with the officers' analysis in respect of the other bodies identified and overall with officers' assessment that group accounts are not required as there are no material entities/arrangements, individually or in aggregate, falling with the group boundary.

Key issue	Background
NNDR credits	In our 2006/7 audit plan we noted our understanding that the Council was looking at the area of NNDR credit balances that remain in the collection fund but cannot be traced.
	Deloitte Response
	In the event, officers decided not to make any entries in respect of 2005/6. This position is satisfactory.

Key issue	Background
Presumed risk of fraud in revenue recognition	International Standards on Auditing establish a presumption of a risk of fraud in revenue recognition.
	Deloitte Response
	As nationally, historically, the most significant area of detected fraud at Harrow has been in the area of benefit administration. We identified the risk of over claim of benefit subsidy on the basis of fraudulent benefit claims as being a key risk. We reviewed the work carried out by Internal Audit on key controls within the benefits system and carried out substantive analytical review procedures on entitlement to subsidy. The results of our testing was satisfactory.

2. Accounting and internal control systems

For controls considered to be 'relevant to the audit' we evaluated the design of the controls and determined whether they had been implemented ("D& I"). The controls that are determined to be relevant to the audit were those:

- where we planned to obtain assurance through operating effectiveness;
- relating to identified risks (including this risk of fraud in revenue recognition) or areas of audit focus (as detailed in section 1); and
- where we considered we would be unable to obtain sufficient audit assurance through substantive procedures alone.

Results of liaison with internal audit

The audit team, following an assessment of the independence and competence of the internal audit department, reviewed the findings of internal audit and adjusted our audit approach as deemed appropriate. In respect of 2005/6, Internal Audit tested the operating effectiveness of key controls over the rental income from Council dwellings and administration of Housing Benefits. In addition Internal Audit performed walk through testing of other major financial systems. Based on Internal Audit's work and its outcome, specific reliance was placed in the controls over the administration of Housing Benefits. In the area of Housing Rents, we did not place reliance on controls, as had been planned as a result of deficiencies identified by Internal Audit in their testing of rental income. We therefore changed our approach in that area to a substantive one.

Whilst we did not identify any material weaknesses in the financial control environment of the Council, we did note a number of control observations. We have not sought to repeat recommendations already made by internal audit. There are no additional matters which we regard as sufficient priority to report to you here. Other matters will be reported to management.

We remind you that our audit was not designed to provide assurance as to the overall effectiveness of the controls operating within the Council, although we have reported to management any recommendations on controls that we identified during the course of our audit work.

3. Value for money (VFM) conclusion

The VFM conclusion

As a new development from the previous Code of Audit Practice, auditors are required this year to give a 'yes/no' opinion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources. This conclusion is given within our audit report on the Council's accounts.

The conclusion is limited to an assessment of twelve 'criteria specified by the Audit Commission'. For each criterion, we use 'auditor assurances' to assist in arriving at our assessment. The 'auditor assurances' comprise a series of individual elements.

In the case of eight criteria, these are identical to the elements needed to achieve a score of '2' for appropriate Use of Resources Key Lines of Enquiry (KLOEs) for the financial management, financial standing, internal controls and value for money themes. In reaching our conclusion on these, we drew on the work we carried out in Autumn 2005 in giving our use of resources assessment, but updated this for developments during the remainder of 2005/6.

In the case of three criteria, the elements are drawn from areas of the Audit Commission's corporate assessment methodology. Auditors are normally expected to rely on the results of past corporate assessments, where these have taken place within the previous three years. However, as the Council's last corporate assessment was back in 2002, and our VFM conclusion will need to be given before the 2006 corporate assessment, we have carried out new work to support our conclusion in those areas. That work was in progress at the time of writing.

The final criteria summarises the results of the data quality work we perform as part of our 2006/7 audit plan. At the time of writing, this work was being finalised. We expect that our report will be unqbualified in respect of this criterion.

Where, in our judgement, there are gaps in the arrangements which are significant enough, we qualify our conclusion in relation to particular criteria, either on an 'except for' basis (i.e. the Council has put in place proper arrangements except for.....) or in the form of an 'adverse' conclusion (i.e. the Council has not put in place arrangements in that...). Based on the guidance we have received from the Audit Commission, where qualified, our report refers only to the criteria which we conclude have not been met, without providing further details. The Statement on Internal Control is suggested as a potential document for making reference to the areas on which we have qualified and how the Council is addressing their shortcomings.

3. Value for money (VFM) conclusion (continued)

Areas of proposed qualification

In the table below we have set out the criteria where, based on the elements we are required to consider, we have concluded that the Council has not met minimum standards, together with the principal reasons for that assessment. **Update subsequent to 12 September 2006 Audit Committee Meeting –** Since the last Audit Committee meeting we have received further information from officers concerning actions taken by the Council during 2005/6 and have reflected this in the table below.

