

Governance, Audit, Risk Management and Standards Committee Supplemental Agenda

Date: Tuesday 23 May 2023

. Agenda - Part I

8. **Establishment of the Standards Working Group** (Pages 3 - 4)
To agree that this advisory group (the Standards Working Group) be established as required and comprise one Member from each political group on the Council and an Independent Person who will chair the meeting.
12. **2021-22 Audit Completion Report** (Pages 5 - 72)
Report of the Director of Finance and Assurance

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Standards Working Group (3)

	Independent Member	Conservative	Labour
	(1)	(1)	(1)
I. Members	Mr James Coyle Dr John Kirkland Mr Derek Lawrence	Yogesh Teli	Antonio Weiss
III. Reserve Members		1. Christopher Baxter 2. Paul Osborn	1. Dean Gilligan 2. Eden Kulig

Membership Rules

To be established when required and to comprise of one member of each of the main political parties and one Independent Member.

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

Date of Meeting: 23 May 2023

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

Responsible Officer: Dawn Calvert, Director of Finance and Assurance

Exempt: No

Wards affected: All

Enclosures: Appendix 1 - Audit Completion Report 2021/22

Section 1 – Summary and Recommendations

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

Recommendations:

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

Section 2 – Report

Audit Completion Report 2021/22

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

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

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

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

- Risk 1 – Financial Sustainability

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

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

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

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

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

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

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

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

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

- Risk 3 – Effectiveness and coverage of internal audit

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

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

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

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

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

Housing Benefit – Evidence Based Control Self -Assessment

Treasury Management - Evidence Based Control Self -Assessment

Housing Rents - Evidence Based Control Self -Assessment

Business Rates - Evidence Based Control Self -Assessment

Capital Expenditure - Evidence Based Control Self -Assessment

Corporate Accounts Receivable - Evidence Based Control Self - Assessment

Corporate Accounts Payable - Evidence Based Control Self - Assessment

Payroll - Evidence Based Control Self -Assessment

Council Tax - Evidence Based Control Self -Assessment

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

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

Annual Review of Governance

Management Assurance x3 (Resources, People, Community)

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

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

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

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

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

Highways System Review

Bus Subsidy Grant – review and signoff

Woodlands Primary School

Whitchurch Primary & Nursery School Finance Review

Whitchurch Primary & Nursery School Governance Review

Cedars Manor Finance & Governance Review

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

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

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

Depot Redevelopment Project – Additional Works Follow-up Review

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

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

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

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

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

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

Legal Implications

There are no direct legal implications arising from this report.

Financial Implications

There are no direct financial implications arising from this report.

Risk Management Implications

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

Separate risk register in place? **No**

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

Equalities implications / Public Sector Equality Duty

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

Was an Equality Impact Assessment carried out? No

There are no direct equalities implications.

Council Priorities

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

Section 3 - Statutory Officer Clearance

Statutory Officer:

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

Sharon Daniels

Date: 19 May 2023

Statutory Officer:

Signed on behalf of the Monitoring Officer

Caroline Eccles

Date: 19 May 2023

Chief Officer:

Signed by the Chief Financial Officer

Dawn Calvert

Date: 19 May 2023

Mandatory Checks

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

Section 4 - Contact Details and Background Papers

Contact: Yinka Ehinfun (Chief Accountant)
Email: Yinka.Ehinfun@harrow.gov.uk

Background Papers:

1. Audit Completion Report 2021/22

If appropriate, does the report include the following considerations?

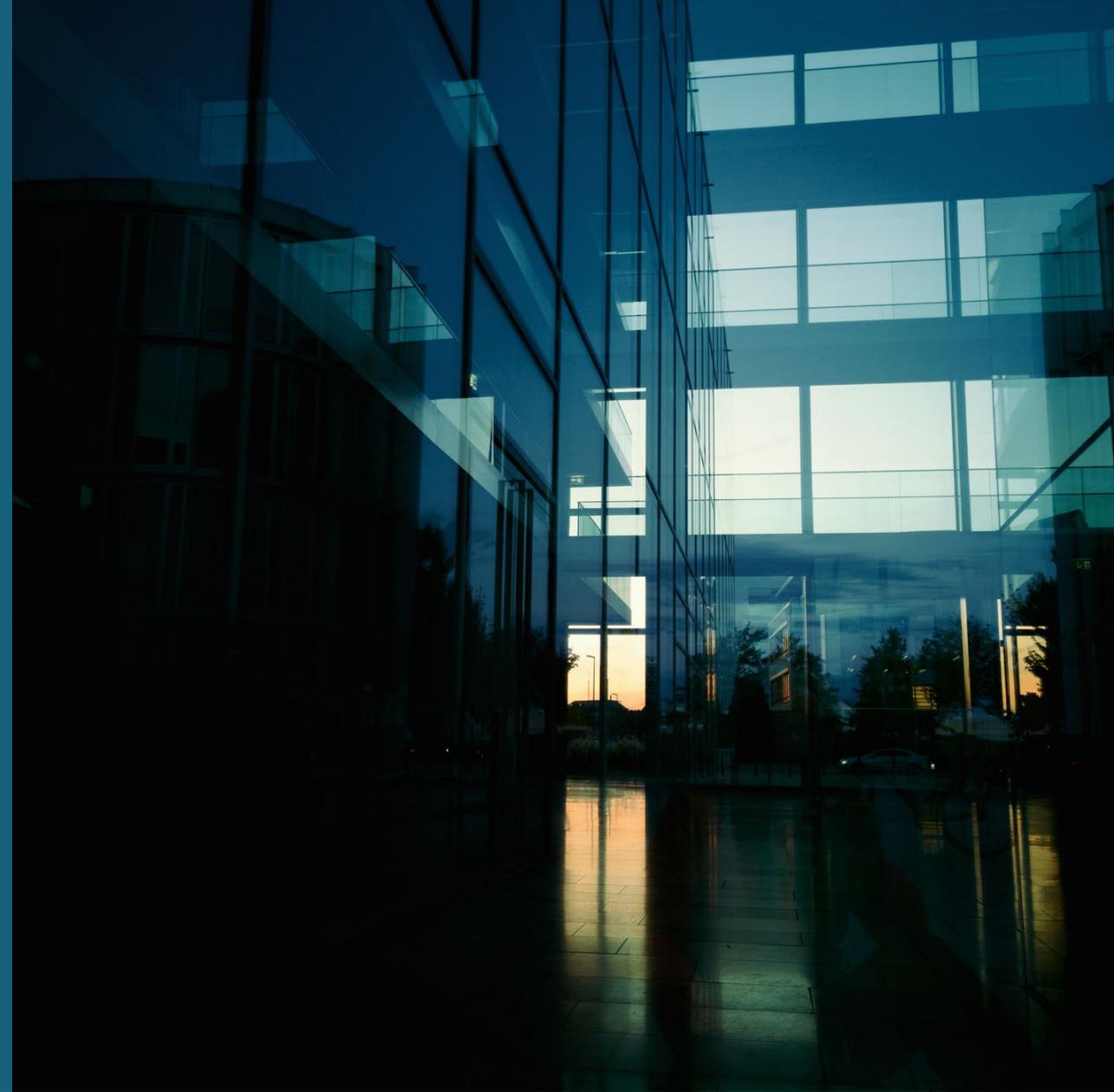
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| 1 Consultation | No |
| 2 Priorities | No |

