



Auditor's Annual Report

London Borough of Harrow – year ended 31 March 2023

November 2024

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Introduction



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 year ended 31 March 2023. 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

We issued our audit report on 27th November 2024. Our opinion on the financial statements was unqualified.



Value for Money arrangements

In our audit report issued we reported that we had completed our work on the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements. Section 3 provides our commentary on the Council’s arrangements.



Wider reporting responsibilities

We have completed our work on the Council’s WGA submission, in line with the group instructions issued by the NAO. The Council is below the HM Treasury threshold for extended procedures.

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We have received no correspondence or objections from electors.

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Audit of the financial statements



Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). The purpose of our audit 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 2023 and of its financial performance for the year then ended. Our audit report, issued on 27th November 2024 gave an unqualified opinion on the financial statements for the year ended 31 March 2023.

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix A. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made.

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets, published in November 2022, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 26 January 2024. They contained a small number of errors that prevented the audit team from commencing audit sampling procedures.

Many working papers and transactional listings were not provided alongside the draft accounts which resulted in further delays to the audit team commencing their audit procedures.

We recognise this was largely due to Council finance team capacity issues and the protracted timeframe for completion of the Statement of account audit for the 31 March 2022 year end.

Other reporting responsibilities

Reporting responsibility	Outcome
Annual Report	We did not identify/identified any significant inconsistencies between the content of the annual report and our knowledge of the Council.
Annual Governance Statement	We did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting.

Significant matters discussed with management

During our audit we communicated the following significant matters to management:

- Valuation of land:** our review of the draft accounts identified a highly material upwards valuation movement to other land and buildings and investment property. When raised with management, we noted that this was due to the Council commissioning a new external valuer to complete valuations for 2022/23. As a result of the change in valuer, a more 'optimistic' approach was taken to valuing land. Management discussed the issue with their valuer who upon review of the previous approach and consideration of the Council portfolio, revised the approach for 2022/23. Our testing of these amended land values confirmed the revised approach was appropriate.

Audit of the financial statements

- **IFRIC14 consideration:** In September 2024, a new national accounting issues in relation to the valuation of net defined benefit pension liability valuations was identified. The issue relates to the consideration of secondary pension contributions made by the Council in line with the requirements of IFRIC14 when accounting for asset ceilings. When notified of the accounting issue, management performed an appropriate assessment to confirm the Council's accounting entries were appropriate and no amendments or further consideration was required.
- **PFI accounting:** Although not relevant to the 2022/23 accounts, management will be required to estimate the potential impact of implementing IFRS16 to lease accounting in 2024/25 within its 2023/24 accounts. Management are currently in the early stages of preparation for the implementation of the new standard but are currently unable to estimate the impact of implementation.
- **Legislation to address the backlog in local government audit:** During the 2022/23 audit, significant new legislation, the backstop, was introduced to address the backlog of audits in local government. Throughout the audit, we discussed the impacts of this legislation with management to ensure timelines were agreed for the completion of the 2022/23 audit well in advance of backstop deadlines.

Significant difficulties during the audit

During the audit, key difficulties were encountered that resulted in delays to the completion of the 2022/23 audit. These are discussed in detail in this section of the report. Our intention is to use these to inform a wash-up meeting, to be held between audit team and finance team members, to ensure learning are taken forward in audits of subsequent years.

- **Timely provision of working papers and transactional data:** the Council did not provide working papers and transactional listings alongside the draft accounts in January 2024. As a result, in April 2024, the audit were re-deployed to other jobs to allow the Council to gather the required working papers and transactional data for the audit team to re-commence work on in July 2024. Provision of data and working papers is key to ensuring an efficient audit process. Working papers and transactional data should be available at the commencement of the final audit stage alongside the draft accounts. Working papers are also key to the Council's own quality assurance processes. Upon providing working papers and listings, several immaterial or purely disclosure errors were identified. The preparation of these working papers and

transactional downloads should be built into the Councils financial statement preparation process as a quality assurance check of balances disclosed in the statement of accounts.

