

# Auditor's Annual Report

London Borough of Harrow

For the years ended 31 March 2021 and  
31 March 2022

1 December 2023



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# 01

## Section 01: **Introduction**

# 1. Introduction

## Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for the London Borough of Harrow ('the Council') for the years ending 31 March 2021 and 31 March 2022. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



### Opinion on the financial statements

For 2020/21 we issued our audit report on 26 January 2022 and issued the audit report for 2021/22 on 1 December 2023 after the meeting of the Council's Governance Audit Risk Management and Standards Committee. Our opinion on the financial statements for both years is unqualified.



### Value for Money arrangements

In our audit report for both years we reported that we had not completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. Section 3 provides an update on this work and provides our commentary on the Council's arrangements and a summary of our recommendations.



### Wider reporting responsibilities

In line with group audit instructions issued by the NAO for 2020/21 and 2021/22 we have completed the required procedures on the Council's Whole of Government Accounts return. We have reported to the group auditor for 2020/21 and will do so after issuing the audit report for 2021/22.

However, the NAO is yet to issue guidance on sampled components in relation to the 2021/22 Whole of Government Accounts. Therefore, we are unable to conclude our procedures.

# 02

Section 02:

**Audit of the financial statements**

# 2. Audit of the financial statements

## The scope of our audit and the results of our opinions

Our audits were conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audits is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March and of its financial performance for the year then ended. We issued an unqualified audit opinion on the 2020/21 accounts on 6<sup>th</sup> January 2022 and an unqualified opinion on the 2021/22 accounts on 1 December 2023.

## Qualitative aspects of the Council's accounting practices

For both years we reviewed the Council's accounting policies and disclosures and concluded they complied with the CIPFA Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

The Council published its draft accounts for 2020/21 on 15 July 2021 and they were of a generally good quality. It published draft accounts for 2021/22 on 19 July 2022.

## Significant difficulties during the audit

For 2020/21 we did not encounter any significant difficulties and we had the full cooperation of management. Given the impact of Covid-19 at that time the audit was largely completed remotely.

For 2021/22, we did encounter some difficulties with the completion of work in the following areas:

- The Council changes its general ledger system during the year meaning that the transaction listings to support entries in the accounts were required to be obtained from two financial systems. This impacted our sample testing.
- Property valuations testing where we identified several issues with the Council's approach and accounts disclosures.

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

# 2. Audit of the financial statements

## 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	Recommendations
<b>1 (high)</b>	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.	2020/21: 1 2021/22: 2
<b>2 (medium)</b>	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	2020/21: 5 2021/22: 3
<b>3 (low)</b>	In our view, internal control should be strengthened in these additional areas when practicable.	2020/21: 0 2021/22: 0

## 2. Audit of the financial statements

### Internal control recommendations: 2020/21

#### 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.

##### 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.

##### Management response

A review of internal controls will ensure that once an officer has been made a leaver and after their last day of service, they are removed from the SAP system (Dynamics going forward). In addition, there are strict controls over the returning of LBH laptops on the last day of an employee's service. Officers will regularly test that these controls are working correctly.

Only LBH staff who either work in IT or the SAP / Dynamics Support Team plus specific external consultants who support the Harrow system will have access to SU01.

All user permissions are based on least privilege and the Role-Based Access Control model and password policies are in line with industry best practice (8+ characters, complex). Officers will ensure that all system password requirements meet industry best practice.

Officers will review and periodically check that the access control policy procedures are working effectively to prevent any unauthorised access to all areas of a system.

## 2. Audit of the financial statements

### Internal control recommendations: 2020/21

#### IT operations – Level 2

##### Description of deficiency

During the course of our detailed IT audit work we noted the following issues:

- While the IT system back up policies and procedures were documented, these were last reviewed and updated in February 2016 and a number of the provisions under the guidance were outdated.
- Although an IT business continuity plan was documented, this had not been reviewed and updated since July 2018 and a number of the provisions under the guidance were outdated.

##### Potential effects

The reliance on outdated backup policies and procedures will result in a lack of understanding and policy compliance and could ultimately result in a loss of data for the Council

Further, the existence of an outdated business continuity plan may result in a lack of staff understanding of policies and processes, and may give rise to a lack of productivity and functionality during periods of IT disruption.

##### Recommendation

The council should ensure the relevant policies are updated to reflect current business software and practises as part of the current system upgrade and then be subject to regular periodic review, update and testing.

##### Management response

The move to outsourced cloud services has fundamentally altered the Council's data backup / recovery processes. Assurance of Council data is now largely achieved through the contractual provisions with a range of cloud service providers, IT will consolidate these arrangements into an updated business continuity plan by the end of March 2022 and will update quarterly.

#### 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.

##### Recommendation

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.

##### Management response

The Covid-19 pandemic meant no site visits could be undertaken to inspect and value the investment properties. For this reason, the Council used valuers who had both knowledge and the specialist experience of these assets. The investment properties are sited around different parts of the country and some are of a specialist nature (i.e. golf course / hotel).

Going forward officers will consider the procurement of all such investment property valuations through one valuer.

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## 2. Audit of the financial statements

### Internal control recommendations: 2020/21

#### 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.

##### Management response

In preparation for the 2022-23 Statement of Accounts (comparatives required for 2021-22) 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. A detailed IFRS16 calculation will be prepared for inclusion in the 2022-23 accounts.

#### 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.

##### Management response

Officers acknowledge that human error allowed several individual file valuations not to be updated on the summary schedule that was forwarded for inclusion in the fixed asset register.

Going forward Corporate Estates will carry out sample checks to confirm all updated valuations have been included on the summary schedule and will insert an additional check column within the workbook to acknowledge that all valuations have been correctly incorporated.

# 2. Audit of the financial statements

## Internal control recommendations: 2020/21

### 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.

#### Management response

Officers within Finance have already started on reconciliation checks to ensure closing balances from SAP are carried forward as the opening balances in the Dynamics system. Officers will ensure all data and reconciliations are up to date and year end reports tested to allow a dry run of an accounts closedown under Dynamics by the end of February 2022.

# 2. Audit of the financial statements

## Internal control recommendations: 2021/22

### 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 its 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

# 2. Audit of the financial statements

## Internal control recommendations: 2021/22

### 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

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.

