

Status update

We have pleasure in setting out in this document our status update to the Governance, Audit and Risk Management Committee of Harrow Council ("the Council") for the year ended 31 March 2010 for discussion at the meeting scheduled for 1 September 2010.

This summary is presented to facilitate an oral update. Our full report will be presented to the Governance, Audit and Risk Management Committee at the meeting scheduled for 28 September 2010.

Description

Key findings on audit risks and other matters

We issued our audit plan for the year ended 31 March 2010 on the 12 March 2010. This plan identified the following key audit risk areas and documented our approach to testing these areas, as well as any other matters that has arisen during the audit:

- insurance provision;
- purchase order accruals;
- pension liability;
- property valuations;
- bad debt provisions;
- public finance initiative finance transactions;
- accounting for local taxes;
- revenue recognition;
- prior year grant claim qualification.

Through our audit procedures we identified some audit adjustments in respect of these audit risk areas. A detailed description of each of these audit risks and a summary of the results of our procedures in respect of these risks will be provided at the meeting on 28 September 2010.

Audit status

We are satisfied that the status of the audit is as expected at this stage of the timetable agreed in our audit plan. The matters outstanding at the date of this report include:

- final reviews of the statement of accounts;
- completion of final audit points (including PFI on-costs and work around exposure to asbestos);
- completion of the BEN01 grant claim;
- post balance sheet events review; and
- our initial going concern review has not highlighted any significant uncertainty with regards to concern, in the absence of government announcement of policy changes to the contrary. However, we are required to update our review of the going concern assumption to the point of signing the audit opinion.

We will report to you in respect of any modifications to the findings or opinions contained in this report that arise on completion of these matters.

On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion.

Identified misstatements

Audit materiality was £5,545k (2009 £4,347k) as set out in our Audit Plan. Identified uncorrected misstatements increase "profit" by £1,148k and net assets by £1,148k.

Management has concluded that the total impact of the uncorrected misstatements, both individually and in aggregate, is not material in the context of the financial statements taken as a whole. Further details of the adjustments will be provided at the meeting on 28 September 2010.

20th Aug 2010

Audit Commission Announcement

Dear Ms Barrett

You will have seen the announcement last Friday by the Secretary of State for Communities and Local Government about the proposed abolition of the Audit Commission. The proposed abolition will be from 2012 and the Government has announced its intention to seek legislation in this session of Parliament.

I am writing to confirm that there is no immediate change to the audit arrangements for your authority. As you are aware, your auditor is currently completing the audit of your 2009/10 accounts and preparing the accompanying annual audit letter.

I recently wrote to you outlining our proposed approach to the value for money element of the 2010/11 audit and this remains our planned approach. That letter also said that we will confirm the final position on 2010/11 audit fees following our September Board meeting.

For the limited number of planned Audit Commission inspections, we will be in touch with those authorities affected to agree the way forward.

We are in discussion with the Department about the proposed legislation and the details that will need to be worked through. I will write to you again in due course about the future audit programme and any changes to audit arrangements.

Yours sincerely

Gareth Davies

Managing Director Local Government & Community Safety

9th Aug 2010

Re: Change in approach to auditors' local value for money work

Dear Ms Barrett

I wrote to you on 28 May to let you know that work on Comprehensive Area Assessment (CAA), including the use of resources assessment, was stopping immediately following a decision by the new government. I am writing now to update you on the new arrangements for auditors' work on value for money (VFM) relating to the 2010/11 accounts and future years.

New approach to local value for money audit work

The Commission will not be replacing the use of resources assessment. We are reducing auditors' VFM work and removing any requirement for a scored assessment. Auditors still have a continuing statutory responsibility, as set out in the Code of Audit Practice 2010, to give a conclusion on whether audited bodies have proper arrangements for securing VFM. Our aim is to focus this work on the auditor's core responsibilities and on local audit issues. We will also recognise the scale of the financial pressures for public bodies in the current economic climate.

We will introduce these changes for the 2010/11 accounts at single tier, county and district councils, and fire and rescue authorities. Auditors will give their statutory VFM conclusion on the arrangements to secure economy, efficiency and effectiveness based on two criteria, specified by the Commission, related to an audited body's arrangements for:

- securing financial resilience – focusing on whether the audited body is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how it secures economy, efficiency and effectiveness – focusing on whether the audited body is prioritising its resources within tighter budgets and improving productivity and efficiency.

Auditors will plan a local programme of VFM audit work based on their local audit risk assessment. They will report their VFM conclusion and the key messages from their work, including suggested areas for improvement, to the body's audit committee and in a clear and accessible annual audit letter. Auditors may qualify their VFM conclusion if they are not satisfied that the audited body has adequate arrangements in place.

For 2010/11, auditors of smaller bodies (such as larger town councils and national parks authorities) will continue to apply the current lighter touch approach to their VFM conclusion work.

Impact on audit fees

The new approach will mean a reduction in audit fees from 2011/12.

For 2010/11, the Commission has already given a 6 per cent rebate this year to mitigate the increases in audit fees arising from the transition to IFRS. In May local authorities, and fire and rescue authorities received a cheque or credit note from the Commission. The rebates varied but the average was £7,000 for district councils, £16,500 for county councils and £25,000 for London borough councils. Fire and rescue authorities received £4,600. The total returned for local government bodies including fire and rescue authorities was almost £5 million.

We have a duty to ensure that the Commission has sufficient income in 2010/11 to meet its costs. There are uncertainties around some aspects of our 2010/11 costs, including the significant in-year transitional costs arising from the cessation of CAA. We therefore cannot commit to a rebate of 2010/11 audit fees at this time. The Commission Board will consider a rebate in September when considering audit fees for 2011/12.

Next steps

We will write to you again in September in the context of consulting on the 2011/12 work programme and scales of fees.

Yours sincerely,

Gareth Davies
Managing Director, Local Government, Housing and Community Safety