- **Working paper quality:** many working papers did not provide a clear audit trail to balances disclosed in the draft accounts. This was particularly challenging in areas such as collection fund and property plant and equipment. In an isolated number of areas, being the cashflow statement, movement in reserves statement and financial instruments note, no working paper is produced. The Council should ensure working papers provide a clear audit trail to disclosed balances.
- **Transactional listing quality:** many transactional listings provided did not reconcile to the statement of accounts. In many instances this was due to quality assurance checks not identifying data being incorrectly extracted. The Council should ensure listings provided for audit reconcile to the draft accounts.
- **Quality of evidence supporting transactions and ledger entries:** a recurring issue during the audit has been the provision of sufficient appropriate evidence by the Council to support income and expenditure transactions and manual journal postings. We have made management aware that our testing requirements always require the provision of external third-party evidence to support a transaction. Where items sampled are internal recharges, we need evidence relating to the initial transaction being recharged.
- **Data supporting the Council's property valuations:** our testing of property valuations requires us to obtain evidence to support key data inputs used in individual estimates. We faced significant delays in the Council being able to obtain evidence to support gross internal areas of properties
- **Project management:** timelines for the completion of our audits are dependent on successful project management. Whilst this is the responsibility of the audit team, it is dependent on our clients engaging with our project management tools, with key ones being provided by client (PBC) schedules, sample trackers and query logs. The tools set out our data requests, when we need them by, progress of our sample testing and queries arising requiring a response. During the early stages of the audit, the Council did not update trackers or provide evidence in line with the agreed deadline on the PBC.

03

Our work on Value for Money arrangements



VFM arrangements


Overall Summary





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:

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Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services.
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Governance - How the Council ensures that it makes informed decisions and properly manages its risks.
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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 staff and directors

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.

We outline the risks that we have identified and the work we have done to address those risks later in this report.

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

We are required to 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.

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

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?
 Financial sustainability	15	Yes – see risk 1 on Page 14	No	No
 Governance	18	No	Yes – see follow-up of previous weakness on page 26 that remains outstanding.	Yes – see previous recommendation on page 26 that remains outstanding.
 Improving economy, efficiency and effectiveness	22	No	No	No

VFM arrangements

Financial Sustainability

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



VFM arrangements – Financial Sustainability

Risks of significant weaknesses in arrangements in relation to Financial Sustainability

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
<div> <div>1</div> <div> Financial sustainability The 2022/23 Medium Term Financial Strategy identifies the need to make £18m of savings in 2023/24 to balance future budgets. In 2022/23, the budget monitoring process identified growing forecast overspends, with £14.7m of reserves allocated to be used against these. The sustained use of reserves is not a financially sustainable strategy for balancing future budgets. </div> </div>	<div> <div> Work undertaken We have addressed this risk by performing the following procedures: <ul style="list-style-type: none"> Review the development and implementation of subsequent Medium Term Financial Strategies (MTFS), ensuring they have considered factors such as funding restrictions. 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. </div> <div> Results of our work Our review of the 2022-23 Budget Monitoring Report, presented to Cabinet in July 2023, has confirmed that the total drawdown of reserves was only £5.8m, compared to the originally planned £14.8m. Our review of the subsequent MTFS, presented to Cabinet in February 2023, has confirmed that the intention of the Council is for the use of reserves in the future to be a one-off event rather than a regular occurrence. The MTFS for 2023-24 to 2025-26 noted that the significant savings required to deliver the budgets for 23/24 and 24/25 would require the use of reserves to support capacity, implementation and redundancy costs. Within the reserves there is the Waste Strategy Reserve (£1.595m) and Adults Social Care Reserve (£3.769m) which were to be utilised by the Place and People directorates. The budget has accounted for factors such as funding restrictions, demand pressures and savings requirements. 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 £19m, with £17.8m to be realised by the end of 2024/25. </div> </div>

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Background to financial sustainability

The Council began the 2022/23 financial year having faced significant financial challenges relating to the impact of the COVID-19 pandemic, the associated economic downturn and uncertainty around future funding levels from Central Government. While these issues remained, 2022/23 saw further significant economic pressure placed on the Council. Russia's invasion of Ukraine in February 2022 had a huge impact on the UK inflation rate, which rose from 7.8% in April 2022 to a high of 11.1% in October 2022. The global supply chain disruptions that arose caused energy prices to rise significantly, which led to the cost of living crisis that put severe pressure on service budgets. The Council continues to be at the forefront of efforts to support local residents, including the most vulnerable, and to support local businesses that have been affected by the events that have taken place in 22/23.

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 discussions 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. The Council have raised council tax in both 21/22 (1.99%) and the maximum 2.99% in 22/23. The 23/24 also budgets for a maximum increase in council tax of 4.99% in line with announcements made in the 2022 Autumn Statement on core spending power for local government.

