

Governance, Audit, Risk Management and Standards Committee SUPPLEMENTAL AGENDA

DATE: Tuesday 4 September 2018

AGENDA - PART I

9(a) Annual Audit Letter: (Pages 3 - 16)

Report of the Director of Finance

AGENDA - PART II - NIL

Note: In accordance with the Local Government (Access to Information) Act 1985, the following agenda item has been admitted late to the agenda by virtue of the special circumstances and urgency detailed below:-

Agenda item

9(a). Annual Audit Letter

Special Circumstances/Grounds for Urgency

This report was not available at the time the agenda was printed and circulated because the annual audit letter could not be written until the conclusion of the external audit. Members are requested to consider this item, as a matter of urgency, because the Council will have new auditors in the autumn and KPMG will no longer be the Council's auditors when the Committee next meets in December 2018.

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**REPORT FOR: GOVERNANCE, AUDIT,
RISK MANAGEMENT AND
STANDARDS COMMITTEE**

Date of Meeting: 4 September 2018

Subject: INFORMATION REPORT
Annual Audit Letter 2017/18

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: Annual Audit Letter 2017/18

Section 1 – Summary and Recommendations

This report provides the Committee with an opportunity to consider the Annual Audit Letter from the Council's external auditors

Recommendation

The Committee is requested to note this report containing the Annual Audit Letter

Reason

The Accounts and Audit (England) Regulations 2015 requires the Committee to consider the Annual Audit Letter

Section 2 – Report

Background

- 1 The Council's External Auditors (KPMG LLP) have now completed the audit of the Statement of Accounts 2017/18. The appointed auditor writes to the Council on an annual basis through an Audit Letter summarising the important findings from their audit work.
- 2 The 2017/18 Annual Audit Letter is attached as an appendix to this report and covers the following matters:
 - The headlines – the Audit Opinion ; the Financial Statements audit ; the Pension Fund audit ; the Value For Money (VFM) conclusion and risk areas; other information accompanying the financial statements; Whole of Government Accounts (WGA); the certificate, and the audit fees
 - Appendix 1: Key issues and recommendations
 - Appendix 2 : Summary of reports issued
 - Appendix 3 : Audit fees
- 3 The key conclusions emerging from the Auditor's work were:
 - The Council received an unqualified audit opinion and value for money conclusion.
 - The auditors undertook a risk assessment as part of their VFM audit work to identify the key areas impacting on their VFM conclusion and considered the arrangements that this Authority had put in place to mitigate these risks. The auditors noted the existing budget gaps for the future years together with the assumptions and plans that are in place to ensure the Authority balances its budgets going forward.
 - There are no audit recommendations from the 2017/18 audit. All of the previous years recommendations were cleared by officers during the financial year and the auditors have no issues to report.

Financial Implications

- 4 There are no direct financial implications arising from this report.

Risk Management Implications

- 5 The risks of not implementing recommendations are not included in the corporate risk register. However the review of such recommendations is included as a separate task within the closure of accounts timetable for officers to ensure action has been taken. As stated earlier in this report there are no recommendations arising from the 2017/18 audit of the financial statements.

Equalities implications

- 6 There are no equalities implications.

Council Priorities

- 7 The Annual Audit Letter provides assurance that the Council has managed its finances and delivered value for money in accordance with Council's corporate vision and priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert

Chief Financial Officer

Date: 29 August 2018

Ward Councillors notified:

n/a

Section 4 - Contact Details and Background Papers

Contact: Paul Gower (Interim Technical Accounting Manager) Tel: 020-8424-1335
Email: paul.gower@harrow.gov.uk

Background Papers:

http://www.harrow.gov.uk/download/downloads/id/11785/annual_audit_letter_2017-18.pdf

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Annual Audit Letter 2017/18

London Borough of Harrow

—

August 2018

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, you should contact Andrew Sayers, the engagement lead to the Authority and the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, who will try to resolve your complaint. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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This Annual Audit Letter summarises the outcome from our audit work at the London Borough of Harrow in relation to the 2017/18 audit year, which is the final year that KPMG is the auditor of the Authority and its pension fund.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