# 2. Audit of the financial statements

## Internal control recommendations: 2021/22

### Property, Plant and Equipment Council Dwelling groupings – Level 1

#### Description of deficiency

Per the Code and in line with the Stock valuation guidance for resource accounting, the Council apply a 'beacon' approach to valuing in council dwellings. This approach requires the Council to group dwellings based on high level characteristics such as location as applied by the Council. The methodology then allows valuers to assign one property in each group to be a 'beacon'. This is then formally valued, with the valuation applied to all other individual properties within the group.

Per the guidance, 'variants' are then identified within groupings based on more detailed characteristics such as age, build type, bedrooms etc. Standard adjustments are then made to the valuation of the beacon property and applied to all of the properties within this variant grouping.

Our work identified that the Council were not applying this methodology appropriately. We noted instances where dwellings displaying different characteristics were in the same variant group.

#### Potential effects

We performed mitigation testing to confirm that the Council had only placed properties into variant groupings of other dwellings with different characteristics when they considered the valuation for these differing property types to be the same. We are therefore satisfied there is no material impact on the 2021/22 financial statements. However, properties displaying different characteristics may be subject to different market movements year on year and the Council may incorrectly determine two groups of properties to have the same individual value. This may result in a material misstatement within the Council's financial statements.

#### Recommendation

2021-22 represented year 2 of the Council's 5-year HRA valuation programme. We recommend the Council reviews the variant groupings it has applied. Where 2022-23 valuations are underway and variant groupings include properties with different characteristics, we recommend the Council gains adequate assurance that these properties of differing characteristics have the same value. For future years where valuation work is yet to commence, we recommend the Council reviews its variant groupings and ensures only properties that have the same characteristics are in variant groups.

#### Management response

We note this and will discuss this finding with our external valuers and ensure that they review the variants applied to the groupings, to ensure consistency.

# 2. Audit of the financial statements

## Internal control recommendations: 2021/22

### Property, Plant and Equipment Assets not Formally Revalued During the Year – Level 1

#### Description of deficiency

In line with the Code and per the Council's internal policies on revaluing property contained within the general fund, not all items of property are subject to full formal valuation every year.

However, our audit work identified a number a small number of properties that had not been revalued, even though the Council's own internal policies, and in one instance, the Code, dictated a full formal valuation was required. Once such instance identified resulted in a material misstatement that has since been amended in the 2021-22 financial statements.

We also noted the Council was not undertaking any procedures to assure itself that the potential aggregate movement in valuation of non-revalued properties year on year, had they been formally revalued, was likely immaterial.

#### Potential effects

Failure to adhere to requirements for revaluation dictated by the code and per the Council's own internal policies has resulted in material misstatement in the 2021-22 financial statements and could lead to further material misstatements in future sets of accounts.

Failure to undertake any procedures to gain assurance that potential movements on non-revalued items are likely immaterial may result in the failure to detect material market movements in aggregate, resulting in material misstatement of the financial statements.

#### Recommendation

We would recommend the Council ensures its annual valuation programme is compliant with the Code. We also recommend the Council ensures its own internal policies for valuations are adhered to.

We would recommend the Council ensures adequate assurance exercises are undertaken on those assets not subject to revaluation, to ensure any individual or aggregate potential valuation movements are not material.

#### Management response

We will review the 5-year plan with our external valuers to ensure it is compliant with the Code and our own internal policies.

# 2. Audit of the financial statements

## Internal control recommendations: 2021/22

### 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.

# 2. Audit of the financial statements

## Internal control recommendations: 2021/22

### 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 on 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.

# 2. Audit of the financial statements

## Internal control recommendations: 2021/22

### 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.

# 03

Section 03:

**Commentary on VFM arrangements**

### 3. Commentary on VFM arrangements

Overall summary in relation to the years ending 31<sup>st</sup> March 2021 and 31<sup>st</sup> March 2022



# 3. VFM arrangements – Overall summary

## Approach to Value for Money arrangements work

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

Our work is carried out in three main phases.

### Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information.
- Information from internal and external sources including regulators.
- Knowledge from previous audits and other audit work undertaken in the year.
- Interviews and discussions with officers.

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 there are further risks of significant weaknesses.

### Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

On Page 22 we outline the risks that we have identified and the subsequent work.

### Phase 3 - Reporting the outcomes of our work and our recommendations

We provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**  
We make these recommendations for improvement where we have identified a significant weakness in the Council arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.
- **Other recommendations**  
We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken.

We summarise the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

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# 3. VFM arrangements – Overall summary

## Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 <b>Financial sustainability</b>	23	Yes – see risk 1 on page 24	No	No
 <b>Governance</b>	28	Yes – see risk 2, 3 and 4 on pages 29, 30 and 31	Yes – see recommendations 1, 2 and 3 on pages 40, 41 and 42	No
 <b>Improving economy, efficiency and effectiveness</b>	35	No	No	No

### 3. Commentary on VFM arrangements

#### Financial Sustainability

How the Council plans and manages its resources to ensure it can continue to deliver its services



# 3. VFM arrangements – Financial Sustainability

## Risks of significant weaknesses in arrangements

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p>1</p> <p><b>Financial sustainability</b></p> <p><u>2020/21</u> The Authority’s Medium Term Financial Strategy (MTFS), from which the medium-term financial plan is developed, identified the requirement to draw down £3.8m of reserves during 2020/21 and the ongoing requirement to make significant future savings.</p> <p><u>2021/22</u> The 2021/22 Medium Term Financial Strategy identifies the need to use £14.8m of reserves in 2022/23 and the need to make significant savings to balance future budgets. The sustained use of reserves is not a financially sustainable strategy for balancing future budgets.</p>	<p><b>Work undertaken</b></p> <p>To address the risk identified in both years, we have performed the following procedures:</p> <ul style="list-style-type: none"> <li>• Review the development and implementation of subsequent Medium Term Financial Strategies (MTFS), ensuring they have considered factors such as funding restrictions, demand pressures and savings requirements.</li> <li>• Review of savings plans in place to determine if they appear reasonable and achievable. We have also considered the outturn of savings against these plans.</li> </ul> <p><b>Results of our work</b></p> <p>Our review of the subsequent MTFS, presented to Cabinet in December 2022, has confirmed that the planned use of reserves is decreasing into future periods. Drawing on reserves in 2022/23 was not fully realised, with the total drawdown only being approximately £9.5m compared to the original £14.8m. The planned use of reserves in 2023/24 has decreased to £10.4m. The budget has accounted for factors such as funding restrictions, demand pressures and savings requirements.</p> <p>In response to the required drawdowns on reserves, the Council has taken steps to implement a savings plan, running through to 2025/26. This plan identified potential savings of £24m, with £17.9m to be realised by the end of 2023/24. In preparing the plan, the Council risk assessed each potential saving identified in line with the potential impact they may have on services currently provided. Based on this system, approximately £7.5m of these savings are considered high risk of adversely impacting service delivery.</p> <p>As at November 2023 (the date of this report), the Council has delivered savings to its plan with slippage of approximately £5.3m. Future Medium Term Financial Strategies have built in savings at this level and deliver a balanced budget.</p>

# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

### Background to financial sustainability

The Council began the 2020/21 financial year as the first national lockdown began, which brought with it a range of operational requirements needed to effectively respond to the range of challenges the pandemic presented. Central government made a series of policy announcements as part of the national response to Covid-19, many of which impacted on the Council. Consequently, the Council was at the forefront of efforts to protect residents, including the most vulnerable, and to support local businesses.

The 2021/22 financial year saw the country move gradually out of the restrictions arising from the national lockdown, which brought with it the management of a range of changing requirements to effectively respond to the centrally implemented step levels. Central government implemented a series of steps and a detailed timetable as part of the continued national response to Covid-19, many of which impacted on the Council’s continuing and pandemic specific services.

As in 2020/21, some of the Government’s initiatives to respond to the Covid-19 pandemic were supported by funding, for which the Council received significant additional funding across both 2020/21 and 2021/22. This included general grants to support its Covid-19 response, specific grants of which the Council had discretion over to determine the use, and compensation for business rate reliefs, alongside significant funding provided to support local business in line with the government’s national initiatives. This funding allowed the Council to continue to support residents and businesses through the year and provide funding to help mitigate some of the financial pressures caused by the pandemic. The financial sustainability challenges arising from the pandemic response have continued in the short term and combined with changes in government funding, maintains the pressure on the Council to ensure effective financial sustainability arrangements.

### The Council’s financial planning and monitoring arrangements

The Council’s financial planning and budgeting arrangements are well established and include a wide range of activities and consultations. The budget setting process includes engagement with senior Council officers and incorporates discussion about the delivery of statutory services/priorities and the impact on resources. Where

additional resources are required, these are scrutinised and challenged before they are included in the budget estimates. Workshops with officers and Members are a key part of the budgeting arrangements, and these are detailed and extensive.

The process involves consultation and discussion with officers and Members around the assumptions and principles on which the detailed budget is based. A range of officer meetings and discussion take place to review proposals for savings and budget reductions, with each proposal supported by evidenced assessments of deliverability and potential savings.

Proposals are subject to consultation with staff, officers and Members and are presented to meetings attended by Cabinet Members and senior officers and Governance, Audit, Risk Management and Standards Committee members before submission to, and approval at, Full Council as part of the formal budget and council tax setting process.

We have reviewed a range of the budget preparation documents and meetings held as part of the budget setting process. This confirmed that the documents were comprehensive and detailed and the process for development had been completed on a timely basis and delivered the intended outcomes to assist with the budget preparation.

The Council provided quarterly reports of its financial position to Cabinet across the year, as well as at year end, which reported its revenue outturn position for 2021/22 as an overall overspend of £1.5m. We have reviewed a sample of the reports presented throughout the year and these were detailed and comprehensive and incorporate monitoring of the revenue budget, the capital programme and a range of other financial measures and other performance information.

Officers and Members actively review and consider overall performance in line with this information. The Council has a well-established timetable for Cabinet reporting which includes reporting to directorate, divisional and strategic management teams.

# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria - continued

### The Council's arrangements for identifying, managing and monitoring funding gaps and savings

The Council produces a Medium-Term Financial Strategy (MTFS) each year alongside its annual budget. This sets out the resources available to deliver the Council's overall commitment to provide services that meet the needs of people locally over the planned four-year period and is updated and extended as part of each year's budget setting process. For several years, the Council has identified funding gaps across the life of its MTFS. For both 2020/21 and 2021/22, the Council set and delivered a balanced budget. However, in each instance, the delivery of a balanced budget required the drawing down on reserves in respective years.

The Council acknowledges that drawing on reserves is an unsustainable practise for achieving balanced budgets. Given the consistent cut-backs in funding, the Council has a strong track record of delivering savings.

Between 2013/14 and 2020/21, the Council has delivered total savings of £99.4m. The following periods have shown no change in this trend. The Council delivered further savings of £3.8m in 2020/21. In 2021/22 the Council committed to a long-term savings plan to 2025/25 of £24m. To date, £5.3m of slippage against this plan has been identified.

The Council incorporate the identification of potential savings into the financial planning process. On submitting budgets at budget holder level, finance business partners provide challenge to budget holders, ensuring wherever possible savings are made. As part of our work, we have reviewed the Council's savings plans for the years up to and including 2025/26. Each potential saving is risk rated in terms of delivery challenge and impact on service users. Highest risk savings are reviewed to ensure they remain realistic. If required, savings targets are either revised or action is taken to ensure realistic savings are achieved.

Despite the considerable savings highlighted above, the Council had to draw down £3.8m on reserves in 2020/21 and a further £2.5m in 2021/22. As a result of the high levels of savings already achieved at the Council, the MTFS recognises the increasing difficulty in identifying future cost savings and the impact this may have on the Council's ability to continue to deliver front line services in the same way, or to the same degree.

To address the balancing of budgets, and in response to diminishing levels of cost savings, the Council has

identified additional approaches to balancing budgets, such as by increasing revenues in future periods. The Council has agreed the maximum increase in council tax rates by 1.99% in 2021/22, 1.99% 2022/23 and 2.99% in 2023/24.

### The Council's approach to ensuring financial plans support the sustainable delivery of services and consistency with other Council plans

Alongside the MTFS, the Council develops treasury and capital investment strategies to support the financial plan. This ensures relevant plans relating to the Council's finances are co-ordinated and support the operation delivery requirements of the Council.

Throughout the financial year, the Director of Finance and Assurance provided updates on treasury management, revenue and capital budgets to Cabinet and Governance, Audit, Risk Management and Standards Committee (GARMS) as appropriate. These reports are provided to give assurance that the relevant plans, and outturn to date, are supporting the day-to-day operational requirements of the Council.

