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Harrow Council

Report to the Governance, Audit and Risk Management Committee

On the year ended 31 March 2009 Audit

16 September 2009

Accounts Opinion Audit Report

Contents

Executive summary

This summary is not intended to be exhaustive but highlights the most significant matters that have come to our attention. We identified audit risks within our Audit Opinion Plan dated 6 April 2009 that are not discussed below. Through completion of our procedures in respect of these other risks, we have not identified significant matters to bring to your attention within this Executive Summary. Our findings in respect of all audit risks identified within our Audit Opinion Plan are documented in Section 1 of this report.

Key audit risks

1. **Insurance provision:** The Council did not obtain an actuarial review of its insurance provision as at 31 March 2009; however management did make an assessment of the required level of provision based on claim activity in the year. The insurance provision in the Statement of Accounts for 31 March 2009 is £5,600k. We have reviewed management's calculation, and roll-forward of the 2008 actuarial report, and have identified a potential overstatement of the provision of £237k. This amount has not been adjusted by management as it is considered by management to be a judgemental area and an immaterial potential misstatement.
2. **Voluntary severance scheme (VSS):** The Council has included a provision of £442k in respect of the VSS in the Statement of Accounts. We have concluded that this provision is not materially misstated. We have, however, included a management recommendation, in Section 3 of this report, in respect of recording the date at which the severance decision is communicated to the relevant individuals.
3. **Purchase order accrual:** Following an error noted in the year, the Council has performed a detailed review of its purchase order accrual account (also referred to as 'goods received and invoice receipted account' or GRIR). Following this review, the GRIR balance included in the 31 March 2009 Statement of Accounts presented for audit was £10,781k. Through our procedures we identified that this balance is overstated by £232k. This misstatement has been adjusted by management. Through our audit procedures we have also identified a similar control weakness in respect of the accrual for 'Outstanding Commitments on Framework I for Care Homes'. We have concluded that this accrual is overstated by £233k. This misstatement has been adjusted by management. We have included our control recommendations in respect of these accounts in Section 3 of this report.
4. **Bad debt provision:** The Council has increased its Council Tax bad debt provision from £3,833k in 2008 to £4,723k in 2009 whilst the Council Tax debt balance has decreased from £8,003k in 2008 to £6,748k in 2009. We understand that this increase is to reflect the change in the current economic environment. We do not consider the bad debt provisions to be materially misstated.
5. **London Authorities' Mutual Limited (LAML):** The Court of Appeal has now concluded that LAML is ultra vires and should be disbanded. The Statement of Accounts includes an investment of £346k in LAML and an amount receivable from the mutual of £900k. These amounts are considered recoverable by management. We concur with the Council's treatment of the balances in respect of LAML.

In addition to the risks identified through our planning procedures, a significant adjustment has been made to the Statement of Accounts in relation to the valuation of HRA Council Dwellings. These properties are valued by the Council as at the first day of the accounting period. This is in line with SORP guidance, however due to the adverse economic environment during the financial year, and its impact on asset valuation, an impairment trigger was identified. This has led to an impairment adjustment totalling £56,705k. This adjustment has been processed by management and further detail is included in Appendix 1.

Introduction

We have pleasure in setting out in this document our report to the Audit Committee of London Borough of Harrow for the year ended 31 March 2009 for discussion at the meeting scheduled for 21 September 2009. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2009.

Key audit risks

In addition to further detail on those matters included in the Executive Summary we discuss within Section 1 the results of our work in relation to key audit risks which have been identified as being significant to the 2009 accounts.

Other issues

We have set out comments in respect of our audit certificate, our value for money conclusion, the 'whole of government accounts' return, and International Financial Reporting Standards in more detail in Section 2.

Identified misstatements

Audit materiality was £4,347k (2008 £4,352k) and was based on a percentage of Continuing Service Gross Expenditure as in prior years. This materiality is different to the amount reported to you in our audit plan of 6 April 2009 due to a change in the reported result for Continuing Service Gross Expenditure in the accounts presented for audit. We have used 5% of materiality to determine our de minimis threshold of £217k. We are required to report to you any errors above the de minimis threshold. Identified uncorrected misstatements increase income and net assets by £1,312k. Management has concluded that the total impact of the uncorrected misstatements is not material in the context of the financial statements taken as a whole. Details of the audit adjustments are included in Appendix 1.