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 2022/23 as an overall overspend of £5.8m which was balanced with a planned use of reserves. 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.

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. In 2022/23, the Council set and delivered a balanced budget. However, the delivery of a balanced budget required the drawing down on reserves of £5.8m.

The 2022/23 MTFS originally identified a £14.7m gap within the budget that was to be bridged by the draw down of reserves, but the final 2022/23 outturn was a net overspend of £5.8m, meaning that £8.9m of the reserves assumed to be used in the MTFS were not required to be drawn down, and remained on the balance sheet. This was despite, during the 1st half of 2022/23, the budget monitoring process identifying growing forecast overspends. The Council acknowledges that drawing on reserves is an unsustainable practise for achieving balanced budgets. Given the consistent cutbacks in funding, the Council has a strong track record of delivering savings.

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

Between 2013/14 and 2021/22, the Council delivered total savings of £103.2m. The Council have a positive outlook towards savings, preferring to set ambitious goals rather than performing within easily attainable targets. In the 2022/23 MTFS, the Council committed to a long-term savings plan to 2025/26 of £24m. In the 2022/23 final outturn report, £5.3m of slippage against this plan was 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 £2.5m on reserves in 2021/22 and a further £5.8m in 2022/23. The MTFS for 2023/24 also noted that the significant savings required to deliver the budgets for 2023/24 and 2024/25 would require the use of reserves to support capacity, implementation and redundancy costs. Within the reserves there is the Waste Strategy Reserve (£1.595m) and Adults Social Care Reserve (£3.769m) which were to be utilised by the Place and People directorates.

As a result of the high levels of savings already achieved at the Council, the 2023/24 MTFS presented to Cabinet in February 2023 outlined the intention for the use of reserves in the future to be a one-off event rather than a regular occurrence and moving forward any use of reserves must be reversed via savings.

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 2022/23 and 2.99% in 2023/24. Within the 22/23 and 23/24 MTFS' respectively, this was expected to increase revenues by £2.78m in 22/23, and a further £4.23m in 23/24.

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 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.

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.

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.

VFM arrangements

Governance

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



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 Assistant Director Audit and Anti-Fraud (Previously the Interim 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.

In 22/23, the opinion provided by the head of internal audit was 'good, with some improvements required in discrete areas.' A total of 23 reviews were completed by the internal audit team in 22/23, which covered a wider portfolio of the Council's systems (and also implemented the incomplete areas within the 21/22 internal audit programme that were deferred in the previous year) and included several governance reviews that had not previously been completed. The 22/23 internal audit programme was determined and executed prior to our recommendation made in our Auditor's Annual Report presented to GARMS in December 2023, but we are satisfied that the work delivered was sufficient in supporting the opinion of the head of internal audit.

We are also aware that the Council have been working to address the resourcing issues faced by internal audit that contributed to the reduced delivery of the programme and 21/22. The Assistant Director of Audit and Anti-Fraud (who initially joined as the Interim Head of Internal Audit and Corporate Anti-Fraud) has led a significant restructure of the department. Since our recommendation was raised in December 2023, several new positions have been filled to support the completion of the internal audit programme, with further recruitment ongoing to expand the internal audit resource.

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 were alerted to allegations of fraud and corruption within a particular service area that are currently subject to a criminal investigation by the Police. The Council completed an internal audit review of the systems in place and commissioned an independent review with the same scope. The independently led review, which concluded in May 2022, raised five recommendations for the Council to address to improve its internal control and reduce the risk of similar events occurring in the future. We reported a significant weakness in the Council's governance arrangements to prevent and detect fraud in our 2021/22 Auditor's Annual Report and recommended that all recommendations made by internal audit and the independent review were implemented to sufficiently improve the effective operation of internal controls within this service area.

The Council have informed us that they remain focused on implementing the recommendations identified by the independent review and internal audit. We have concluded that the significant weakness in governance raised in 2021/22 has not been mitigated and will be maintained as a significant weakness / recommendation raised by the audit team in 2022/23.

The Council's arrangements for budget setting and budgetary control

The Council follows an annual budget setting process that meets all its statutory (Local Government Acts 2000, 2003 and Local Government Finance Act 1992) and constitutional requirements. 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.

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.

The 2022/23 budget report was approved in December 2021, setting out the estimates of the financial challenge for the financial year. The estimates were updated regularly through 2022/23 and the likely financial position for 2023/24 was reported to Cabinet.

VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

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.