The Council also has a wider overarching local plan. This details the high-level goals of the Council for a 15–20-year period and is subject to consultation to ensure the Council is delivering services in line with the needs of the local population. In preparing the MTFS, management are required to consider the overarching local plan, the ensure the delivery of the Council's goals can be met.

Our committee and board minute reviews show the Council constantly monitors the outcome of the various budget and plans and ensures they are all tying in to working towards the attached long-term strategy.

### The Council's approach to managing risk to financial resilience

To manage its risks to financial resilience, the Council maintain a risk register. Whilst not specifically for financial risks, this is the underlying process for identifying risks the Council faces. Review of this risk register confirms risk being tracked relate to the Council's financial resilience.

# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria - continued

Each risk is assigned a score in line with its potential likelihood and its potential impact. Responses to these risks are then determined in line with the Council's risk appetite. Through our attendance of GARMS meetings, we have confirmed that the register is reviewed frequently, actions are appropriately tracked, and the Council's risk appetite is kept under review in line with the environment in which it operates.

As part of the financial planning process, during the consultation phase with senior management, risks identified in the register are built into the planning process. This ensures the Council's financial plans are incorporating all the major pressures and risks it faces into future periods.

### Outlook for 2022/23 and onwards

Local government is facing significant challenges for 2022/23 onwards. A sample of challenges the Council has been forced to consider and address in future periods will be:

- **Cost of Living:** With most people experiencing financial pressure, spending habits are changing. High energy costs and increasing food prices have impacted on levels of disposable income. With wage (and potentially benefit) increases failing to keep pace with inflation, more people will be facing hardship.
- **Added budget pressures:** With inflation soaring, the cost of goods, services and resources are becoming more expensive. Local authorities are not immune to the increasing cost of energy supply, although the government announcements on energy caps help, many local authorities are still facing higher costs. Local authorities typically budget for modest salary increases year on year, but expectations and demands on salary increases have changed and consideration on how they are to be funded is required. The Bank of England base rate rose to 3.5% in December 2022 meaning that the cost of borrowing has also increased significantly.
- **Contractors and Suppliers:** The cost-of-living crisis has resulted in business failures. Although government support has been announced, some businesses will continue to struggle, with a greater risk of supplier failure. Supply failures anywhere in the supply chain will have a knock-on effect.

- **Service Delivery:** Likely budget reductions and savings plans are going to impact the ability of local authority services to maintain levels of delivery, particularly at a time of increased demand.

### Overall view on arrangements in relation to financial sustainability

As a result of the programme of work performed, we are satisfied the Council's arrangements in relation to financial sustainability are appropriate to secure value for money.

### 3. Commentary on VFM arrangements

#### Governance

How the body ensures that it makes informed decisions and properly manages its risks



# 3. VFM arrangements – Governance

## Risks of significant weaknesses in arrangements

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p>2</p> <p><b>Governance in relation to allegations of fraud and corruption</b></p> <p>In August 2021, the Council were alerted to allegations of fraud and corruption that are currently subject to a criminal investigation by the Police.</p> <p>Allegations of fraud and corruption indicate a possible significant weakness in relation to the operation of internal controls and the achievement of value for money.</p>	<p><b>Work undertaken</b></p> <p>To address the identified risk, we have:</p> <ul style="list-style-type: none"> <li>• Reviewed the internal audit findings and recommendations and considered management’s progress in their implementation.</li> <li>• Considered the independent review findings and recommendations and of management’s progress in their implementation.</li> </ul> <p>For both reviews we will consider if where controls weaknesses are identified, this constitutes a significant weakness in the arrangements for the Council that ensures they can gain assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.</p> <p><b>Results of our work</b></p> <p>The Council’s Annual Governance Statement (AGS) for 2020/21 an 2021/22 reports this matter as a significant governance matter. The AGS for 2021/22 recognises that the independent review identified 5 recommendations aimed at strengthening controls to mitigate the risk of fraud. Having considered the work of internal audit and the independent review, we consider there to be sufficient evidence of a significant weakness in the Council’s governance arrangements for how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.</p>

# 3. VFM arrangements – Governance

## Risks of significant weaknesses in arrangements - continued

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p><b>3</b></p> <p><b>Governance arrangements over the ledger migration: maintaining adequate historic accounting records</b></p> <p>During 2021-22, the council migrated between two accounting systems, moving from SAP to D365. The council is required by statute to maintain adequate accounting records. Internal assurance processes may not be sufficient to ensure the council is managing the risk of non-compliance with these regulations, specifically the requirement to maintain adequate historic accounting records.</p>	<p><b>Work undertaken</b></p> <p>The Council instigated the implementation of a new ledger system (D365) to replace its existing SAP system on 1 April 2021. However, the implementation did not happen until part way through the 2021/22 year in September 2021. We have reviewed the internal assurance process the council has been through to understand if they have sufficiently managed the risk of non-compliance with laws and regulations in relation to maintaining adequate historic accounting records.</p> <p><b>Results of our work</b></p> <p>Whilst our financial audit procedures confirmed the migration of 2021/22 records was complete and accurate, this risk is specific to the requirement to maintain adequate accounting records for periods prior to 2021/22. In our view, the potential weakness identified could lead to non-compliance with statutory requirements in relation to maintaining adequate historic accounting records.</p> <p>The migration of data from SAP to D365 was largely a migration of closing balances only, meaning historic data had to be stored in a temporary cloud-based location to comply with laws and regulations of maintaining adequate historic accounting records for the purpose of HMRC inspection compliance rules. We identified that the Council had not performed any form of validation testing of stored historic data to confirm records from the required periods prior to 2021/22 were sufficient to be compliant with laws and regulations. This is compounded by the issue that SAP had been fully decommissioned and was no longer accessible. Should the Council identify deficiencies in this historic data, they will not be able to recover original records from SAP. The Council has since performed some mitigation testing on the two most recent years' worth of data, it is yet to be shared with the audit team.</p> <p>Based on the above we are not satisfied that the Council's governance arrangements specifically in relation to data validation ensured effective processes and systems were in place to support its statutory financial reporting requirements and ensure corrective action was taken where needed. Our recommendation in relation to this identified weakness is detailed on page 42 of this report.</p>