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Audit Completion Report

London Borough of Harrow
Year ended 31 March 2022

17
11 May 2023



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Appendix A: Draft management representation letter

Appendix B: Draft audit report

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Appendix E: Other communications

Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited. Reports and letters prepared by appointed auditors and addressed to the Council are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

Governance, Audit, Risk Management and Standards Committee
Harrow Council
Civic Centre
Station Road
Harrow
HA1 2XY

11 May 2023

Mazars LLP
30 Old Bailey
London
EC4M 7AU

Dear Committee Members

Audit Completion Report – Year ended 31 March 2022

We are pleased to present our Audit Completion Report for the year ended 31 March 2022. The purpose of this document is to summarise our audit conclusions. At the date of this report our audit remains in progress and, while we anticipate completion of audit testing shortly, we do not expect to be able to issue the audit opinion until later in 2023 due to a new national accounting issue relating to pensions.

Subject to the resolution of outstanding issues we anticipate issuing an unqualified audit opinion on the statement of accounts.

Our work on the VFM arrangements will not be completed by the time we issue the audit opinion and we will report relevant separately.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented to the August 2022 meeting. We have since then issued Progress Reports to the Committee in September and November 2022 and made a verbal update in January 2023. Since then, we have recognised the national infrastructure issue as a new area of audit focus (see page 18) and identified two new risks of significant weakness in VFM arrangements (see Section 7).

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07977 261873.

Yours faithfully

Suresh Patel
Mazars LLP

01

Section 01:

Executive summary

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1. Executive summary

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



Audit opinion

Subject to resolution of the matters outlined in Section 02, we anticipate issuing an unqualified opinion, without modification, on the financial statements. Our currently proposed audit opinion is included in the draft auditor's report within Appendix B.



Whole of Government Accounts (WGA)

We have not yet received from the National Audit Office their list of non material sampled components for WGA. We are unable to discharge our full responsibilities until such instructions have been received.

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Value for Money

We have yet to complete our work on VFM and are currently discussing some risks of significant weaknesses in arrangements that we may need to report in relation to the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our Value for Money work is provided in section 7 of this report.



Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and to consider any objection made to the accounts. Whilst we have had some correspondence there have been no objections made for 2021/22.

Executive summary

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1. Executive summary

Principal conclusions and significant findings

We have identified the need for material changes to the Council's valuation of its property, plant and equipment and investment properties. We have also carried out considerable work over the information to support the statements in light of the migration of financial data during the year. We have made recommendations for improvements in Section 05.

In section 4 of this report we have set out our detailed conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Valuation of property, plant and equipment (PPE) and Investment Property (IP);
- Net defined benefit liability valuation; and
- Management override of controls.

Section 5 sets out our follow up to internal control recommendations and section 6 sets out audit misstatements identified to date. Section 7 outlines our work on the Authority's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

Status and audit opinion

At the date of this report there remain audit procedures that are in progress and areas where we are continuing to work with officers to resolve audit queries and agree material amendments to the financial statements.

Subject to the resolution of these queries we anticipate completing testing of significant risk areas by the end of May.

However, due to the initially protracted nature of the 2021/22 audit arising from the impact of the implementation of the new ledger, issues with PPE and IP valuations and the national infrastructure issue, a new national issue has arisen that will impact the timing of concluding the audit. The issue relates to the Council's reporting of its assets and liabilities associated to its membership of the Harrow Pension Fund. The draft Council accounts include values based on actuarial reports which use estimates at 31 March 2022 based on roll forward of information (e.g. membership data) since the last triennial review at 31 March 2019.

On 1 April 2023 the Council received the latest triennial review from its actuaries, which provides more up to date data for 31 March 2022. These values are likely to be materially different to the estimated values used for the draft accounts. Auditors cannot place any reliance on the new triennial valuation until the Pension Fund auditor has carried out audit procedures on the membership data that supports the valuation and they have appropriate assurance over the other assumptions applied by the actuary. This matter is currently being discussed at a national level and a resolution is being sought. We will provide the Committee a verbal update.

We are currently discussing with management our VFM considerations for 2021/22 and some areas of potential risk of significant weakness (see Section 07). We will provide the Committee with a verbal update.

Audit fees

Due to the risks we originally identified and reported in the Audit Strategy Memorandum and the issues we have identified during the course of the audit, we have input a significant level of additional resource to progress the audit of the Council's accounts. Under the terms of the PSAA appointment we will be seeking to agree a significant level of additional audit fees. We provide our current estimate in Appendix D.



02

Section 02:

Status of the audit

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2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Property, plant and equipment valuation		Our work on land and building valuations, in particular completion of our review and challenge of the data supporting the work completed by the valuers, is in progress and should be completed later in May. We are currently agreeing a number of amendments to the valuations disclosed within the financial statements.
Infrastructure assets		The Council has responded to the statutory override and CIPFA guidance and we are satisfied with the response and planned changes to disclosures. We are completing our final procedures.
Income, expenditure, cash and creditors		Following internal review we have some follow up procedures to complete.
IAS19 - defined benefit liability valuation		As outlined on page 5 there is a national issue impacting pensions. We are continuing to liaise with management on the issue on any potential impact for our audit opinion
Final review procedures		We are currently completing our file review which includes clearance of the manager review of completed sections, review by the engagement partner and engagement quality control reviewer. We will complete our review procedures as the above outstanding points are resolved and revised accounts have been received.
Events after the reporting period		Review of events after the reporting period, up to the point at which we sign our audit report.
File closure procedures		Following completion of the above final review procedures, we need to complete file closedown procedures, including receipt of management's letter of representation and complete our consideration of post balance sheet events to the date of sign-off.
Whole of Government Accounts (WGA)		We are awaiting the list of sampled components from the NAO.