Criteria subject to proposed qualification	Principal reasons for the conclusion
The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	The revenue budget for 2005/6 did not contain a detailed plan for delivery of target savings and was unable to achieve a significant portion of these in practice. To this extent the budget was not realistic.
The body has put in place arrangements to ensure that its spending matches its available resources.	The council did not maintain its overall spending within budget. There was an overspend of £4.4 million against the original budget which we regard as material to this element. The council did not maintain its levels of reserves within the range determined by its agreed policy. The General Fund reserve at the end of year under audit was £2.5 million, compared to the minimum agreed level of £3.5 million.

We do not expect that the finalisation of our work on the other criteria that will give rise to further qualification matters.

We issued a detailed report on the outcomes from our 2005 use of resources assessment work in December 2005. We will issue a detailed report on outcomes from our 2006 use of resources assessment work, taking into account developments since the year end, in late 2006 once that work is complete.

Anticipated VFM conclusion

We expect at this stage that our conclusion will be qualified in respect of the above three matters. We have provided a draft of our audit report at Appendix 4.

4. Other matters for communication

Other requirements of International Standards on Auditing (UK and Ireland)

International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)") require we report on the following additional matters:

ISA (UK & Ireland)	Matter
210	Terms of audit engagements
240	The auditor's responsibility to consider fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
315	Obtaining an understanding of the entity and its environment and assessing the risks of material misstatement
320	Audit materiality
545	Auditing fair value measurements and disclosures
550	Related parties
560	Subsequent events
570	Going concern
580	Management representations
720	Other information in documents containing other audited financial statements

We consider that there are no additional matters in respect of the above to bring to your attention that have not been raised elsewhere in this report or our audit plan.

5. Independence policies and procedures

Important safeguards and procedures have been developed by Deloitte to counter threats or perceived threats to our objectivity, which include the items set out below.

Safeguards and procedures

- Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit.
- Review and challenge takes place of key decisions by the Second Partner and, where applicable, by the Independent Review Partner, which goes beyond auditing standards, and ensures the objectivity of our judgement is maintained.
- We report annually to the Audit Committee our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment
- Periodic rotation takes place of the audit engagement partner, the independent review partner and key audit partners in accordance with our policies and professional and regulatory requirements.
- In accordance with the Ethical Standards issued by the APB, there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This would include particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation.
- In the UK, statutory oversight and regulation of auditors is carried out by the Professional Oversight Board for Accountancy (POBA) which is an operating body of the Financial Reporting Council. The Firm's policies and procedures are subject to external monitoring by both the Audit Inspection Unit (AIU), which is a division of POBA, and the ICAEW's Quality Assurance Directorate (QAD). The AIU is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW's Audit Registration Committee. The AIU also reports to POBA and can inform the Financial Reporting Review Panel of concerns it has with the accounts of individual companies. The AIU and QAD do not publish individual inspection reports and we are not permitted to disclose details of their findings.
- For audit engagements allocated to us by the Audit Commission, our audit policies and procedures are subject to an annual review and assessment process by the Audit Commission. The results of these assessments are now publicly available on the Commission's website.

5. Independence policies and procedures (continued)

Independence policies	Our detailed ethical policies' standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies. Amongst other things, these policies: – state that no Deloitte partner or immediate family member is allowed to hold a financial interest in any of our UK audit clients; – require that professional staff or any immediate family member may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; – state that no person in a position to influence the conduct and outcome of the audit or any immediate family member should enter into business relationships with UK audit clients or their affiliates; – prohibit any professional employee from obtaining gifts from clients unless the value is clearly insignificant; and – provide safeguards against potential conflicts of interest.
Remuneration and evaluation policies	Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.

5. Independence policies and procedures (continued)

Specific independence issues and safeguards

There are no specific issues to report.

Confirmation of independence

In our professional judgement we are independent within the meaning of regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff is not impaired. In respect of our consideration of the retention of the audit engagement for the period commencing 1 April 2006 we confirm that we will comply with APB Ethical Standards for that period.

Use of auditors for non-audit services

We are not aware of any inconsistencies between APB Ethical Standards and the company's policy for the supply of non audit services or of any apparent breach of that policy.

An analysis of professional fees earned by Deloitte in the period from 1 April 2005 to 31 March 2006 is included in Appendix [4].

6. Responsibility statement

While our report includes suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of Harrow Council's system of internal financial control was conducted solely for the purpose of our audit having regard to our responsibilities under Auditing Standards. We make these suggestions in the context of our audit but they do not in any way modify our audit opinion which relates to the financial statements as a whole. Equally, we would need to perform a more extensive study if you wanted us to make a comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.