Disclosure deficiencies

Auditing standards require us to highlight significant unadjusted disclosure deficiencies to enable audit committees to evaluate the impact of those matters on the financial statements. Management has adjusted the Statement of Accounts for all disclosure deficiencies identified through our audit therefore there are no significant unadjusted disclosure deficiencies to report.

Accounting and internal control systems

We did not identify any material weaknesses in the financial reporting systems at year end. Significant control observations are explained in Section 3, all other control observations are included in Appendix 3.

Audit Status

At the date of this report our audit, conducted in accordance with our Audit Plan presented to you on 6 April 2009, is ongoing and is subject to the satisfactory completion of the matters set out below:

- testing in respect of NNDR bad debt provision;
- confirmation from Barclays on LOBO loan;
- receipt of management representation letter;
- update of post balance sheet event review;
- completion of the BEN01 grant claim audit;
- completion of our procedures in respect of objection to the accounts;
- receipt of the annual report for the Local Borough of Harrow Pension Scheme; and
- receipt of final Statement of Accounts following processing of all audit adjustments.

1. Key audit risks

The results of our audit work on key audit risks are set out below:

Insurance Provision

Background

No updated actuarial report was received in 2008/9 and instead management calculated the provision based on a combination of the expected value of claims on the system at year end, and rolling forward the actuarial valuation for new claims and payments made.

Deloitte response

The insurance provision is a judgemental provision, as the claims registered on the system may in fact be repudiated or settled for less than the reserve, or indeed end up with a much larger settlement or significant legal costs. As there have been no material claims received or settled in the year, and the nature of the provision and types of claim has not changed compared to last year, we understand that management considers the best method of providing a valuation to be based on the actuary's report from last year. We have reviewed the Council's calculation of the current year provision and identified that the calculated insurance provision is £237k less than the amount included in the Statement of Accounts. We have raised this as a likely misstatement in Appendix 1. Management have not posted this adjustment to the Statement of Accounts because they consider this to be a judgemental area and an immaterial potential adjustment.

Voluntary Severance Scheme

Background

During the 2008/9 financial year the Council has initiated a voluntary severance scheme. FRS 12 requires that provisions be recognised where there is a present obligation as a result of a past event, where it is probable that expenditure will be incurred to settle the obligation and where a reasonable estimate can be made of the amount of the obligation.

SORP 2008 states that a decision to make redundancies is not sufficient to create a constructive obligation, but communication of the decision to involved parties creates a valid expectation that closure will take place. If this communication occurred before the year end a provision would be appropriate. However if the communication occurred after the year end, an amount may be contributed to earmarked reserves to meet the future payment.

Deloitte response

The point at which actual communication was made to the individual is not clear from the Council's records. The allocation of amounts to either provisions or earmarked reserves is therefore unidentifiable. As documentation of the communication was not retained, management has taken the date of the review board decision to be the date of the commitment.

The amount of provision at year end is £441k. The amount of earmarked reserve at year end is £360k. Neither amount is material to the Statement of Accounts, and we understand that any difference between the date of approval and the date of communication is normally minimal. Therefore we have concluded that this provision is not materially misstated.

1. Key audit risks (continued)

Purchase order accrual

Background

Management have performed a review of the goods receipt and invoice receipt (GRIR) account during 2008/9 and identified both revenue (£2,000k) and capital (£1,400k) that should not be included as liabilities in the Statement of Accounts. These amounts have been corrected by management and the amended balance included in the accounts in respect of GRIR is £10,781k.

Deloitte response

We have reviewed the procedures performed by the Council to identify the amounts to be released from this account. We performed detailed substantive testing on a sample of these items to underlying documentary evidence. The results of this testing were satisfactory.

We performed detailed substantive testing on a sample of items that remain in the GRIR as a liability in the 2008/9 Statement of Accounts, and assessed whether the liability is valid. Internal audit identified, and we corroborated that £232k of the GRIR account balance included within the Statement of Accounts presented for audit, was invalid and we proposed an adjustment for this amount. This misstatement has been adjusted by management.

We reviewed the Council's Internal Audit report on control weaknesses that resulted in these amounts remaining in the GRIR and we reviewed and assessed the Council's proposed changes to controls going forward. We have included in Section 3 our recommendations in respect of these control activities.