The Director of Finance and members of her team attend 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 2022/23 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 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 recommendations that members were asked to make.

The Council operates a Governance Audit Risk Management and Standards Committee ('GARMS'), which has a purpose as detailed within its terms of reference to provide independent assurance on the adequacy of the Council's governance, risk management and control frameworks. GARMS oversees both internal and external audit, and promotes and maintains high standards of conduct by Councillors, co-opted members and parent governor representatives. GARMS met regularly throughout 2022/23. We noted officers and relevant committees making full use of the reporting packs and information provided to them.

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 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.

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, and have raised an internal control recommendation around non-completion of annual declarations made by members and senior officers. We identified that two senior officers who worked at the Council in 2022-23 had not completed their declarations due to the list of officers used to inform who was required to complete a declaration not being up to date.

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 also follow a process of internal reviews and inspections to ensure reporting standards are being met. There have been no significant issues identified during 2022/23 from these reviews and inspections.

VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

As part of the Council's corporate anti-fraud risk management, a register of interests is 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 2021/22, the Council migrated between accounting systems, moving from the 'legacy' SAP system to Microsoft Dynamics 365. While our audit procedures confirmed that the migration of 2021/22 records were materially complete and accurate, we identified that the Council had not performed any form of validation testing to confirm records from the required periods prior to 21/22 were sufficient to be compliant with laws and regulations. This indicated a significant weakness in the Council's arrangements for securing value for money, which we reported in our Auditor's Annual Report presented to GARMS in December 2023.

The Council completed a migration of its payroll data in April 2022, from the SAP HR module to the Microsoft Dynamics 365 HR module. We have completed a review of the project management and governance arrangements that were in place during the different phases of the transition up to the implementation of the new system. Our design and implementation assessment concluded that the project management of the data migration process was effective, with the Council making clear improvements in the documentation and maintenance of historic information held within the legacy SAP HR module. The Council has provided the records required for a HMRC business review in June 2023.

Overall view on arrangements in relation to governance

Based on the above considerations, we have concluded that there remains a significant weakness in the Council's governance arrangements to prevent and detect fraud, for which our recommendation raised in 2021/22 has been maintained.

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



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 is 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 allows for Cabinet to monitor overall performance and address any issues identified. Monthly budget updates are provided to the corporate leadership team (CLT), and mitigating actions are identified for any areas of significant budget variances.

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 2022/23 report details a total revenue overspend of £5.8m. 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 2022/23, these were largely attributed to various issues with the regeneration and development projects the Council has been undertaking, including a £2.5m overspend relating to energy and fuel cost pressures due to recent surges in the unit price of electricity, gas, and fuel.

The report also details considerable capital slippage in the 2022/23 financial year, with spend only 25% of the initial budget. This is due to various delays, including funding required by the Council, supply-chain issues and procurement. The Council will carry forward this slippage into future capital budgets and spend in future years.

The Performance & Finance Scrutiny Sub-Committee meets 3 times a year to consider and monitor the performance of the Council and its partners. Following the political leadership change in 2022, the Performance Board was reinstated. Performance Board meetings are held quarterly for each directorate to review its performance and seek improvements where applicable. The performance of the Council and its partners are measured against the new Corporate Plan and Economic Strategy implemented by the new administration, which were approved in 2023.

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 the pressures faced by the Council following the pandemic in 2020/21 and the subsequent cost of living crisis that has negatively affected the Council's finances.

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. 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 criteria.

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..

VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

As such we are satisfied this does not represent a risk of weakness in the Council's arrangements for assessing performance and evaluating service delivery, as the Council is making use of the information for assessing and evaluating its future service delivery.

Adults Services were inspected by the Care Quality Commission in April 2024. The Council received a score of 59% overall, with a rating of 'Requires improvement: Evidence shows some shortfalls.' The areas for development centred around the unstable workforce within Adults Services over the past 2 years – the Council were addressing this with the development of a Workforce Strategy. The previous CQC report, in January 21, gave the Council a good rating in all aspects of services at the location in which the inspection took place.

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 2022/23 show that the Council are performing consistently against the three metrics outlined. Complaints upheld reduced from 78% to 74%, compliance with recommendations remained at 100% and the percentage of satisfactory remedies reduced slightly from 14% to 12%. For all metrics, the Council performance is in line with other similar authorities.