<p>Audit opinion</p>	<p>We issued an unqualified opinion on the Authority's financial statements on 30 July 2018. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements include those of the pension fund.</p>
<p>Financial statements audit</p>	<p>Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority's accounts was set at £8 million which equates to around 1.3 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision. Materiality for the Pension Fund was set at £10 million which is approximately 1.2 percent of gross assets.</p> <p>We report to the Governance, Audit, Risk Management and Standards (GARMS) Committee any misstatements of lesser amounts, other than those that are "clearly trivial", to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £400,000 for the Authority and £500,000 for the Pension Fund.</p> <p>We have identified no audit adjustments.</p> <p>Our audit work was designed to specifically address the following significant risks:</p> <ul style="list-style-type: none"> — Management Override of Controls – Our audit methodology incorporates the risk of management override as a default significant risk, including controls testing and substantive procedures over journal entries and accounting estimates. We did not identify any specific additional risks of management override relating to this audit; — Valuation of land and buildings – We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach. In addition, we considered movements in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values had moved materially over that time. In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate. We also assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions). As a result of our work we had no issues arising relating to the valuation of land and buildings as disclosed in the financial statements. — Pensions Liabilities – We reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary, including the Authority's process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Hymans Robertson. We reviewed the appropriateness of the key assumptions included within the valuation and compared them to expected ranges. We also reviewed the methodology applied in the valuation by Hymans Robertson. In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements. As a result of this work we determined that pension assets and liabilities movements and year end balances were reflected correctly in the financial statements.

Pension Fund audit	<p>There were no significant issues arising from our audit of the pension fund and we issued an unqualified opinion on the pension fund financial statements as part of our audit report. Our audit work was designed to specifically address the following significant risk relating to the Pension Fund:</p> <ul style="list-style-type: none"> — Valuation of hard to price investments – As part of our audit of the Pension Fund, we independently verified a selection of investment asset prices to third party information and obtained independent confirmation on asset existence. We also tested the extent to which the Pension Fund had challenged the valuations reported by investment managers for harder to price investments and obtained independent assessment of the figures. As a result of our work we had no issues arising to bring to the Authority’s attention relating to the valuation of investments as disclosed in the financial statements.
Value for Money conclusion	<p>We issued an unqualified conclusion on the Authority’s arrangements to secure value for money (VFM conclusion) for 2017/18 on 30 July 2018. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources.</p> <p>To arrive at our conclusion we looked at the Authority’s arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.</p>
Value for Money risk areas	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. Our work identified the following significant matter:</p> <ul style="list-style-type: none"> — Delivery of Medium Term Financial Strategy – we reviewed the Authority’s arrangements and considered the arrangements that the Authority put in place to ensure that savings were identified, monitored and reported to be appropriate. The Authority’s increased spending controls in 2017/18 were successful in enabling the Authority to build up a reserve (£3.2 million) to assist in meeting known challenges for 2018/19 onwards. This is particularly significant in light of the Authority’s low (comparatively) level of reserves. <p>However, the Authority has a number of challenges in order to continue to achieve a balance budget going forward, including delivery of £9.2 million of savings plans agreed for 2018/19; a remaining gap of £2 million to be identified in 2019/20 (after delivery of the £15.6 million addressed through savings plans (appreciating some are one off which are correctly adjusted for in future years) and increased resources already agreed); and £16.1 million to be identified for 2020/21.</p> <p>The significant size of the future budget gap reflects the continuing constraints on resources; service cost and demand pressures; and the one-off nature of some elements used by the Authority to get to a balanced budget for 2018/19. Members and Officers are aware of the challenges facing the Authority and are committed to achieving savings and looking for new ways of working and income streams.</p> <p>Overall our view is that the MTFs has been built on robust assumptions which we have agreed to supporting documents. Given the Council’s limited reserves the need to explore other income sources such as through the regeneration and commercialisation projects need to be driven forward. Caution should be taken over ensuring that returns on these projects are not over promised and focus is taken away from identifying savings. For this reason the Council has taken such savings out of its plans and these are no longer included in the budget/savings for 2018/19 onwards (thus if they do deliver savings or additional resources these will be a welcome addition).</p>

Other information accompanying the financial statements	Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.
Whole of Government Accounts	We have not yet completed our review of the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. This work is in progress and is expected to be completed by the end of August deadline.
High priority recommendations	We raised no recommendations as a result of our 2017-18 work.
Certificate	The audit cannot be formally concluded and an audit certificate issued as we have not yet completed our review of the Whole of Government Accounts consolidation pack. Until we have completed our consideration of this we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.
Audit fee	Our fee for 2017-18 was £150,724, excluding VAT (2016/17: £150,724). Our fee for the audit of the Pension Fund was £21,000 excluding VAT (2016/17: £21,000). Further detail is contained in Appendix 3.
Exercising of audit powers	<p>We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.</p> <p>We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.</p>

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Appendix 1: Key issues and recommendations

We have made no new recommendations this year and are satisfied that recommendations made in previous years have been addressed.

2017-18 recommendations

We have not identified any recommendations for the current year.

Follow up of previous recommendations

As part of our audit work we followed up on the Authority's progress against previous audit recommendations. We are pleased to report that the Authority has taken appropriate action to address the issues that we have previously highlighted.