Through our audit procedures we have identified a similar control weakness in respect of the accrual for 'Outstanding Commitments on Framework I for Care Homes'. We have concluded that the accrual for 'Outstanding Commitments on Framework I for Care Homes' is also overstated by £233k. This misstatement has been adjusted by management.

1. Key audit risks (continued)

Bad debt provision

Background

In previous years we have noted issues with debt recoverability, and the calculation of the bad debt provision, which largely related to amounts owed from Harrow PCT. We understand that all disputes with Harrow PCT have now been resolved. The calculation of the bad debt provision for all other accounts receivable remains an area of management judgement.

Deloitte response

We have reviewed the correspondence with Harrow PCT, in respect of the settlement of this debt, and reviewed documentation supporting the payments. We have also documented and tested the design and implementation of controls in place to mitigate the risk of misstatement of the bad debt provision, and have performed substantive tests of detail to assess the recoverability of the debt included in the 2008/9 Statement of Accounts. The results of our testing were satisfactory.

Total debtors have increased from £40,000k in 2008 to £41,400k in 2009 (3% increase) compared to provisions of £10,200k in 2008 and £11,600k in 2009 (13% increase). The largest movement in provisions, as a percentage of actual debt in the current year compared to the prior year, is in relation to Council Tax. In 2009 70% of Council tax debtors were provided against, whereas in 2008 only 48% were provided against. This is a judgement area and we understand that the Council has increased the percentages applied to reflect the potential impact of the change in the economic environment. We conclude that it is appropriate to consider the change in economic environment when calculating these provisions. However the level of change in the provision is not supported by any specific analysis performed based on supporting evidence. If the prior year percentages had been applied to the 2009 debtors, the provision would be £3,873k (£850k lower than actual). This is an area of judgement and any potential adjustment to the provision would be immaterial, therefore we have not proposed an adjustment to the Council tax provision.

1. Key audit risks (continued)

London Authorities' Mutual Limited (LAML)

Background

The Council disclosed a contingent liability in the 2007/8 Statement of Accounts in respect of the uncertainty surrounding LAML. The Court of Appeal has now concluded that the Mutual is ultra vires and should be disbanded. Harrow has lodged the right to petition to appeal to the House of Lords.

The Statement of Accounts includes an investment of £346k in LAML and an account receivable from the mutual of £900k.

Deloitte response

We have reviewed the latest available documentation regarding LAML as provided by the Corporate Director of Finance. We are satisfied that both amounts included within the Statement of Accounts remain recoverable based on the solvency of the mutual and recent settlement of the Bentley Wood insurance claim in the Council's favor. A note has been disclosed in the accounts stating that LAML was found to be ultra vires on 9th June 2009, and we consider this to be appropriate.

We have also reviewed the new insurance arrangements made by the Council in order to secure policies for those previously covered by LAML and found that the level of cover remains the same, albeit with different insurance providers.

Pension Liability

Background

In our 2007/8 Report to the Governance, Audit and Risk Management Committee we noted that our review had revealed that certain assumptions, although being within an acceptable range, were at the more aggressive end of the range. This continues to be a risk for the Council, particularly because some of these assumptions draw on market prices and these have recently become more volatile due to the current market conditions.

Deloitte response

We involved our specialist pensions group within our engagement team to assist in the review of assumptions used to calculate the pension liability and related in-year transactions. Our review has revealed that the improved mortality rate assumption, although being within an acceptable range, continues to be at the more aggressive end of the range. The Council should continue to closely monitor all of the assumptions used annually for the valuation of the pension scheme.

If all of the UK assumptions were set equal to the Deloitte Illustrative Benchmark assumptions, the deficit of £190,000k would increase to become a deficit of c. £244,000k. However, this is not intended to imply that the deficit calculated by the actuary is inappropriate. The key assumptions are all within the range we have seen adopted by other employers for accounting purposes as at 31 March 2009.

1. Key audit risks (continued)

Revenue recognition

Background

International Standards on Auditing establish a presumption of a risk of fraud in revenue recognition. Historically the most significant area of detected fraud at the Council has been in the area of benefit administration. Therefore over-claiming of benefit subsidy on the basis of fraudulent benefit claims has been identified as being a key audit risk.