# 3. VFM arrangements – Governance

## Risks of significant weaknesses in arrangements - continued

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p><b>4 Effectiveness and coverage of internal audit</b></p> <p>During the year, the Council's internal audit function faced sustained pressure due to under-resourcing and increased workloads in response to the identified highways management governance gap.</p> <p>As a result of the pressures, the function was unable to deliver a considerable portion of its planned programme of work but still reported a clean head of internal audit opinion to management with a qualification with respect to the programme of work completed.</p>	<p><b>Work undertaken</b></p> <p>We will review the work of internal audit and consider the recommendations that have been made to management. We will consider whether the programme of work completed provides suitable coverage for management to assess risk and gain assurance over the effective operation of internal controls.</p> <p><b>Results of our work</b></p> <p>We reviewed the Head of Internal Audit's Annual Opinion on the effectiveness of the Council's internal control environment for 2021/22, which was "Good with some significant improvements required in a few areas". This was based on five out of 44 planned internal audit reviews, because resources had been diverted into a fraud investigation that arose in 2020/21.</p> <p>Whilst we understand the resourcing challenges faced by Internal Audit, its limited coverage for 2021/22 meant that potentially elevated areas of risk, such as the change in the general ledger and the associated migration and control charges, were not reviewed. We considered the conclusions reached on the five reports that were completed and discussed with Officers how the Head of Internal Audit may have considered other means of assurance alongside the reviews that were completed to support their opinion on the Council's internal control, risk management and governance arrangements. Overall, however, we do not believe the work completed was sufficient to support the Annual Opinion for 2021/22.</p> <p>Based on the above, we are of the view that this matter is a significant weakness in respect of the Council's governance arrangements, specifically how the Council monitors and assesses risks and how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, that exposes, or could reasonably be expected to expose, the Council to significant risk.</p>

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

### The Council’s risk management and monitoring arrangements

The Council has an established risk management framework that aligns financial accountability with service decision-making, embedded within the Council’s governance structure. There are Corporate and Operational Risk Registers in place which are refreshed to reflect any significant changes in circumstances in which the Council operates and the current challenges and opportunities it faces. The Governance Audit Risk Management and Standards Committee (GARMS) reviews the effectiveness of the Council’s arrangements and has continued to receive relevant update reports and briefings.

The Council have an internal audit team, led by the Head of Internal Audit & Corporate Anti-Fraud. They are responsible for the annual delivery of the internal audit work programme. Each year, a risk-based plan is devised based on thematic risks and an element of rotational coverage. This is reviewed and approved by GARMS annually.

For 2020/21 this programme included the completion of 29 internal audit reviews, an annual corporate governance review, management assurance statements, quarterly risk management outputs, specific grant claim validations and ad hoc professional advice. These reviews resulted in one identified significant weaknesses in internal control. This was a slight decrease on the level of output from the prior year due to resourcing pressures and the challenges presented by Covid-19 to working arrangements. The overall opinion issued for 2020/21 was *‘good, with identified areas for improvement’*.

2021/22 presented an even more challenging year. The 21/22 programme, approved by the Governance, Audit, Risk Management and Standards Committee in April 2021, detailed 44 planned reviews. This plan was reviewed and approved by GARMS. During the year, internal audit again faced considerable resourcing pressures. As a result, only 5 planned reviews and 9 core systems reviews were completed. The remainder of the planned programme was deferred to 2022/23. The opinion provided by the head of internal audit for 2021/22 was *‘good, with some significant improvements required in a few areas’*. We have considered the work

of internal audit earlier in the report and consider it to indicate a significant weakness in respect of the coverage of the internal audit review.

GARMS are regularly updated on the progress of work against the internal audit plan. Our review of GARMS minutes, as well as attendance at meetings, confirms that the internal audit plan is effectively agreed prior to commencement and any weaknesses in controls identified through internal audit’s work are highlighted and brought to the committee throughout the year.

In August 2021, the Council became aware of allegations within a particular service area. Such allegations indicated a possible weakness in the operation of internal controls. The Council has since completed an internal audit review of the systems in place and commissioned an independent review with the same scope.

The independently led review concluded that ‘Whilst direct responsibility for any fraud must rest with anyone found guilty of perpetrating it and whilst it is not possible to prevent fraud from happening entirely, the Council does recognise the importance of putting in place a range of controls designed to mitigate against that risk and make it less likely to happen. Those steps are essentially in place in terms of corporate frameworks.’ Five recommendations were made to further strengthen these.

Having considered the work of internal audit and the independent review, we consider there to be sufficient evidence of a significant weakness in the Council’s governance arrangements for how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.

### The Council’s arrangements for budget setting and budgetary control

The Council has a well-established, rigorous, budgetary process, with directorate budget holders required to provide detailed budgets for all cost and income headings within their directorate. This process is completed for both revenue and capital budgets, with the latter being indicative spend to assist with funding and borrowing requirements.

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria - continued

The budget setting process is completed alongside the overall business and corporate planning process, to ensure budgets align with the performance objectives of the Authority. As part of the process, budget holders are asked to provide key information on forecasts for the following two years which is used to update the detail in the MTFS.

Following approval of the budget, progress against targets is then monitored on a regular basis through the preparation of monthly management accounts, which are subject to challenge on key variances from the agreed budgets. Throughout the year budget holders are required to produce an updated budget, or reforecast, for the full year based on actual results to date and a re-review of the budget for the remainder of the year that takes account of recent trends and known changes to future projections.

A member of the finance team attends GARMS, so they are aware of any financial issues raised, and can raise appropriate challenge to ensure the financial aspects of any key decisions have been appropriately considered. Review of GARMS meeting minutes, the budget setting process and discussions with Council officers confirmed the above arrangements are suitably implemented and did not identify any significant weaknesses in the arrangements.

We have reviewed Council minutes and confirmed there was regular reporting of the financial position during the 2020/21 and 2021/22 financial year, including detail of movements in the budget and forecast outturn between quarters. The reports detailed the in-year pressures as well as planned mitigations. The outturn position was not significantly different to that reported to Members during the year and did not indicate a weakness in arrangements. The data is also reported to Senior Management Team and Cabinet.

The financial statements timetable is prepared by finance and approved by GARMS. The timetable was achieved in 2020/21 and 2021/22, with accounts being received prior to the 31<sup>st</sup> July deadline. Our audit of the financial statements issued an unqualified opinion for 2020/21 and we anticipate the same for 2021/22.