The Council's arrangements for effective partnership working

As part of their arrangements for the provision of 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. The Members Agreement between the Council, Wates and HSDP sets out the contractual terms and conditions under which HSDP operates, including the formation of a Partnership Board that is tasked with the leadership, strategy and day-to-day direction and oversight of HSDP's activities. The Board consists of representatives from the Council and Wates. No major activity was undertaken by the HSDP in 2022/23, and there were no transactions between the Council and the HSDP. From our discussions with the Council, activity within the HSDP is likely to increase in 2025, and we will continue to consider the joint venture 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.

A Corporate Procurement Team supports officers across the organisation in procurement activity to ensure compliance with all relevant legislation including the Public Contract Regulations 2015. Each directorate across the Council has a procurement board, the purpose of which is to ensure procurement projects are being delivered on time, budget and compliantly. The board also is responsible for cascading procurement compliance and best practice.

The procurement reporting process requires approval to commence a procurement and then approval to award a contract. These reports go through procurement, legal, finance and audit clearance on their way to overall approval and Portfolio holders are regularly engaged and consulted on procurement decisions.

Contracts awarded to third party suppliers have contract managers assigned to them to ensure the delivery promised in the procurement process is delivered by the supplier. A Contract Management Guide and toolkit supports Contract Manager in their role.

VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

The Council have also increased training around procurement to its staff. In recent years over 300 officers and members in procurement have received training, with development of officers as a key goal for the Council in 23/24 as the Procurement Act 2023 is implemented.

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.

VFM arrangements

Identified significant weaknesses in arrangements and our recommendations



Value for Money

Follow up of previously-reported significant weaknesses in arrangements

In December 2023 we reported 3 significant weaknesses to the Council. As part of our work in 2022/23, we followed up the progress made by the Council against the recommendations made, and determined whether the significant weakness remained during the year.

Significant weakness in arrangements		Financial Sustainability	Governance	Improving the 3Es	Recommendation, work undertaken and conclusions reached
1	<p>Governance in relation to allegations of fraud and corruption</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 (AGS) 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>Recommendation We recommended that the Council fully implemented all the recommendations identified by the independent review and by its own internal audit as quickly as possible.</p> <p>Progress against the recommendation The Council have informed us is they remain focused on implementing the recommendations.</p> <p>Conclusions The significant weakness in arrangements remained throughout 2022/23. The previous recommendation made remains unaddressed.</p>

Value for Money

Follow up of previously-reported significant weaknesses in arrangements - continued

Significant weakness in arrangements		Financial Sustainability	Governance	Improving the 3Es	Recommendation, work undertaken and conclusions reached
2	<p>Governance arrangements over the ledger migration: maintaining adequate historic accounting records</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. 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. 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>Recommendation</p> <p>We recommended 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 recommended 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> <p>Progress against the recommendation</p> <p>Whilst the Council have not implemented the full validation exercise, the Council have fully complied with HMRC business reviews during 2022/23 and all other statutory requirements. The Council have also completed a successful migration of payroll systems in 2022/23.</p> <p>Conclusions</p> <p>The weakness in arrangements no longer exists.</p>

Value for Money

Follow up of previously-reported significant weaknesses in arrangements - continued

Significant weakness in arrangements		Financial Sustainability	Governance	Improving the 3Es	Recommendation, work undertaken and conclusions reached
3	<p>Effectiveness and coverage of internal audit</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.</p> <p>Overall, however, we do not believe the work completed was sufficient to support the Annual Opinion for 2021/22. 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>Recommendation</p> <p>We recommended 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> <p>Progress against the recommendation</p> <p>The Council has increased the coverage of its annual plan in 2022/23, which spanned 23 reviews across all the Council's directorates. The Council have also addressed resourcing issues within internal audit by recruiting team members to support delivery of the larger programme into the future.</p> <p>Conclusions</p> <p>The weakness in arrangements no longer exists.</p>

Other reporting responsibilities and our fees

Other reporting responsibilities and our fees

Other reporting responsibilities

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, and to carry out certain tests on the data where balances in the statement of accounts are above NAO thresholds. We have completed our work on the Council's WGA submission, in line with the group instructions issued by the NAO. The Council is below the HM Treasury threshold for extended procedures.

Audit Approach

Fees for our work as the appointed auditor

Fees for 2022-23 are based on issues we have encountered that have resulted in additional work requirements. Our fees for 2022/23 are subject to approval from PSAA.