Deloitte response

We tested the design and implementation of controls in place at the Council for detection of benefit fraud and performed additional detailed substantive testing of benefit claims. No issues were identified.

SORP 2008 implementation

Background

There were a number of changes to the 2008 SORP which impacted the Council's Statement of Accounts. The main changes were:

- the revaluation of fixed assets on disposal is now prohibited in capital accounting;
- various Pension SORP changes, including the requirement to value investments at bid price (formerly mid price); and
- the Pension Fund accounts are the subject of a separate audit plan and opinion.

As a result of issues over the implementation of SORP 2007 in the prior year, we have identified this as a risk this year.

Deloitte response

We reviewed the new requirements of the SORP 2008 and discussed these with management at our interim audit in March. Prior to submission of the accounts for audit, management completed the disclosure checklist issued annually by CIPFA which ensures that the requirements of the SORP 2008 are complied with. We carried out a detailed review of this checklist and found the requirements to have been materially complied with.

The changes in the SORP have resulted in a financial impact on the Statement of Accounts with several figures from the prior year having to be restated. Prior year adjustments are disclosed in note 7.1.1 of the Statement of Accounts.

The prohibition of valuing assets on disposal has caused a £9,408k decrease to the deficit for 2007/8 which is subsequently offset by a £9,747k adjustment to 'Net additional amount to be credited to the Council Fund Balance'. This has resulted in a £339k increase to the General Fund balance carried forward from 2007/8.

The requirement to value pension fund assets at bid price has caused a change in the opening valuation of investments of £377k. This amount has been deemed immaterial by management in the Pension Fund accounts and is not adjusted. The change in valuation is therefore included in the current year change in market value. We concur with this treatment.

2. Other issues

Other issue	Background
Whole of Government Accounts return (WGA)	At the time of issue of our audit planning report the deadline for submission of the WGA return was not known. The deadline is now published and is the same as for the Statement of Accounts; 30 September 2009. Management provided us with the WGA working papers on schedule and we are now in the process of completing our audit of the return. The Council was required to provide a clear audit trail, and working papers, for the information included in the consolidation pack; and the Council was expected to have taken steps to assure themselves of the integrity and correctness of material transactions and balances with other WGA bodies. We have not completed our procedures in respect of the WGA, however to the date of this report we have not identified any significant issues.
International Financial Reporting Standards (IFRS)	Local Authorities will be required to prepare IFRS compliant accounts for the year-ending 31 March 2011 and therefore comparative IFRS balances for the year from 1 April 2009 to 31 March 2010. The Whole of Government Accounts return for 2009/10 will also be required to be submitted under IFRS. Therefore although IFRS transition has not impact the audit of the 2008/9 Statement of Accounts, the Council should now be making the necessary arrangements to enable them to prepare the comparative figures for the 2009/10 financial year. We are satisfied that the necessary arrangements for restatement are in hand.
Value for Money (VFM)	Under the Code of Audit Practice, auditors are required 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 Statement of Accounts. We did not qualify our VFM conclusion in 2007/8 as the financial standing theme had improved mainly as a result of the Council complying with its reserves policy to add £1m to general fund reserves, however this area does continue to be a risk for the Council. Our Use of Resources ("UoR") work is complete and no scores of level 1 have been awarded. Our conclusion on VFM will therefore not be qualified in the 31 March 2009 Statement of Accounts.
Audit certificate	When our audit is complete we are required to certify the closure of the audit. In the case of the 2008/09 accounts, as at the date of this report, we are unable to do so due to ongoing correspondence with a local elector relating to parking and traffic penalty charges. We have not yet concluded whether the amounts concerned are material enough to require modification of our audit report or disclosure in the accounts. When these issues are resolved and we come to issue our certificate we will reconsider the potential impact on the accounts and the effect on our opinion, if any. The Local Government Pension Scheme (Amendment) (No3) Regulations require that the pension scheme annual report is published on or before 1 December following the year end. At the date of this report we have not received the Pension Fund annual report for review, and it is unlikely that we will receive this sufficiently in advance of the 30 September deadline for signing the Statement of Accounts. If we do not receive the annual report with sufficient time to complete our review, this will impact the format of our audit opinion and timing of our audit certificate. We expect this situation not to be unique to the Council.