We view this report as part of our service to you for use as Members for corporate governance purposes and it is to you alone that we owe a responsibility for its contents. We accept no duty, responsibility or liability to any other person as the report has not been prepared, and is not intended, for any other purpose. In the event that a third party asks to see this report, please ask for our consent before releasing it.

Deloitte & Touche LLP
Chartered Accountants

St Albans

22 September 2006

Appendix 1: Draft letter of representation

Deloitte & Touche LLP
Victoria Square
St Albans

This representation letter is provided in connection with your audit of the financial statements of Harrow Council (the Council) for the year ended 31 March 2006 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Harrow Council as of 31 March 2006 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with applicable accounting framework.

We acknowledge as directors our responsibilities for preparing financial statements for the Council which give a true and fair view and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations.

1. All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Board meetings, have been made available to you.

2. We acknowledge our responsibilities for the design and implementation of internal control to prevent and detect fraud and error.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We are not aware of any significant facts relating to any frauds or suspected frauds affecting the company or group involving:

    - management
    - employees who have significant roles in internal control, or
    - Others where the fraud could have a material effect on the financial statements.

5. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

6. We are not aware of any actual or possible instances of non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.

7. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

8. We have considered the uncorrected misstatements detailed in the appendix to this letter. We believe that no adjustment is required to be made in respect of any of these items as they are individually and in aggregate immaterial having regard to the financial statements taken as a whole.

9. Where required, the value at which assets and liabilities are recorded in the balance sheet is, in the opinion of the directors, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council. Any significant changes in those values since the balance sheet date have been disclosed to you.

10. We confirm the completeness of the information provided regarding the identification of related parties, and the adequacy of related party disclosures in the financial statements. We have made enquiries of any key managers or other individuals who are in a position to influence, or who are accountable for the stewardship of the reporting entity and confirm that we have disclosed in the financial statements all transactions relevant to the company and we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS8 "Related party disclosures" or other requirements.

11. We confirm that we are of the opinion that the Council is a going concern, that we have disclosed to you all relevant information of which we are aware and which relates to our opinion, and that all relevant facts are disclosed in the financial statements.

12. The Consolidated Revenue Account, Housing Revenue Account, Statement of Total Movements in Reserves, Consolidated Balance Sheet, Cash Flow Statement and the related notes, together with the Pension Scheme accounts, are free from material misstatements, including omissions.

13. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

14. We are not aware of events or changes in circumstances occurring during the period which indicate that the carrying amount of fixed assets or goodwill may not be recoverable.

15. The Council has satisfactory title to all assets and there are no liens or encumbrances on the Council's assets.

16. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.

17. There have been no events subsequent to 31 March 2006 which require adjustment of or disclosure in the financial statements or notes thereto.

18. No claims in connection with litigation have been or are expected to be received.

19. We have reconsidered the remaining useful lives of the fixed assets and confirm that the present rates of depreciation are appropriate to amortise the cost (or revalued amount) less residual value over the remaining useful lives.

20. We confirm that:

- all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for
- all settlements and curtailments have been identified and properly accounted for;
- all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
- the actuarial assumptions underlying the valuation of the scheme liabilities accord with the Council's best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
- the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology.

21. The amounts included in the financial statements derived from the work of the actuary are appropriate. We have carefully considered the disputed balances with Harrow Primary Care Trust (PCT) and the detailed information to support the Council's position, including legal advice obtained by the Council, and where available to the Council, the information to support Harrow PCT's position. We confirm on the basis of our review that the provisions made in the accounts in respect of these items are appropriate and that in the Council's view the resolution of these disputes will not result in additional charges which are individually or in aggregate material to the financial statements.

22. We recognise that we are responsible for ensuring that the statement of accounts as published on the website properly presents the financial information and your Auditors' report and for the controls over, and security of, the website. We also recognise that responsible for establishing and controlling the process for electronically distributing annual reports and other information.

23. We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of Harrow Council

Appendix 2: Audit adjustments

Misstatements

The following misstatements were identified during the course of our audit. Officers have indicated that they are updating the financial statements for some of these entries. We will update the audit committee on the outcome. The adjustments in respect of the Housing Revenue Account are in aggregate material and will require adjustment if we are to issue an unqualified audit opinion.