Likely to result in material adjustment or significant change to disclosures within the financial statements.



Potential to result in material adjustment or significant change to disclosures within the financial statements.



Not considered likely to result in material adjustment or change to disclosures within the financial statements.

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Section 03: **Audit approach**

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3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum dated 31 March 2022. We have not made any changes to our audit approach.

Materiality

Our provisional materiality for the Council at the planning stage of the audit was set at £10.5m using a benchmark of 1.7% of gross revenue expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors, is £11.8m using the same benchmark. We set performance materiality at 60% of overall materiality, with the final value of £7.1m.

Reliance on internal audit

We have not placed any reliance on the work performed by the Authority's internal audit function. We have reviewed the functions work programme for the year and used this to inform and confirm our own risk assessment.

Service organisations

We have not made use of any service organisations.

Use of experts

We have made use of three auditors' experts during our work. Details of the work provided are as follows:

- PwC: The NAO have appointed PwC to review the qualifications, resources, objectivity and approach of each of the actuaries involved in the production of IAS19 figures for Local Government Pension Schemes (LGPS). The assessment also looks at the approach taken by each actuary and considers the main assumptions used by each in order to value the schemes underlying assets and liabilities. We rely on the work of PwC to identify any further procedures that may be required with respect to defined benefit pension liabilities.
- Mazars internal valuer - We have used the work of this expert to inform our expectations when reviewing the remaining property valuations within the financial statements.
- Gerald Eve: The NAO appoint Gerald Eve to help inform auditors consideration of the movements in the values of property. Their valuation trends report provides an analysis of movements on certain valuation indices relevant to the consideration of different classification of land and buildings. We use the work of this expert to inform our expectations when auditing property valuations.



04

Section 04: **Significant findings**

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4. Significant findings

In this section we outline the significant findings from our audit, including:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

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Significant risks

Management override of controls	Description of the risk
	<p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>
	<p>How we addressed this risk</p>
	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> • Accounting estimates impacting amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	<p>Audit conclusion</p> <p>We are currently completing our work on accounting estimates, in particular those relating to property valuations.</p> <p>We have no significant findings to report as a result of our work on transactions outside the normal course of business and journals made in preparation of the financial statements.</p>



4. Significant findings

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Revenue recognition	Description of the risk
	<p>The risk of fraud in revenue recognition is presumed to be a significant risk on all audits due to the potential to inappropriately shift the timing and basis of revenue recognition as well as the potential to record fictitious revenues or fail to record actual revenues.</p> <p>Based on our initial knowledge we concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Council's revenue income and expenditure.</p> <p>For the Council we deemed the risk to relate specifically to material income streams within the Council, being fees, charges and other service income, where the level of inherent risk is higher.</p>
	<p>How we addressed this risk</p> <p>We addressed this risk by obtaining a detailed understanding of the Council's processes by which it ensures that revenue is materially recognised in the correct accounting year. We carried out:</p> <ul style="list-style-type: none"> • detailed testing of transactions around both sides of the 2021/22 year end to confirm they were accounted for in the correct year; • testing from receipts around the year-end to provide assurance that there were no material unrecorded items of income / debtors in the 2021/22 accounts.
	<p>Audit conclusion</p> <p>There have been no significant findings arising from our review of revenue recognition within the council</p>

Net defined benefit liability valuation	Description of the risk
	<p>The last triennial valuation of the Harrow Pension Fund was completed as at 31 March 2019. As an admitted body within the Fund, the valuation provides the basis of the associated net pension liability for the Council as at 31 March 2022.</p> <p>The valuation of the Council's net liability includes use of discount rates, inflation rates, mortality rates etc., all of which should reflect the profile of the Council's employees and other appropriate data.</p> <p>Due to the high degree of estimation uncertainty associated with these valuations, we have determined there is a significant risk in this area.</p>
	<p>How we addressed this risk</p> <p>We addressed this risk by reviewing the controls that the Council has in place over the information sent to the Scheme Actuary, Hymans Robertson. We have:</p> <ul style="list-style-type: none"> • assessed the skill, competence and experience of the Fund's actuary; • challenged the reasonableness of the assumptions used by the actuary as part of the annual IAS 19 valuation.
	<p>Audit conclusion</p> <p>There have been no significant findings arising from our review of the defined benefit pension scheme liability valuation.</p> <p>However, as reported on page 5 there is a new national issue and ongoing discussions seeking a resolution.</p>

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Migration from SAP to D365	Description of the risk
30	<p>During 2021/22, the Council has undertaken an accounting system migration from SAP to D365. In October 2021, the nominal ledger, accounts receivable and accounts payable functions were closed in SAP and became managed via Dynamics365 (D365). Payroll migrated in April 2022.</p>
	<p>There is a risk that the migration will not capture all data held in the prior system. The omission of such data could ultimately lead to material misstatement within the financial statements. The implementation of a new system also poses a significant risk to the integrity and validity of the Council's financial reporting if change management processes are not robust and the new system is not correctly tested and implemented.</p>
	<p>There is a further risk the migration leads to a loss of data and accounting records during transfer. Such a loss of data may result in a risk that during the audit, we are unable to obtain sufficient and appropriate third part evidence to support transactions entered into by the Council.</p>

Migration from SAP to D365 (continued)	How we addressed this risk
	<p>We addressed this risk by completing the following additional procedures:</p>
	<ul style="list-style-type: none"> Reviewed the Council's reconciliation of old system closing balances to the new system opening balances;
	<ul style="list-style-type: none"> Engaged internal IT specialists to perform tailored work around data migration process undertaken by the Council.
	<ul style="list-style-type: none"> Engaged internal IT specialists to perform design and implementation testing of controls within the new system.

Audit conclusion

We have completed our review of the migration of data between the SAP and D365 systems, ensuring reconciliations are available and data is appropriately comparable.

While there have been no significant findings arising from our review of the accuracy of the data migration between systems, we have noted an internal control recommendation which we have detailed within section 4.



4. Significant findings

Property, Plant and Equipment valuation (including Investment property)

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Description of the risk

Where a Council's assets are subject to revaluation, the Code requires that the carrying value should reflect the appropriate fair value as at the year end. Estimation of fair values is subject to complex estimation. This creates a risk that the carrying value of those assets revalued in the year are materially mis-stated.