3. Accounting and internal control systems

The audit team, following an assessment of the independence and competence of the internal audit department, have reviewed the findings of internal audit and adjusted our audit approach as deemed appropriate. 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:

- relating to identified risks (including this risk of fraud in revenue recognition); and
- where we considered we would be unable to obtain sufficient audit assurance through substantive procedures alone.

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 the recommendations already made by internal audit. Whilst our observations may not be as comprehensive as those of a member of your management team, they do have the advantage of being independent.

We have adopted a grading system for the management recommendations. We have included all grade 1 recommendations in this section. All other recommendations are included in Appendix 3.

- Grade 1 recommendations are those which require urgent action by the Council;
- Grade 2 recommendations are those which we consider are important and should be reviewed over the next three months; and
- Grade 3 recommendations are those of lesser importance which can be looked at over the course of the 2008/9 financial year.

During the course of our audit we identified a number of control observations, the most significant of which are detailed below.

3. Accounting and internal control systems (continued)

Control observations

Journal entries	Through our testing we identified that some journals were not signed as authorised; some were signed but it was not clear by whom; and some were not supported by sufficient documentary evidence.
Recommendation	Correct and sufficient documentation should be provided for all journal entries. All journals should be signed with the employees name printed underneath, making it unambiguous as to who authorised the procedure. All journals must be posted and authorised by different staff members, with the relevant authority.
Management response	An improved journal request form which requires printed names and signatures for all journals is now in use. However, this is for the 2009 financial year onwards, and was not in use in 2008-09. Grade: 1 Owner: Divisional Director of Finance and Procurement

3. Accounting and internal control systems (continued)

Control observations

Purchase order accruals

As referred to above in section 1 of this report, in response to the error identified on the Purchase Order Accrual ("POA"), we reviewed the Council's Internal Audit ("IA") report on control weaknesses and assessed the Council's proposed changes to controls going forward.

Recommendation

1) SAP refresher training should be provided to all users who can post entries to the POA by 31 December 2009. The identification of the appropriate individuals and monitoring of the uptake of training should be assigned to the Divisional Director of Corporate Finance and Procurement ("DDOF") in order to ensure training is undertaken. Training provided should be updated from the present offering to incorporate all IA and Deloitte recommendations.
2) Suspension of the monthly reconciliation process should be avoided. We understand from the IA report that the process was suspended in April, May and June 2009 due to increased workloads as a result of the preparation of the annual accounts.
3) Responsibility for monthly review of the POA account, and procedures performed by budget holders, should be allocated to an appropriate individual within finance. The responsible individual should monitor and report on the ageing of this account on a monthly basis.
4) The procedure for the monthly reconciliation process should be formally documented and specify that:
   - The Finance Business Partner team ("FBP") will produce a report each month showing all balances on the POA and provide the relevant listings to each budget holder ("BH") by the fifth working day of each month; and
   - The BH must review all accrued items over a certain age (to be agreed by the Council), and check validity of the accrual.
5) We understand that invoices are received that do not match the purchase order amount recorded. The Council should agree a tolerance limit, for the difference between the invoice and purchase order, above which the invoice should not be processed immediately but should be referred to the BH. Only when the discrepancy is resolved should the invoice be processed. The invoice and the reason for the discrepancy and resolution should be formally recorded.

Management response

Agreed

Grade: 1 Owner: Divisional Director of Finance and Procurement

3. Accounting and internal control systems (continued)

Control observations

Residential Care Accrual	As discussed in section 1 of this report we have identified that the accrual for 'Outstanding Commitments on Framework I for Care Homes' is overstated by £233k. This misstatement has arisen due to weaknesses in controls around matching invoices against purchase orders. This has resulted in the Council accruing for purchase orders that do not reflect valid liabilities for the Council. This is a similar weakness to that identified in relation to the GRIR account. However we understand that there is added complexity in this area due to the use of two accounting systems, Framework I and SAP, to record invoices and purchase orders.
Recommendation	Internal audit and finance should perform a detailed review of all controls for matching purchase orders to invoices for all liability account balances. This review should extend beyond checking if accounts are reconciled and should specifically review: • the nature of the account balance; • how transactions are initiated and processed; and • how amounts can be added to or removed from the ledger. Identified ledgers should be assigned to an appropriate manager for monthly review to ensure that outstanding commitments (accruals) are valid.
Management response	Agreed Grade: 1 Owner: Divisional Director of Finance and Procurement

3. Accounting and internal control systems (continued)

Control observations

Impairment review

The original Statement of Accounts submitted to GARM did not reflect the market valuation of Council Dwellings at 31 March 2009. The Council does not perform a formal impairment review at the year end to determine whether there have been any triggers for impairment during the year.