### The Council's decision-making arrangements and control framework

We have reviewed Council minutes throughout the year and have not identified any evidence of a weakness in arrangements. The reports reviewed support informed decision-making and were clear in the decision or recommendation Members were asked to make.

We noted officers and relevant committees making full use of the reporting packs and information provided to them. We also noted that GARMS was operating as intended, providing sufficient challenge as those charged with governance.

Items for decision are subject to discussion and scrutiny prior to approval. The Council is transparent in its decision making. Key decision notices are produced and made publicly available via the Council's website. This log of published notices also contains officer decisions that have been approved under the scheme of delegated authorities.

The Council implemented measures to ensure that services could continue despite the restrictions arising during the Covid-19 pandemic throughout 2020/21 and the early parts of 2021/22. The arrangements included live streaming to allow the public to observe Council meetings. These have since returned to in-person events but continue to be streamed on the Council's website to enable public engagement.

The Council expects the highest standards of conduct from both its members and officers and is supported by the Governance Framework. The framework is reviewed and updated regularly by management as part of the annual review of the Constitution. Management and members are both updated on the standards expected of them annually following this process.

The Council has a standing item at all committee meetings for the declaration of interests by members, with members also expected to complete internal declarations on a regular basis (in line with the Governance framework. These declarations are logged in a publicly held register and is available for viewing on the Council's website. These registers also log any gifts and hospitality received by members, with members regularly reminded of the need to update records.

Introduction

Audit of the financial statements

Commentary on VFM arrangements

Other reporting responsibilities and our fees

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria - continued

The Statement of Accounts records material related party transactions as well as senior officer pay and Member allowances. We considered these disclosures and compared them with the interests declared, with no significant issues arising.

### The Council’s arrangements for ensuring it meets legislative and regulatory requirements

Assurance on compliance with regulatory requirements is regularly reported to GARMS using summary reports. The Council are also have a process of internal reviews and inspections to ensure reporting standards are being met. Neither have identified significant issues during wither the 2020/21 or 2021/22 financial years.

As part of the Council’s corporate anti-fraud risk management, a register of interests in maintained. Members and senior officers are required to complete annual returns to identify and monitor potential related party relationships and transactions. A further register is also kept for members and senior officers to record any gifts or hospitality they may have been in receipt of. The Council have made us aware of one instance of an interest not being reported, but we are satisfied this was not material and did not result in any required disclosures being omitted from the financial statements. Our wider audit work did not identify any further omissions.

The Council also has established policies for both Counter Fraud and Corruption and Standards of Business Conduct. These have been prepared in accordance with the Bribery Act and central government guidance on the risk management of conflicts of interest. Employees are informed of changes via the Council’s intranet. Senior officers and members are required to make declarations throughout the year.

The Council has an expenses policy governing expense claims for employees. The standards of business conduct policy and Modern Slavery Act requirements set out the expected behaviours of staff and contractors.

During the 2021/22 cycle, the Council migrated between accounting systems, moving from SAP to D365. The

migration of data from SAP to D365 was largely a migration of closing balances only, meaning historic data had to be stored in a temporary cloud-based location to comply with laws and regulations of maintaining adequate historic accounting records for the purpose of HMRC inspection compliance rules for example.

Whilst our audit procedures confirmed the migration of 2021/22 records was materially complete and accurate, we identified that the Council had not performed any form of validation testing of stored historic data to confirm records from the required periods prior to 2021/22 were sufficient to be compliant with laws and regulations.

This is compounded by the issue that SAP had been fully decommissioned and was no longer accessible. Should the Council identify deficiencies in this historic data, they will not be able to recover original records from SAP.

Since the May 2023 GARMS, the Council has advised that it was able to provide sufficient records to comply with an HMRC business review, but sufficient evidence of completeness was not available at the point of issuing our report.

We have considered the issue relating to data migration and historic accounting records earlier in the report and consider it to indicate a significant weakness in arrangements for securing value for money.

### Overall view on arrangements in relation to governance

As a result of the programme of work performed, we have identified 3 significant weaknesses in arrangements in relation to the Council’s governance arrangements. We have issued recommendations against each identified weakness on pages 40-42 of this report.

### 3. Commentary on VFM arrangements

#### Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services



# 3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

### The Council's arrangements for assessing performance and evaluating service delivery

The Council has a well-established performance monitoring framework, which is used to identify areas for improvement. Key to this monitoring are the quarterly outturn to budget reports submitted to Cabinet. These reports hold a detailed breakdown of spend-to-date against budgets, which can be broken down to individual budget holder level within each directorate, as well as being summarised at service level. This mix of high level and in-depth detail within the reports allows for Cabinet to monitor overall performance, and deep dive on any high-level issues identified.

Key to the monitoring of the Council's financial performance is the final outturn report, that is reviewed by Cabinet in July of each financial year. This provides Cabinet, full Council and the relevant sub-committees oversight of the Council's performance against financial budgets.

The 2021/22 report details a total revenue overspend of £1.5m. In preparing the report, detail is provided on a directorate level. This allows senior management and members to drill down and identify the sources of overspend. For 2021/22, these were largely attributed to resources and people due to increases in the Council's day-to-day running costs and workplace modernisation.

The report also details considerable capital slippage in the 2021/22 financial year, with spend only 35% of the initial budget. This is largely due to delays in building projects carried forward because of the pandemic and delays in funding materialising. The Council will carry forward this slippage into future capital budgets and spend in future years.

The Council reports annually a detailed performance summary, in the form of a Narrative report, forming part of the Statement of Accounts. This provides details of the Council's performance for the year and a summary of the outlook for the coming year. The report elaborates on the pressures faced by the Council because of the pandemic in 2020/21, and due to increased service demand in 2021/22, highlighting any impacts on local tax collection rates and increased demand for community services.

The range of services provided by the Council are subject to external regulation. The Council makes use of these reports to evaluate its own performance. During 2020/21, the number of visits performed by regulators was limited because of the pandemic. The most recent OFSTED inspection was completed in 2020 and involved an assessment over children's social care services within the borough against the following four judgements:

- The impact of leaders on social work practise with children and families
- The experiences and progress of children who need help and protection
- The experiences and progress of children in care and care leavers
- Overall effectiveness

The services provided by the Council for children and young people were assessed as good against these criterion.

The Council was subject to a targeted inspection from OFSTED on its multi-agency response to children and families who need help in Harrow in May 2023. Whilst only a targeted inspection, the report concluded that the Harrow Strategic Safeguarding Partnership does not have effective oversight and scrutiny of the multi-agency safeguarding arrangements or early help offer in Harrow.