In respect of Council Dwellings, these are reviewed using a beacon valuation methodology, which values Council stock by grouping assets into type and using a nominated beacon asset for each group. The assessed value is uplifted based on an open market assessment then amended for an adjustment factor provided by DHLUC.

Due to the high degree of estimation uncertainty associated with valuations, we have determined there is a significant risk in this area.

How we addressed this risk

We assessed the risk of valuations changing materially in year, considering the movement in market indices between valuation dates and the year end, in order to determine whether these indicate that fair values have moved materially.

In addition, for those assets which have been revalued during the year we:

- assessed the valuer's qualifications;
- assessed the valuer's objectivity and independence;

How we addressed this risk (continued)

- reviewed the methodology used; and
- performed testing of the associated underlying data and assumptions.

We also followed up on recommendations made during the 2020/21 audit regarding PPE valuations. We will review the approach adopted by the Council to assess the risk that assets not subject to valuation at year end are not materially misstated, and consider the robustness of that approach.

Audit conclusion

We have spent considerable time on addressing this risk. Our work is in progress. We are continuing to liaise with the Council and completing our review and analysis of the further evidence to support individual valuations. We will provide a verbal update to the Committee. We are currently agreeing a number of amendments to the valuations disclosed within the financial statements

In addition, we have noted some internal control recommendations which we have detailed within section 4.

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Valuation of intangible assets

Description of the risk

Within the 2021/22 financial statements, the Council has included a material value in respect of intangible assets. This relates to the implementation of the new D365 accounting software and associated systems. This has been re-classified from assets under construction.

Costs have been generated over a period of time and, in view of the complexity of the recognition criteria included in the accounting standards (IAS38 – Intangible Assets) and the level of management judgement involved in identifying items appropriate for capitalisation, we consider there to be a significant risk the valuation of the intangible asset could be materially misstated.

How we addressed this risk

We addressed this risk by completing the following additional procedures:

- Testing of costs to ensure they have been capitalised in accordance with IAS38;
- Review of management’s impairment review of the costs capitalised on recognition of the assets;
- Consideration of management’s review of the non-current asset register for items which may have been incorrectly capitalised

Audit conclusion

We have concluded our work and have agreed with Council that some amendments to values and disclosures are made within the financial statements. These are included in section 5.

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4. Significant findings

Enhanced risks

Civic centre	<p>Description of the risk</p> <p>The Council are due to move the function of the Civic Centre to the Harrow Civic Hub. As part of this move, the existing Civic Centre will be decommissioned and the land redeveloped, through a joint venture. The accounting treatment of the property transactions are likely to be complex and will require considerable technical input in order to achieve an appropriate valuation of the land and buildings and to ensure all required disclosures are made in the financial statements.</p> <p>Given the level of complexity, there is a risk management fail to meet the disclosure requirements for such an asset.</p>
	<p>How we addressed this risk</p> <p>We discussed the valuation approach and accounting treatment with the council.</p> <ul style="list-style-type: none">• Management have indicated they will prepare a working paper detailing the proposed treatment of the civic centre. This will be reviewed as part of our response.• We consider the valuation and basis of valuation applied to the Civic Centre as part of our valuation of property, plant and equipment work
	<p>Audit conclusion</p> <p>Our work is in progress. We are continuing to liaise with the Council and completing our review and analysis of the evidence. We will provide a verbal update to the Committee.</p>

Valuation of inventory	<p>Description of the risk</p> <p>Within the 2021/22 financial statements, the Council has included a new material value in respect of inventory. This value relates to the Council's property developments at Waxwell Lane and Haslam House and reflects the value of expenditure on the two developments, with the work at each site still ongoing.</p> <p>Given the balance represents the implementation of new accounting treatment, and the level of management judgement involved in arriving at an appropriate valuation for such treatment, we consider there to be an enhanced audit risk.</p>
	<p>How we addressed this risk</p> <p>We addressed this risk by completing the following additional procedures:</p> <ul style="list-style-type: none">• Review of the Council's accounting treatment paper to verify that the accounting treatment and proposed disclosure is in line with Code requirements;• Testing of costs to ensure they have been correctly valued and included within the financial statements
	<p>Audit conclusion</p> <p>We have spent a considerable amount of time on this matter including engagement with our financial reporting team. We have concluded our work and have agreed with Council that some amendments to disclosures are made within the financial statements. See Section 5.</p>

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4. Significant findings

Infrastructure assets	Description of the risk
	<p>The government has put in place a statutory accounting override to allow local authorities to treat the value of any replaced component of infrastructure assets as nil, without the need to further evidence that this is the case. The override also removes the requirement for authorities to make prior period adjustments to infrastructure asset balances. The override does not include any provision for matters relating to gross cost or accumulated depreciation, as these matters are anticipated to be addressed through the Code.</p> <p>The statutory override does not apply to the depreciation charged in year. CIPFA bulletin 12 Accounting for Infrastructure Assets Temporary Solution specifically considers depreciation and useful lives of assets stating that depreciation is an estimate of economic consumption of economic benefits and cannot be a precise measurement.</p> <p>Given that Infrastructure Assets are highly material, we have identified useful expected lives and the depreciation estimate as a key area of management judgement with a risk of material misstatement.</p>
	How we addressed this risk
	<p>We addressed this area of management judgement by:</p> <ul style="list-style-type: none"> • Reviewing management’s review of asset life, residual value and depreciation methodology for infrastructure assets; • Assessing the expertise of the engineers management use to inform their estimate of useful expected lives; • Reviewing the accounting policies for derecognition of infrastructure assets to ensure they reflect the accounting treatment applied;

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Infrastructure assets (continued)	How we addressed this risk
	<ul style="list-style-type: none"> • Obtaining assurance that the apportionment of NBV and in-year expenditure across classes of infrastructure assets are reasonable; • Challenging the asset lives determined by the Council where they fall outside of the ranges in the CIPFA bulletin; and • Ensuring management have included the disclosures required by the Code Update and Amended Regulations.
	Audit conclusion
	<p>We are satisfied the balances and associated disclosures are materially accurate and appropriately accounted for within the financial statements. We will be making a recommendation to management in respect of record keeping of expenditure on infrastructure assets, to ensure gross book values, and the associated accumulated depreciation, do not become materially misstated following removal of the statutory override.</p>

4. Significant findings

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the 2021/22 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 19 July 2022.