Recommendation

A year-end review should be performed to ensure that asset valuations remain appropriate at the year-end. Recommended procedures within this review are:

- Discussion of potential material movements in asset valuations during the financial year with the Council's internal Property and Valuation Services department. This should include an update of any significant changes post-year end; and
- Circularising users of significant assets to enquire as to any potential impairment triggers in the year.

Management response

Agreed

Grade: 1 Owner: Divisional Director of Finance and Procurement

4. Matters for communication to those charged with governance

As part of our obligations under International Standards on Auditing (UK & Ireland) we are required to report to you on the matters listed below.

Independence	We consider that we comply with APB Ethical Standards and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised.
Non-audit services	An analysis of professional fees earned by Deloitte in the period from 1 April 2008 to 31 March 2009 is included in Appendix 2.
International Standards on Auditing (UK and Ireland)	We consider that there are no additional matters in respect of those items highlighted in our publication “Briefing on audit matters” circulated to you on 6 April 2009, to bring to your attention that have not been raised elsewhere in this report or our audit plan.
Written representations	A copy of the representation letter to be signed on behalf of the Council has been attached in Appendix 4.

5. Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the "Briefing on audit matters" circulated to you in April 2009 and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to the Members and this report is not necessarily a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Deloitte LLP
Chartered Accountants

St Albans
16 September 2009

Appendix 1: Audit adjustments

Uncorrected misstatements

The following uncorrected misstatements were identified during the course of our audit:

		Increase/ (decrease) in net assets £'000	(Credit) / charge to current year I&E account £'000
Errors of Fact			
Double counting of the pension added years provision in the FRS 17 provision	[1]	1,075	(1,075)
Differences in judgement			
Likely overstatement of the insurance provision		237	(237)
Total		1,312	(1,312)

[1] An adjustment has been proposed to release the pension added years provision included within the Statement of Accounts. When FRS 17 was implemented the actuary's valuation of the deficit included the added years element of the liability. Therefore the separate provision included on the balance sheet should have been released. This provision remains on the balance sheet and therefore the liability has been double counted.

We will obtain written representations from the Members confirming that after considering this uncorrected item no adjustments are required.

Recorded audit adjustments

The following misstatements were identified during the course of our audit and have been corrected by management:

		Increase/ (decrease) in net assets £'000	(Credit)/(charge) to current year I&E account £'000
Errors of fact			
Removal of invalid amounts from the GRIR accrual account		232	(232)
Removal of invalid amounts from the Framework I for Care Homes accrual		233	(233)
Impairment to value of HRA Council Dwelling fixed assets	[2]	(38,708)	38,708
Total		(38,243)	38,243

[2] In the first draft Statement of Accounts submitted to GARM the HRA Council Dwelling valuation had not been updated to reflect the current economic environment, which has had a detrimental impact on property values. This has now been adjusted. An impairment totalling £38,708k has been recorded in the I&E as above, with the remainder of the adjustment, £18,001k, being accounted for as a downward revaluation which reduces the fixed asset balance and the revaluation reserve having no I&E impact. This accounting treatment is in line with the SORP 2008.

In addition the following adjustments have been recorded by management:

- The credit to unfunded benefits, which is a form of contribution and should therefore be replaced by service costs under FRS 17, was incorrectly classified to non-distributed costs. A total of £2,852k has been reclassified to net cost of services in the I&E.
- The Item 8 guidance was not applied appropriately resulting in an understatement of interest income. This adjustment has increased interest income of £100k in the HRA however this is countered by an £100k adjustment to interest payable in the Council's Statement of Accounts.
- Unallocated cash totalling £1,786k was included within creditors. We identified an adjustment to move this cash to match against the relevant debtors balance.