	Credit/ (charge) to current year CRA £'000	Credit/ (charge) to current year HRA £'000	Credit/ (charge) to current year Collection Fund £'000	Increase/ (decrease) in net assets £'000
Non-Judgemental				
Debt management costs incorrectly classified within the HRA (Dr Net cost of services £164,000, Cr AMRA £164,000)	-	-	-	-
Training costs incorrectly capitalised	(74)	-	-	(74)
Under accrual of purchase card expenditure	(130)	-	-	(130)
Overstatement of benefit subsidy debtor estimated at year end (in comparison to final amount claimed)	(84)	-	-	(84)
Under accrual of audit fees	(53)	-	-	(53)
Accrual in excess of requirement	75	-	-	(75)
Revenue incorrectly deferred	70	-	-	70
Non accrual of hire costs	(372)	-	-	(372)
Understatement of cost of capital (Dr Cost of capital, Cr AMRA in the HRA with £1,147,561)	-	-	-	-
Correction of prior year error incorrectly recognised as prior year adjustment Dr HRA expenditure, Cr HRA reserve brought forward, Dr General Fund reserve brought forward, Cr General Fund expenditure with £113,000	-	(113)	-	-
Passported funding incorrectly grossed up within Education Services income and expenditure – approximately £90 million – exact amount to be confirmed	-	-	-	-
Understatement of housing subsidy payable due to use of estimated consolidated rate of interest	-	(168)	-	(168)
Inclusion of notional acquisition costs within valuation of housing stock	-	-	-	17,907

Present positive cash balance gross within cash as no right of set-off Dr Cash £1,130,000, Cr Overdraft £1,130,000	-	-	-	-
Claims on Council re planning consent (£250,000 - £650,000)	(250)-(650)	-	-	(250)-(650)
Eliminate added years double-counted	-	-	-	890
Disposal incorrectly classified as downward revaluation (Dr Revaluations line £474,617, Cr Disposals line £474,617)	-	-	-	-
Judgemental				
Understatement of bad debt provision against Council Tax arrears	-	-	(1,611)	(1,611)
Accrue for cost of settlement of single status negotiations for out of hours staff	-	(120)	-	(120)
Establish 10% provision against housing benefit overpayments being recovered from ongoing entitlement	(109)	-	-	(109)
Total	(927)-(1,327)	(401)	(1,611)	15,421-15,821

The Council has identified a potential recovery of grant from an NHS Trust of £0.5 million which was not recognised in the original accounts. We are waiting for further evidence before agreeing this as a misstatement.

In addition we have identified the following adjustments in respect of the pension scheme.

	Credit/ (charge) to current year income statement £'000	Increase/ (decrease) in net assets £'000
Non-Judgemental		
Accrual of Q4 investment manager fees	(121)	(121)
Total	(121)	(121)

We will obtain written representations confirming that after considering any items which remain unadjusted, both individually and in aggregate, in the context of the financial statements taken as a whole, no adjustments are required.

We have also identified a number of disclosure and presentational deficiencies which we understand are being updated in the latest draft of the financial statements. Again we will update the audit committee on the position at the meeting.

Appendix 3: Draft audit report

Subject to satisfactory resolution of the matters referred to as outstanding, we expect to issue the following audit report.

Independent auditors' report to the Members of Harrow Council

Opinion on the financial statements

We have audited the financial statements and pension fund accounts of Harrow Council for the year ended 31 March 2006 under the Audit Commission Act 1998. The financial statements comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement and the related notes. The pension fund accounts comprise the Fund Account, the Net Assets Statement, and the related notes. The financial statements and pension fund accounts have been prepared under the accounting policies set out within them.

This report is made solely to Harrow Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Council for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements and the pension fund accounts present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005:

- the financial position of the Authority and its income and expenditure for the year; and

- the financial transactions of its pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

We review whether the statement on internal control reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

We read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended; and

- The pension fund accounts present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial transactions of the Pension Fund during the year ended 31 March 2006, and the amount and disposition of the fund's assets and liabilities as at 31 March 2006, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The authority 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 regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditors' Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Harrow Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006 except for the failure to put in place:

- a medium-term financial strategy, budgets and a capital programme that were soundly based and designed to deliver its strategic priorities.
- arrangements to ensure that its spending matched its available resources.

Best Value Performance Plan

We issued our statutory report on the audit of the authority's best value performance plan for the financial year 2005/06 on [ ] December 2005. We did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Deloitte & Touche LLP

St Albans

[Date]

The following is to be added to the version of the audit report published electronically on the website:

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the Council but no control procedures can provide absolute assurance in this area.

Appendix 4: Analysis of professional fees

The professional fees earned by Deloitte in the period 1 April 2005 to 31 March 2006 are estimated as follows:

	Estimated actual	Audit Plan
	£'000	**£'000**
Services as auditors		
Statutory audit:		
Accounts	194.6	194.6
Use of resources	102.4	102.4
Whole of Government Accounts	5.0	5.0
Grants	175.0	175.0
Total	477.0	477.0

Deloitte.

Deloitte & Touche LLP is a limited liability partnership registered in England and Wales with registered number OC303675.
A list of members' names is available for inspection at Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR, United Kingdom, the firm's principal place of business and registered office.
Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.