Significant matters discussed with management

We discussed the following significant matters with management:

- The work being done by the Council on the transfer of data between the SAP and D365 financial systems.
- The Council's treatment of the property developments at Waxwell Lane and Haslam House to reflect the value of expenditure on the two development and intending future use, and the most appropriate accounting treatment for the costs.
- The national issue in relation to accounting for infrastructure which has impacted on every local authority with material infrastructure balances.
- The Council's approach to the valuation of its property, plant and equipment and investment properties.
- The new national issue in relation to IAS19.

Significant difficulties during the audit

During the course of the audit we encountered difficulties with the completion of work in the following areas:

- Selection of samples for testing in a number of areas, this being a result of the need to obtain populations from two financial systems.
- Completion of property valuations testing.

We note that we have had the full co-operation of management in resolving these issues.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2021/22 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No such objections have been raised.



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Section 05: Internal control recommendations

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5. Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	2
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	3
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0



5. Internal control recommendations

Significant weaknesses identified to internal controls

Property, Plant and Equipment Depreciated Replacement Cost (DRC) Valuations – Level 1

Description of deficiency

As part of our valuations testing we identified that, as part of the Council’s methodology for completing depreciated replacement costs (DRC) valuations, valuers had been using physical obsolescence rates which were in line with Valuation Office (VO) data for individual building components, and not separating each asset into their significant components and using that as the basis for identifying physical obsolescence of each component.

Potential effects

While we have performed analysis on the application of these rates for the 2021-22 portfolio of valuations, having concluded that there is not a material impact on the valuation figure for the entire population, we have noted that the application of VO standard rates can cause variances on individual assets. As a result, when considered in isolation, individual asset valuations are not as accurate as if the best practise methodology (based on full componentisation of assets) had been applied.

As further valuations are completed over a period of time, the inaccuracies on an individual asset basis may result in an overall material misstatements of the value of property, plant and equipment within the financial statements.

Recommendation

The Council should ensure that it’s valuation methodology for DRC valuations includes buildings being separated into their significant components, and the relevant physical obsolescence amount is individually calculated on the basis of these components.

Management response

In terms of the 2021/22 valuations, the Council has carried them out using the same methodology as in previous years. Following on from the feedback received on the 2021/22 valuations from Mazars internal valuer, the Council will use this approach going forward for 2022/23 onwards.

For 2022/23, the Council has also appointed Wilkes Head Eve to undertake the valuations, in accordance with the necessary cyclical and revaluation/inspection criteria. Notably, they act for over 150 local authorities across the country and so are equipped to provide an all-encompassing Asset and HRA Stock Valuation process, fully compliant with all IFRS codes of conduct and practice.

They provide advice for assets within portfolios in relation to the new classifications that were introduced:

- Property, Plant & Equipment (IAS 16)
- Investment Properties (IAS 40)
- Assets Under Construction
- Assets Held for Sale (IFRS 5)
- Infrastructure Assets
- Heritage Assets

In addition, they have experience with componentisation– identifying patterns and thresholds to ensure accuracy of costs/values over time and have also adopted a robust and clear methodology in relation to element-based valuations

5. Internal control recommendations

Property, Plant and Equipment Council Dwelling Valuations – Level 1

Description of deficiency

For 2021/22 the Council valued its dwellings as at 1 April 2021. To determine the valuation as at 31 March 2022, the Council applied an appropriate index. We identified that the Council used the index as at 31 January 2022 and then made a forecast of the movement to 31 March 2022. However, the actual index at 31 March 2022 was significantly different to the forecast and will lead to a material amendment to the valuation of the Council’s dwellings in the draft accounts.

Potential effects

39 The use of estimated indexation figures for the final quarter of 2021/22 has resulted in a material misstatement of Council dwelling valuations, when compared to valuations based on the actual indexation movements. The continued use of estimated indexation figures in future periods may result in further material misstatements in the financial statements.

Recommendation

The Council should apply actual indices at 31 March to Council dwelling valuations made at 1 April.

Management response

To comply with the statutory deadline to close the accounts, estimated indices, based on published government data, have to be used where actual indices were not available to determine HRA asset values in the accounts.

The difference between estimated and actual indices would not usually have resulted in significant differences but 2021/22 was an exceptional year with the impact on the economy and covid which has meant that the updated House Price Index figures shows that the data for all months changed apart from March 2021.

In future, as part of the post balance sheet review period, we will revisit the House Price Index used and review and update as required.



5. Internal control recommendations

Infrastructure Assets Accounting Records – Level 2

Description of deficiency

In applying the statutory override for accounting for infrastructure assets, we reviewed the data available and noted that Council records were insufficiently detailed to allow management to determine when assets in this category should be written out of the fixed asset register.

Potential effects

If appropriate records are not maintained in relation to individual items of infrastructure asset, in particular in respect of gross book values and accumulated depreciation, the balance within the financial statements could be considered as materially misstated once the availability of the statutory override is removed.

Recommendation

The Council should improve the level of detail in the fixed asset register in relation to infrastructure assets to enable it to appropriately consider individual assets and when they should be written out at the end of the useful economic lives.

The Council should also review the useful economic lives of infrastructure assets regularly to ensure they are and remain reasonable, and document where they are not in line with the CIPFA guidance.

Management response

The way the project codes are set up are by the overarching type, for example Highways programme, marking of roads, etc and the highways team then maintains a breakdown of the roads covered by the works. It would not be possible to break down historical balances in more detail than is currently available but will ensure from 2023/24 onwards, the council will provide more detail.

We have now liaised with the Highways team and propose to review our useful lives and implement the changes 2023/24.



5. Internal control recommendations

Data Migration: Validation of Historic Accounting Records – Level 2

Description of deficiency

During the 2021/22, the Council performed a migration of its general ledger system from its existing supplier, SAP, to Microsoft Dynamics 365. As part of this migration, the physical servers supporting the legacy SAP system were decommissioned.

To maintain access to the data, and as a solution to provide a record of data to support historic accounting records, the Council made use of a cloud based storage solution. Audit review of the migration process, along with specific considerations of the requirement to maintain 6 prior years worth of historic records, identified that the Council has not yet finalised its initial validation work  the data to confirm it is sufficient for need.

Potential effects

Following significant time input to work with officers we have managed to obtain sufficient and appropriate evidence to support the audit of the 2021/22 accounts. However, access to the data has not been a simple process. We have not confirmed that all of the data has been retained.

We also note that failure to maintain adequate historic records, preceding those for 2021/22, that are validated against audited financial statements may result in non-compliance with specific HMRC laws and regulations around the maintenance of records.

We have also made reference to this matter as part the VFM arrangements review.