Appendix 2: Analysis of professional fees

The professional fees earned by Deloitte for the period from 1 April 2008 to 31 March 2009 are as follows:

	2009 £'000	2008 £'000
Statement of Accounts	282	270
Use of resources and Data Quality	110	98
Whole of Government Accounts (WGA)	5	4
Total fees for work carried out under the Code of Audit Practice	**397**	**372**
Fees payable in respect of the certification of grant claims and returns of the Council	110	95
Total	507	467

The figures presented above are actual charges for the period with the exception of fees payable for the certification of grant claims which is an estimate as the work is currently ongoing.

In addition to the professional fees included above,

- we are currently working with the Council on certain aspects of the transition to IFRS. The fee in respect of these procedures is £15k;
- we act as auditors of the Local government Pension Scheme. Our fee for that (£38k) is dealt with in our separate report which is also presented to the Governance, Audit and Risk Management Committee; and
- during the year to 31 March 2009 we performed a project for both Harrow PCT and Harrow Council in respect of social care funding transfer, the fee for this project was £19k.

Appendix 3: Other accounting and internal control recommendations

Control Observations

Housing Revenue Account (“HRA”) calculation errors

‘Variable Q’ was omitted from the calculation of the Consolidated Rate of Interest (“CRI”), which is a key component of calculating the HRA subsidy payable. Variable Q is the average 3-month London Interbank Bid Rate (LIBID) for 2008-2009 calculated by aggregating the rates published throughout 2008/9. The impact of this was to overstate the CRI by 0.01%.

SORP 2008 requires the HRA interest payable (debit) and interest income (credit) to be determined using the Item 8 debit and credit guidance made by the Secretary of State. The Council has calculated interest income by taking the average HRA balance during the year, multiplied by the 7 day LIBOR rate. This is not in line with the Item 8 credit guidance, which requires interest income to be calculated using the average rate of interest receivable in respect of investments rather than the 7 day LIBOR rate. The item 8 credit is therefore misstated by £100k and this in included in our adjusted misstatements in Appendix 1.

Recommendation

It is recommended that the Council applies the correct formula for calculating the CRI to ensure that they comply with regulation.

It is recommended that in future the Council adopts the formula as prescribed by the Item 8 guidance.

Before submission of the Statement of Accounts for audit senior management should review the complex calculations involved in determining the HRA balances, to ensure that the figures are correct. The calculations should be signed-off to provide evidence of review.

Management response

Agreed

Grade: 2 Owner: Divisional Director of Finance and Procurement

Appendix 3: Other accounting and internal control recommendations (continued)

Control Observations

Insurance system	An actuarial review of the insurance provision included in the 2009 Statement of Accounts was not performed. Through our review of the Council's calculation of the current year provision we identified a likely overstatement of the provision of £237k.
Recommendation	We recommend that an actuarial review of the insurance provision is performed for the year ending 31 March 2010 to allow an independent valuation of insurance liabilities. We recommend that when a detailed actuarial review is not performed, the Council should discuss with the actuary the most appropriate method of rolling forward their previous actuarial valuation.
Management response	Agreed Grade: 2 Owner: Divisional Director of Finance and Procurement.
Bad debt provision calculation	The council tax bad debt provision is calculated on the basis of a net balance of amounts owed to the Council and prepayments made to the Council. This is reasonable but where a net credit balance arises this was still included in the provision calculation. The inclusion of credit balances in the bad debt calculation could lead to understatement of the provision on the gross balance. Separate consideration of credit balances is appropriate.
Recommendation	Credit balances should be excluded when calculating the bad debt provision and subject to separate consideration. To ensure that this practice is adhered to this should be verified during management review of the bad debt provision calculation. The calculation should be signed-off to provide evidence of review.
Management response	Agreed Grade: 2 Owner: Divisional Director of Finance and Procurement

Appendix 3: Other accounting and internal control recommendations (continued)

Control observations

IT Security	It was noted that not all agencies used by Harrow update the Harrow Information Technology Services (HITS) team when an employee leaves. There is a risk of unauthorised access through user accounts that remain active on the system once a user has left the organisation.
Recommendation	It is recommended that management consider implementing a process where a list of leavers is provided to the Council on a monthly basis to ensure the removal of leavers' access.
Management response	Agreed Grade: 3 Owner: Harrow IT Services Director
IT Security	No formal user access reviews take place Failure to review the appropriateness of access rights may mean that privileges are no longer valid or are beyond a user's current need. If unnecessary access privileges are not removed, there is a risk of unauthorised access to systems and data.
Recommendation	It is recommended that management review the user access privileges of all users on a regular basis to ensure access is appropriate.
Management response	Agreed Grade: 3 Owner: Harrow IT Services Director