The reports details Children and their families benefit from a wide range of early help services that support them to improve their lived experiences. However, this is uncoordinated without a lead professional or multi-agency focus and often provided through a single-agency approach at the exclusion of partners. The Council have reviewed the strengths and improvements required identified by the report and is working to improve the service offering. The report identifies several service strengths and areas for improvement. It also confirms that the Council is taking steps to action identified improvements. As such we are satisfied this does not represent a risk of weakness, as the Council is making use of the information for assessing and evaluating its future service delivery.

# 3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

In January 2021, the Care Quality Commission also issued reports in respect of the inspections of adult housing and social care services. These being against the following judgements:

- Is the service safe?
- Is the service effective?
- Is the service caring?
- Is the service responsive?
- Is the service well-led?

The Council received a rating of good for the services provided in comparison to the above criterion.

The Local Government and Social Care Ombudsman produce annual findings in relation to complaints received against councils and how they compare to similar authorities. In doing so, the Ombudsman provide details of the Council's performance against 3 key metrics, being: percentage of complaints made that are upheld, percentage compliance with previous recommendations and percentage of cases with satisfactory remedies applied.

The Ombudsman findings for 2020/21 and 2021/22 show a positive direction of travel for the Council. Complaints upheld reduced from 92% to 78%, compliance with recommendations increased from 95% to 100% and the percentage of satisfactory remedies increased from 4% to 14%. For all metrics, the Council performance is in line with other similar authorities.

The Cabinet also reviews quarterly performance packs which evaluate the Council's delivery of community services against the economic strategy. Despite the change in profile of service demand and budgetary pressures noted, performance packs show the Council met service demand in 2020/21 and 2021/22.

### The Council's arrangements for effective partnership working

The Council is currently not part of any significant partnerships or such arrangements. As part of their

arrangements for the provision residential care services, the Council has partnered with Sancroft Community Care Ltd, with the Council the 100% owner of the partner. The services provided by company fall under the scope of the Care Quality Commission, for which good ratings have been received to date. As part of the Council's performance management framework, review of the arrangement is considered as part of Cabinet's performance monitoring.

Since 2017 the capital programme has included amounts in respect of the depot redevelopment (the Council's new headquarters), part of the Council's regeneration initiative. This redevelopment, which involves the vacation of the main Council premises, is now being managed through a joint venture, with Wates.

At November 2023 (the date of this report), the agreement is yet to be formalised and no transactions between the two parties have taken place. We will continue to consider the joint venture, and its performance, as part of our ongoing value for money assessment.

### The Council's arrangements for procurement and commissioning services

The Council has a procurement strategy and approach which ensures that it complies with all legal and regulatory requirements as well as achieving best value in procurement processes. Standardised templates and procurement standing orders are used throughout the procurement process to ensure consistency of approach.

The Council has a procurement framework called the 'Contract Procedure Rules' in place. Due to the UK's departure from the EU, the government has since set its own new threshold values at which public procurement opportunities will be subject to the full suite of regulations governing public contracts. These are in place to ensure the UK complies with its obligations under the World Trade Organisations agreement on government procurement. As such, the Contract Procedure Rules were adapted to incorporate the impacts of BREXIT in 2020/21 and accommodate these new UK Financial Thresholds. Procurement boards meet monthly or bi-monthly and review the procurement pipeline to ensure compliance with the framework.

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# 3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

The Head of procurement leads a corporate team to support the other directorates of the Council. The team provides both professional support and expert advice to ensure the internal procurement framework is adhered to as well as compliance with procurement law. The procurement programme also acts as a major contributor to the strategic priorities of the Council by focussing on strengthening the local economy, creation of local employment and apprenticeships and carbon reduction within the supply chain.

The programme is managed via the creation of a 3-year pipeline which is agreed and signed off by all the directorates and directorate procurement boards. Each approved project is supported by a procurement professional. The results of all tendering are reported back to directorate procurement boards with award recommendations. All procurement up to a value of £500k is subject to this standard gateway process. Any procurement above this balance requires further Cabinet sign off.

### Overall view on arrangements in relation to improving economy, efficiency and effectiveness

Based on the above considerations, we are satisfied there is not a significant weakness in the Council's arrangements in relation to the improving economy, efficiency and effectiveness criteria.

### 3. Commentary on VFM arrangements

Identified significant weaknesses in arrangements and our recommendations



# 3. Identified significant weaknesses and our recommendations

## Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work, we have identified significant weaknesses in the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources. These identified weaknesses have been outlined in the table below.

Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement
<p><b>1 Governance in relation to allegations of fraud and corruption</b></p> <p>In August 2021, the Council were alerted to allegations of fraud and corruption that are currently subject to a criminal investigation by the Police. Allegations of fraud and corruption indicate a possible significant weakness in relation to the Councils system to obtain assurance over the operation of internal controls, including those designed to detect and prevent fraud.</p> <p>The Council’s Annual Governance Statement for 2020/21 and 2021/22 reports this matter as a significant governance matter. The AGS for 2021/22 recognises that the independent review identified 5 recommendations aimed at strengthening controls to mitigate the risk of fraud. Having considered the work of internal audit and the independent review, we consider there to be sufficient evidence of a significant weakness in the Council’s governance arrangements for how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.</p>		●		<p>We recommend the Council fully implements all of the recommendations identified by the independent review and by its own internal audit as quickly as possible.</p>