Recommendation

The Council should complete the validation work on its historic records. We understand that some of this is in progress and that, if no issues are identified in the current year, the two previous years will be validated. If issues are identified as part of this process, then the Council should extend the validation process.

Management response

The legacy SAP system was decommissioned as a result of having to move the hardware out of the Data centre in the Civic Centre. Therefore, the council has stored the data (General Ledger and Accounts Payable & Receivable Ledgers) for financial years 2016-17, 2017-18, 2018-19, 2019-20, 2020-21 and the six month's data in 2021-22 in compliance with HMRC requirement.

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

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

The Council will need to consider how much staff time will be required to recreate the trial balances for 2019/20 and 2020/21 from the historical transactional data stored on SharePoint as requested by Mazars. This work will serve no purpose in terms of the validation of the 2021/22 accounts.

5. Internal control recommendations

Collection Fund reconciliation – Level 2

Description of deficiency

We identified that the Council had included a manual adjustment, made solely within the financial statements and not in the general ledger. The adjustment made was to move values between two balance sheet values (creditors and debtors) and represented analysis of the components of the collection fund surplus.

Potential effects

Whilst the manual adjustment made was required for the 2021-22 statement of accounts, the need for manual adjustment to be made solely within the financial statements results in the general ledger, the Council's primary source of information for the statements, not fully reconciling with the statements.

The use of a manual adjustment also gives rise to a risk of potential error when completing the adjustment and increased management override risk through the manipulation of balances.

Recommendation

The Council should create the required ledger codes within its new general ledger system to enable surpluses on the collection fund to be appropriately journalled to the correct area in the statement of accounts, thereby removing the need for manual adjustments.

Management response

The net amount due to the GLA or Central Government are usually creditor balances and there are creditor codes on the financial system for these. Due to the huge deficits in the past couple of years, these amounts now net to a debtor balance.

The council has rightly mapped these debit balances (though on a creditor codes) as part of debtors so that we do not understate our debtor and creditor balances in the financial statement.

There has been no error made in the collection fund accounting and going forward equivalent debtor codes have now been created should this happen again in the future.



5. Internal control recommendations

Follow up on previous internal control points

IT logical security – Level 1

Description of deficiency

During the course of the IT audit we found the following issues surrounding logical security:

- 20 leavers could have accessed accounts post leaving, of which 11 had direct access to SAP
- Within SAP, 106 users were identified as having access to SU01, the ability to create and remove users
- A number of users had access to critical SAP profiles giving them unrestricted access to all areas
- SAP password parameters did not align with best practice.

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Potential effects

The above findings have a number of potential impacts:

- Employees who have left the authority may still have access to financial data and the ability to process transactions, resulting in financial loss.
- Excessive use of SU01 access rights increases the risk of ‘ghost users’, which may enable individuals to misappropriate funds and data.
- Access to all elements of SAP profiles removes effective segregation of duties and increases the potential for misappropriation of funds and inappropriate accessing of areas.
- The use of weak passwords increases the authorities susceptibility to cyber attacks.

Recommendation

We are aware that the Authority is in the process of moving to a new accounting system. We recommend that the following are implemented as soon as possible:

- Processes are put in place to ensure access rights for all leavers are rescinded on the final day of service and a periodic review of access rights is undertaken to identify any users with access rights that aren’t appropriate.
- Privileged access rights such as SU01 are reviewed to ensure their use and issue are kept to a minimum.
- Standard users should be reviewed to ensure no staff are allocated unrestricted access rights.
- The Council’s password policies should be updated to ensure they align with generally accepted best practice.

Update

The council has now migrated to Dynamics 365. Where a leaver is identified, their accounts and permissions are automatically removed on all systems following the leaver request being logged.



5. Internal control recommendations

Approach to Valuations – Level 2

Description of deficiency

Our audit work has highlighted that the council made use of multiple external valuers to assist in the year end valuation of the investment property portfolio. We noted that 4 separate external valuers have been used across the councils investment property portfolio.

Potential effects

The use of a range of valuers may give rise to issues surrounding the consistency of approach that is employed whilst valuing properties. Whilst we noted no significant findings as a result of our investment property valuations testing, we consider the council may be able to achieve some economies of scale by using fewer valuers.

45 commendation

Given the above, we would recommend the council reviews the list of properties for which external valuation experts are required and reviews its approach to the appointment of external valuers.

Update

The valuers were specialists in their field (e.g. golf courses) or were familiar with the properties and the markets in which they are located, as local offices of national surveying firms (e.g. Knight Frank's Cardiff office valued our Welsh investment property). Even if the same firm were used, their individual regional offices would need to be used and the pricing differential would be minimal – the valuer still has to carry out the same amount of work (comparables etc.). The instructions given were to value the properties for financial accounting purposes - as the investment valuation methodology is the same (does not require componentisation, for example), the approach is standardised, with valuers exercising their judgements on inputs (rents, yields etc.) accordingly.

PPE valuations process – Level 2

Description of deficiency

Our audit identified a number of instances where the Council's completed property valuations had not been correctly input into the fixed asset register, and hence were inaccurately recorded within the financial statements. This was due to issues in the valuations process resulting in incorrect balances being provided to the fixed asset register gatekeeper. This resulted in the overstatement of valuations in the financial statements, which have been corrected by management.

Potential effects

The misstatement of property valuations in source documentation will lead to the balance sheet being incorrect.

Recommendation

Management should make the best use of all of the available information to them. In order to minimise the occurrence of such errors, we recommend:

- In order to ensure management are using all information provided by the valuers, management should perform reconciliations between valuations input spreadsheet and fixed asset register
- Greater challenge of the valuation provided to management to be input into the accounts.

Update

Noted and agreed. Management will work closely with valuers to ensure accuracy of information.

5. Internal control recommendations

IFRS 16 readiness – Level 2

Description of deficiency

Our audit work highlighted leases, where the council is the lessor, that had been recognised within the operating leases disclosure. Review of the lease terms concluded that these items should have been disclosed as finance lease arrangements, with the affected assets to be excluded from the balance sheets and future commitments disclosed separately. As the affected lease is trivial we have agreed with management that the disclosure in respect of the issue will not be amended in the current year. However, in identifying this issue we have also identified a small number of leases that will fall within the scope of IFRS16, but not the current leasing standard. These leases will therefore require to be brought onto the balance sheet for the first time in 2022-23.

Potential effects

The Council will require to quantify the financial impact on the balance sheet of the implementation of IFRS 16 in their 2021-22 financial statements. Without a full review of all leases held, including those at peppercorn rentals, there is a risk that this disclosure could be materially misstated.