Appendix 3: Other accounting and internal control recommendations (continued)

Control observations

Recoupment team accruals	Expenditure which relates to pre year end has not been accrued for by members of the 'recoupment accounts payable' team. Our testing identified invoices that had arrived in January 2009 for school fees expenditure which had not been paid at the year end and had not been accrued for. These invoices relate to the recoupment of expenditure on school places taken up by students from outside of the Borough, which are therefore recharged to the relevant council depending on the student's residential address.
Recommendation	A review of all unpaid invoices should be undertaken as part of the year-end reporting process. Those items which are for pre-year end expenditure should be accrued for in line with accounting policy. A review of this accrual should be undertaken by management to ensure completeness. This review should occur as part of the standard year end reporting procedures in April each year.
Management response	The team leader of the schools finance team has agreed to review the recoupment team accruals more closely at the next year end in order to prevent such issues reoccurring. Grade: 3 Owner: Divisional Director of Finance and Procurement

Appendix 3: Other accounting and internal control recommendations (continued)

Control observations

Prior period adjustments

Management has restated prior year comparatives in the Statement of Accounts in several areas where there was neither a change in accounting policy nor a fundamental error identified.

Recommendation

The prior year comparatives should only be restated in the current year financial statements where there is a change in accounting policy or a fundamental error, not where there is a change in accounting estimate.

The review process for production of the accounts should include specific consideration of:

- Any restatements required by changes in the SORP;
- the justification for all restatements in terms of change in policy or nature of fundamental error;
- checking all comparative numbers through to prior year financial statements and documentation of reasons for all discrepancies; and
- disclosure requirements of the SORP where restatements are considered valid.

Management response

Agreed

Grade: 3 Owner: Divisional Director of Finance and Procurement

Voluntary Severance Scheme

In the financial year the Council offered a voluntary severance package to employees. The date of the severance decision was not recorded. Although no misstatement has been identified in the current year, there is a risk that in future redundancy provisions may not be recorded at the appropriate date. This indicates a control weakness in the Council's processes for the identification of provisions and therefore completeness of liabilities in the Statement of Accounts.

Recommendation

In the case of further redundancies the date of communication of acceptance onto the voluntary severance scheme should be formally recorded. This could be implemented through issuing a dated letter to the individual concerned or by taking minutes of any meetings held.

Management response

Agreed

Grade: 3 Owner: Divisional Director of Finance and Procurement

Appendix 4: Representation Letter

Deloitte & Touche LLP
Victoria Square
St Albans

This representation letter is provided in connection with your audit of the financial statements of the London Borough of Harrow ("the Council") for the year ended 31 March 2009 for the purpose of expressing an opinion as to whether the financial statements present fairly the financial position of the Council of 31 March 2009 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 and Accounts and Audit Regulations 2003.

We acknowledge our responsibilities for preparing financial statements for the local authority which present fairly and for making accurate representations to you. For the avoidance of doubt, references to the local authority should be taken as applying equally to the Council Pension Scheme and references to the financial statements of the local authority, includes information in those financial statements dealing with the Council Pension Scheme.

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 local authority have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and shareholders meetings, have been made available to you.
2. We acknowledge our responsibilities for the design, implementation and operation 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 local authority involving:
   (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.
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 local authority 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 and disclosure deficiencies 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 our opinion, 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 local authority. 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.

11. 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 local authority 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.

12. With regard to the list of specific related party transactions disclosed in the statement of accounts we confirm that to the best of our knowledge and belief these transactions are not significant to the related party or to the local authority such that they would influence decisions made by a user of the financial statements.

11. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate the local authority or cease trading as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the local authority's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

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

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

14. There have been no events subsequent to 31 March 2009 which require adjustment of or disclosure in the financial statements or notes thereto.

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

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

17. All minutes of member meetings during and since the financial year have been made available to you.

18. 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 (including the discount rate used) accord with our 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; and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.

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 the Council

Deloitte