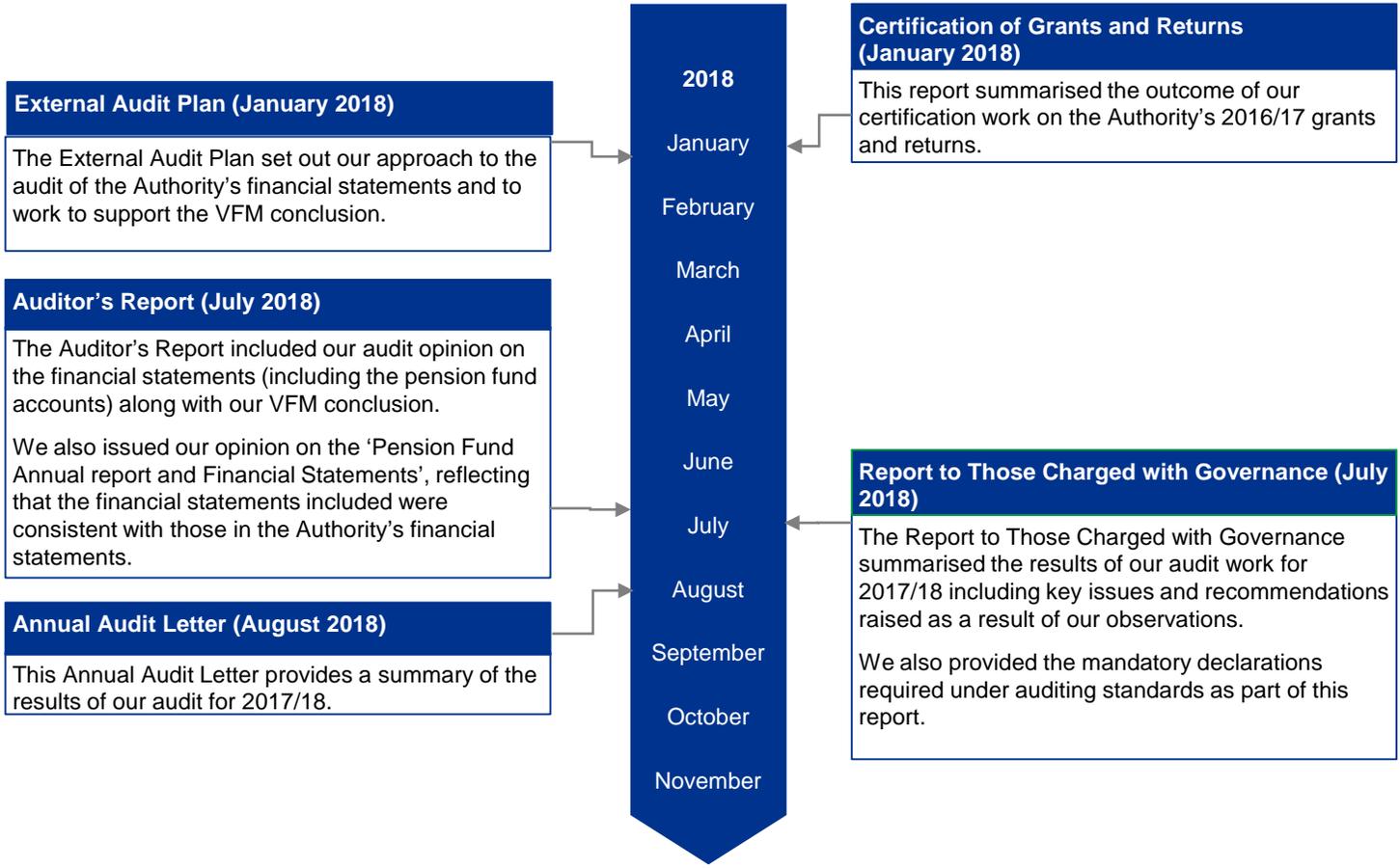
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Appendix 2: Summary of reports issued

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This appendix summarises the reports we issued since our last Annual Audit Letter.

These reports can be accessed via the GARMS Committee pages on the Authority's website at www.harrow.gov.uk.



Appendix 3: Audit fees

This appendix provides information on our final fees for the 2017/18 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2017/18 planned audit fee.

External audit

Our final fee for the 2017/18 audit of the Authority was £150,724 which is in line with the planned fee.

Our final fee for the 2017/18 audit of the Pension Fund was in line with the planned fee of £21,000.

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in December 2018 / January 2019.

Other services

We charged £7,000 for additional audit-related services for the certification of the Pooling of Housing Capital Receipts grant claim and Teachers' Pensions Return, which are outside of Public Sector Audit Appointment's certification regime.

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