Recommendation

Given the authority has sufficient time available prior to the mandatory implementation deadline, we recommend that the Council performs a thorough review of leases held and their value to quantify the overall impact of implementation of IFRS16 for disclosure in the 2021-22 accounts and beyond.

Update

In preparation for the 2023-24 Statement of Accounts (comparatives required for 2022-23) the Council has carried out a thorough review of leases held for which the Council is lessee. An estimate of the impact of IFRS16 on the balance sheet has been calculated. On the basis of the estimate the impact on the accounts of IFRS16 is not expected to be material.

Migration to Dynamics accounting system – Level 2

Description of deficiency

We have noted the Authority plans a hard close of the finance side of the current SAP system at the end of November 2021 following a full migration of the finance side to Dynamics. Payroll will remain in SAP for the immediate future.

Potential effects

2021-22 will be the first year end on the new accounting system. Given the year end close will require the 'splicing' together of data from two systems and first close of a new accounting system, there is scope for considerable delays and 'teething' issues.

Recommendation

We would recommend the council run a 'dress rehearsal' of the year end closure. This process will help the Authority to understand its new system and identify any close down issues prior to the year end. This will allow work arounds to be implemented before the full year end close down.

Update

Officers within Finance started reconciliation checks ahead of the closure of accounts to ensure closing balances from SAP were carried forward as the opening balances in the Dynamics system and can confirm that all SAP balances were transferred to D365 correctly. This made the closure of accounts more seamless than it would have been.

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Section 06:

Summary of misstatements

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6. Summary of misstatements

This section outlines the latest misstatements identified during the course of the audit, above the trivial threshold for adjustment of £353,000. The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit. We will update these tables on conclusion of the audit.

Unadjusted misstatements

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	DR Expenditure (CIES - HRA) CR Income (CIES - HRA)	983		983
48	HRA income and expenditure figures are based on data in Northgate. These require manual adjustment in order to align figures between the CIES and subjective analysis, with the difference being driven by time lags between Northgate and the general ledger.			
2	DR Other operating income CR Financing and investment income	701		701
	Extrapolated adjustment required to amend for the incorrect classification of property disposals			
3	DR Income - Grants within CIES CR Short Term Debtors		1,013	
	Extrapolated adjustment for cut-off error where revenue grant for activities in period 2021/22 had been incorrectly recorded in 2022/23 financial statements rather than accrued for at year end of 2021/22.			
	Total unadjusted misstatements	1,684	2,697	1,013

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	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
Total unadjusted misstatements c/f	1,684	2,697	1,013	
4 DR - Income CR - Expenditure	3,394	3,394		
Extrapolated adjustment for misstatements within the D365 fees and service charges income population, which had resulted in re-charges being incorrectly journalled and corresponding overstatements of both income and expenditure.				
5 Dr: [Insert statement line] Cr: [Insert statement line]				
TBC – Awaiting finalisation of work on Property and Investment Property valuations				
Total unadjusted misstatements	TBC	TBC	TBC	TBC

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Adjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	DR Expenditure (community) CR Income (community)	8,794	8,794		
Adjustment arising due to a selection of nominal ledger codes being misclassified within the CIES.					
2	DR Income (resources) CR Expenditure (resources)	5,959	5,959		
Adjustment arising due to a cost centre being incorrectly mapped as an agency arrangement					
50	3	DR Expenditure (Adult services)	489		
		DR Expenditure (Children and families)	620		
		DR Expenditure (Community)	2,363		
		DR Expenditure (Resources)	787		
		CR Income (Adult services)		489	
		CR Income (Children and families)		620	
		CR Income (Community)		2,363	
		CR Income (Resources)		787	
Adjustment arising due to incorrect subjective analysis resulted in the misallocation of a number of codes in the CIES.					
4	DR PPE additions CR PPE re-classifications			7,626	7,626
Disclosure amendment to adjust Inventory balances incorrectly netted off against additions					
Total adjusted misstatements c/f		19,012	19,012	7,626	7,626

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	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
Total adjusted misstatements b/f	19,012	19,012	7,626	7,626
1 DR Pension reserve CR Long term liabilities			2,278	2,278
Adjustment due to initial schedule of IAS19 disclosures being based on 31/12/21 asset valuations rather than 31/3/22.				
2 DR PPE CR Intangibles			3,951	3,951
Adjustment due to the misclassification of tangible assets within intangible assets				
3 DR Expenditure (Resources) CR Income (Resources)			593	593
Adjustment due to incorrect classification of a cost centre as agency rather than included within the financial statements of the council				
4 DR Assets under construction (PPE) DR Assets Held for Sale CR Inventories			3,989 7,661	11,650
Adjustment for the re-classification of inventories between assets under construction and assets held for sale.				
Total adjusted misstatements c/f	19,012	19,012	26,098	26,098

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		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
Total adjusted misstatements c/f		19,012	19,012	26,098	26,098
9	Dr: Expenditure (CIES - HRA) Cr: Property, Plant & Equipment (HRA) Dr: Reserves (CAA / Revaluation) Cr: CIES (adjustments to resources)		28,981		28,981
	Being the adjustment required to the value of HRA assets.	28,981		28,981	
10	Dr: [Insert statement line] Cr: [Insert statement line]	TBC	TBC	TBC	TBC
	TBC – Awaiting finalisation of work on Property and Investment Property valuations				
Total adjusted misstatements		TBC	TBC	TBC	TBC

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6. Summary of misstatements

Disclosure amendments

The following disclosure amendments have been discussed:

- Inventory: following discussion and agreement of the accounting treatment for these assets
- Infrastructure: updates required in line with the revised guidance arising from the national issue
- Disclosures in respect of the councils approach to expected credit losses
- General: A number of minor presentational and typographical changes made to the financial statements that do not require individual analysis.

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Section 07: **Value for Money**

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7. Value for Money

Approach to Value for Money

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

The table overleaf outlines the risks of significant weaknesses in arrangements that we have identified, the risk-based procedures we have undertaken, and the results of our work.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such

significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report soon after issuing the audit opinion.

Status of our work

In the Audit Strategy Memorandum issued in July 2022 we identified one risk of significant weakness relating to financial sustainability.

Since then, we have identified two further risks of significant weakness:

1. Governance relating to data migration
2. Coverage of internal audit work

We include overleaf our findings and conclusions on the risk relating to financial sustainability and the governance of the data migration.

We are currently in discussion in respect of our view on the risk in relation to internal audit work.