# 3. Identified significant weaknesses and our recommendations

## Identified significant weaknesses in arrangements and recommendations for improvement - continued

Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement
<p><b>2 Governance arrangements over the ledger migration: maintaining adequate historic accounting records</b></p> <p>The Council planned to implement a new financial ledger system (D365) to replace its existing SAP system on 1 April 2021, but the implementation did not happen until September 2021. The migration of data from SAP to D365 was largely a migration of closing balances only, meaning historic data had to be stored in a temporary cloud-based location to comply with laws and regulations of maintaining adequate historic accounting records for the purpose of HMRC inspection compliance rules for example.</p> <p>Whilst our audit procedures confirmed the migration of 2021/22 records was materially complete and accurate, we identified that the Council had not performed any form of validation testing of stored historic data to confirm records from the required periods prior to 2021/22 were sufficient to be compliant with laws and regulations. This is compounded by the issue that SAP had been fully decommissioned and was no longer accessible. Should the Council identify deficiencies in this historic data, they will not be able to recover original records from SAP.</p> <p>Since the May 2023 meeting of the Governance, Audit and Risk Management Committee, the Council has advised that it was able to provide sufficient records to comply with an HMRC business review, but sufficient evidence of completeness was not available at the point of issuing our report.</p> <p>In our view, the weakness identified could lead to non-compliance with statutory requirements in relation to maintaining adequate historic accounting records that could reasonably be expected to lead to a significant impact on the Council’s reputation or unlawful actions.</p> <p>As a result, we believe this is a significant weakness in respect of the Council’s governance arrangements over the implementation of its new ledger system that did not ensure effective processes and systems were in place to support its statutory financial reporting requirements and ensure corrective action was taken where needed.</p>		●		<p>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.</p> <p>We also recommend that the Council reviews its governance processes surrounding any future system migrations, with a focus on data validation, to ensure all data validation is completed prior to decommissioning of systems and timely data validation testing.</p>

# 3. Identified significant weaknesses and our recommendations

## Identified significant weaknesses in arrangements and recommendations for improvement - continued

Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement
<p><b>3 Effectiveness and coverage of internal audit</b></p> <p>We reviewed the Head of Internal Audit’s Annual Opinion on the effectiveness of the Council’s internal control environment for 2021/22, which was “Good with some significant improvements required in a few areas”. This was based on five out of 44 planned internal audit reviews, because resources had been diverted into a fraud investigation that arose in 2020/21.</p> <p>Whilst we understand the resourcing challenges faced by Internal Audit, its limited coverage for 2021/22 meant that potentially elevated areas of risk, such as the change in the general ledger and the associated migration and control charges, were not reviewed. We considered the conclusions reached on the five reports that were completed and discussed with Officers how the Head of Internal Audit may have considered of other means of assurance alongside the reviews that were completed to support their opinion on the Council’s internal control, risk management and governance arrangements. Overall, however, we do not believe the work completed was sufficient to support the Annual Opinion for 2021/22.</p> <p>Based on the above, we are of the view that this matter is a significant weakness in respect of the Council’s governance arrangements, specifically how the Council monitors and assesses risks and how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, that exposes, or could reasonably be expected to expose, the Council to significant risk.</p>		●		<p>We recommend the Council ensures Internal Audit is adequately resourced and delivers an annual programme of work of sufficient breadth and depth to support a robust Head of Internal Audit opinion that provides adequate assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.</p>

# 04

Section 04:

**Other reporting responsibilities and  
our fees**

# 4. Other reporting responsibilities and our fees

## Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power 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 the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

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. We did not receive any such objections or questions.

## Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. For 2020/21 we submitted this information to the NAO on 14 December 2022. For 2021/22 we will complete the Assurance Statement soon after issuing the audit report but we are still awaiting confirmation and further guidance from the NAO in relation to sampled components.

## 4. Other reporting responsibilities and our 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 GARMS in July 2022. We have included an update on our fees position in our further reporting to GARMS including the first Audit Completion Report in May 2023. Having now completed our work for the 2021/22 financial year, we can confirm that our fees are as follows and we will be seeking agreement with the Interim Director of Finance and Assurance before submitting for PSAA for their approval.

Area of work	2020/21 agreed fees	2021/22 proposed fees
Planned fee in respect of our work under the Code of Audit Practice	£116,057	£116,057
Additional fees for additional work in respect of:		
1. Property, plant and equipment valuations	£11,200	£57,470
2. Pension liability valuations (including revision arising from availability of updated membership data)	£4,853	£7,290
3. Data migration	-	£30,100
4. Intangibles valuation	-	£13,015
5. Inventory valuation	-	£19,555
6. Infrastructure assets	-	£9,520
7. Code changes to value for money and additional risks and recommendations	£14,200	£65,205
8. Revised auditing standard on accounting estimates	£3,488	£5,547
<b>Total fees</b>	<b>£152,624</b>	<b>£323,760</b>

#### Commentary on the additional work:

1. As reflected in the extent of audit adjustments identified we carried out significant additional work on the valuation of the Council's PPE, resulting in net valuation movements in excess of £70m.
2. As we reported to GARMS the Council was required to request a revised actuarial report in light of the triennial valuation. We were required to carry out testing on the revised report and updated accounts.
3. The additional work was required to obtain assurance over the migration of data that underpins the statement of accounts and involved our IT specialist auditors.
4. The additional work was required to understand the Council's accounting treatment and disclosures, which has led to material amendments.
5. Our additional work was required to understand and challenge the Council's accounting treatment, which has led to a change in treatment and disclosure in the final statements.
6. As we reported to GARMS the Council was required to comply with the revised CIPFA Code and we were required to audit the Council's consideration and revised accounting entries.
7. For 2021/22 we identified 4 risks of significant weakness and reported actual significant weakness in 3 areas.
8. The change in the auditing standard has increased the audit input on auditing accounting estimates.

## 4. Other reporting responsibilities and our fees

### Fees for work as the Pension Fund'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 GARMS in July 2022. Having completed our work for the 2021/22 financial year, we can confirm that our fees are as follows:

Area of work	2020/21 agreed fees	2021/22 fees
Planned fee - Code of Audit Practice	£16,170	£16,170
Additional fees in respect of additional work in respect of:		
1. Level 3 investment assets	£4,534	£6,358
2. IAS19 assurances	£2,800	£5,108
3. Membership data testing	-	£9,400
<b>Total fees</b>	<b>£23,504</b>	<b>£37,035</b>

#### Commentary on the additional work:

1. Level 3 investments required additional audit focus and attention in light of the absence of published corroborative information.
2. We are required to carry out additional work to provide assurance to the auditor of the Council in respect of pensions and IAS19.
3. As we have reported to GARMS in light of the timing of the most recent triennial valuation we were required to carry out testing on the completeness of the Council's membership data and test a sample of members data to provide assurance to the auditor of the Council.

### Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Having completed our work for the 2021/22 financial year, we can confirm that our fees are as follows:

Area of work	2020/21 fees	2021/22 fees
Housing benefits subsidy assurance	£17,750	£18,300
Teachers' pension return assurance	£3,600	£3,700
Pooled housing capital receipts assurance	£4,100	£4,250
<b>Total fees</b>	<b>£25,450</b>	<b>£26,250</b>

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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.

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