Our draft audit report at Appendix B outlines that we have not yet completed our work in relation to the Council's arrangements. As noted previously, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report.



7. Value for Money

Findings of procedures in response to identified risks of significant weakness

Risk 1 – Financial Sustainability

We identified a risk of significant weakness in relation to the need for the Authority to make significant savings of £3.4m in 2021/22. We reviewed the development and implementation of the Medium Term Financial Strategy (MTFS) and could see evidence that it had taken into account factors such as funding restrictions, demand pressures and savings requirements.

We are satisfied that there is no actual risk of significant weakness in the Council's arrangements.

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

We have identified a significant weakness in respect of the Council's governance of the implementation of its new ledger system and specifically the migration of the historic data, that precedes the 2021/22 financial year from the old system to the cloud-based storage space. In our view, the weakness identified could lead to non-compliance with statutory requirements on the period of record retention and provides evidence of a weakness in the Council's governance arrangements for supporting its statutory financial reporting requirements.

The Council originally intended to implement a new ledger system (D365) to replace its existing SAP system on 1 April 2021. The implementation, however, did not take place until part way through the 2021/22 year in September 2021. The migration of data to the new system was an important part of the implementation and was largely a migration of closing balances only,

meaning historic data had to be stored in a cloud-based location to comply with laws and regulations for maintaining adequate historic accounting records.

During our audit work on the 2021/22 statement of accounts we concluded that the Council had not yet completed any form of validation testing of the stored historic data, that which precedes the 2021/22 financial year, to confirm the cloud-based solution was able to meet the Council's legal and regulatory needs. We also concluded that the Council had not formally identified a fall-back position should the new system be inadequate or operate incorrectly.

Whilst the Council has since performed some mitigation testing on the two most recent years' worth of data this has not yet been completed and reviewed. As such there remains a risk of non-compliance with laws and regulations in respect of maintaining adequate historic accounting records.

Based on the above we are not satisfied that the Council's arrangements ensured effective processes and systems were in place to support its statutory financial reporting requirements and ensure corrective action was taken where needed.

In our view the above is indicative of a significant weakness in the Council's arrangements for achieving economy, efficiency and effectiveness, specifically in relation to governance.

Recommendation

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

We also recommend that the Council reviews its governance processes surrounding any future system migrations, with a focus on data validation, to ensure there are sufficient periods of parallel running and timely data validation testing.



7. Value for Money

Findings of procedures in response to identified risks of significant weakness

Risk 3 – Effectiveness and coverage of internal audit

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

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

We are currently in dialogue with management as to whether this risk represents an actual significant weakness in VFM arrangements.



Appendices

A: Draft management representation letter

B:  Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

Mazars LLP
30 Old Bailey
London
EC4M 7AU

Dear Suresh

London Borough of Harrow - audit for year ended 31 March 2022

This representation letter is provided in connection with your audit of the financial statements of London Borough of Harrow ('the Council') for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Director of Finance that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.



Appendix A: Draft management representation letter

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates are reasonable, including:

- those measured at current or fair value ; and
- Provision for Redress.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.



Appendix A: Draft management representation letter

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Director of Finance for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:

- o management and those charged with governance;
- o employees who have significant roles in internal control; and
- o others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.



Appendix A: Draft management representation letter

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Unadjusted misstatements

I confirm that there were no uncorrected misstatements.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Private Finance Initiative

I confirm that, to the best of my knowledge, there have been no significant contract variations agreed during the year. There have also been no off-programme lifecycle expenditures.

Yours sincerely

Dawn Calvert
Director of Finance

Date:



Appendix B: Draft audit report

Independent auditor’s report to the members of London Borough of Harrow

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of London Borough of Harrow ('the Council') for the year ended 31 March 2022, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2022 and of the Council’s expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities section of our report. We are independent of the Council and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Finance use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Finance with respect to going concern are described in the relevant sections of this report.



Appendix B: Draft audit report

Other information

The Director of Finance is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Director of Finance for the financial statements

As explained more fully in the Statement of the Director of Finance Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and for being satisfied that they give a true and fair view. The Director of Finance is also responsible for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and prepare the financial statements on a going concern basis, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Director of Finance is responsible for assessing each year whether or not it is appropriate for the Council and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



Appendix B: Draft audit report

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, the Accounts and Audit Regulations 2015, and the Local Government and Housing Act 1989 and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Director of Finance incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the GARMS Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the GARMS Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the GARMS Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.



Appendix B: Draft audit report

We are also required to conclude on whether the Director of Finance use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in September 2021.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Report on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have not completed our work on the Council’s arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in December 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2022.

We will report the outcome of our work on the Council’s arrangements in our commentary on those arrangements within the Auditor’s Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Responsibilities of the Council

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

Auditor’s responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Appendix B: Draft audit report

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014; we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

Use of the audit report

This report is made solely to the members of London Borough of Harrow, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed:

- the work necessary to issue our assurance statement in respect of the Council’s Whole of Government Accounts consolidation pack; and
- the work necessary to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Suresh Patel Key Audit Partner
For and on behalf of Mazars LLP

30 Old Bailey, London, EC4M 7AU [date]



Appendix C: Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

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Appendix D: Fees

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the GARMS Committee in July 2022. We set out below an indicative analysis of the final fees and will be seeking agreement with the Director of Finance:

Area of work	2021/22 Proposed Fee	2020/21 Actual Fee
Code Audit Work (Scale fee)	£116,057	£116,057
Additional inputs required:		
- Property, plant and equipment valuations	£20,000-30,000	£11,200
- Pension liability	£5,000-10,000	£4,853
- Value for money risks and subsequent procedures	£25,000-£30,000	£14,200
- Revised auditing standard on accounting estimates	£5,000-7,000	£3,488
- Additional work on audit risks and other areas of focus	£20,000 - 40,000	-
TOTAL	TBC	£152,624

Appendix E: Other communications

Other communication	Response
Compliance with Laws and Regulations	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations.</p> <p>We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.</p>
External confirmations	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
Related parties	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ol style="list-style-type: none"> a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going Concern	<p>We have not identified any evidence to cause us to disagree with the Director of Finance that London Borough of Harrow will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p> <p>We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.</p>

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Appendix E: Other communications

Other communication	Response
Subsequent events	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
Matters related to fraud 71	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and the GARMS Committee, confirming that</p> <ol style="list-style-type: none"> a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: <ol style="list-style-type: none"> 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; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.



Suresh Patel, Partner

Mazars

30 Old Bailey

London

EC4M 7AU

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.