Area of work	2021/22 final fees	2022/23 fees
<i>Recurring fees due to changes in standards and auditor requirements:</i>		
Planned fee in respect of our work under the Code of Audit Practice (scale fee)	£116,057	£116,057
Additional testing in respect of property plant and equipment	£10,000	£10,000
Additional testing in respect of defined benefit pension valuations	£3,000	£3,000
Additional testing in respect of new audit standards (ISA220, ISA540, ISA570)	£5,547	£5,547
Additional work in respect of changes to Value for Money Code of Audit Practice	£10,000	£10,000
Additional work in respect of new audit standards (ISA315R)	-	£5,000
<i>Additional fees due to auditor requirements to address risks:</i>		
• Infrastructure assets	£9,520	£5,000
• National pensions issue (IFRIC 14)	£4,290	£7,000
• Lowering performance materiality	-	£40,000
• Value for Money risks and significant weakness	£55,205	£20,000
• Property plant and equipment and investment property valuations	£47,470	£25,000
• Inventory valuations	£19,555	-
• Intangibles valuation	£13,015	-
• Data migration	£30,100	£15,000
• Defined benefit pension liability valuations	-	£15,000
• Debtors testing	-	£5,000
• Related parties testing	-	£2,000
• Poor working papers and delayed working papers	-	£15,000
Total fees	£323,759	£298,604

Audit Approach

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.

Area of work	2021/22 fees	2022/23 fees
Housing benefit subsidy assurance	£18,300	£21,000
Teachers' pension return assurance	£3,700	£4,300
Pooled housing capital receipts assurance	£4,250	-
Total fees	£26,250	£25,300

Appendices

A: Further information on our audit of the financial statements

Significant findings

Significant findings, including key areas of management judgement

In this section we outline the significant findings from our audit. These findings include

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. We have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risk – management override of controls

Description of risk

This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.

Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.

Our audit response

We addressed this risk through performing audit work over:

- Accounting estimates impacting amounts included in the financial statements;
- Consideration of identified significant transactions outside the normal course of business; and
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
- Our work on journals included identifying and analysing the total population of journals posted by the Council during the year and as part of the account's preparation process. We identified a

range of fraud risk factors that we then applied to the population and tested the validity of any journals that we identified for testing. We outline a summary of the risk factors, the number we identified and the outcome of our testing.

Analysis of our work performed

The analysis below details the Council's posting pattern for the number of lines posted to the general ledger month by month in the form of manual journals.



In total, 109,562 lines were manually posted to the ledger. The analysis above demonstrates a clear peak in the final month due to journals being posted as part of the year end accounts closedown process.

We analysed the 109,562 against our 'high risk criteria'. This identified a sample of 474 lines that displayed characteristics indicating that they could be subject to management override of control. These lines were subject to detailed testing. This involved agreement of the selected items back to sufficient appropriate evidence. This work did not identify any instances of management override of control. In line with our risk criteria, we did identify journals posted with no description. As a result, a control recommendation has been included in section 5 of this report.

Following the completion of our audit work, we performed a full stand back assessment of the material estimates tested as part of our wider audit. None of them display characteristics of management bias. We have not identified any significant transactions outside the normal course of business.

Audit conclusion

We have completed our planned procedures and have no matters to report in respect of the risk of management override of controls.

Significant findings

Significant risk – valuation of net defined benefit pension liability

Description of risk

The net pension liability represents a material element of the Council's balance sheet as the Council is an admitted body of the Harrow Pension Fund.

The valuation of the Local Government Pension Scheme relies on several assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. There are financial assumptions and demographic assumptions used in the calculation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year or updated to reflect any changes.

There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2022/23.

Our audit response

The procedures we performed to address the risk were:

- critically evaluating the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements;
- Challenging the reasonableness of the Actuary's assumptions that underpin the relevant entries made in the financial statements, using an expert commissioned by the National Audit Office;
- critically assessing the competency, objectivity and independence of the Actuary;
- liaising with the auditors of the Pension Fund to gain assurance that the overall procedures and controls in place at the Pension Fund are operating effectively;
- reviewing a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets and evaluated whether the outcome of their work would affect our consideration of the Council's share of Pension Fund assets.
- reviewing the actuarial allocation of Pension Fund assets to the Council by the Actuary, including comparing the Council's share of the assets to other corroborative information.
- comparing assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office; and

- agreeing data in the Actuary's valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council's financial statements.

Analysis of our work performed

The net defined benefit pension liability represents £178,430k of the Council's long-term liabilities on its balance sheet.

Key to our audit work is the assessment of key assumptions applied by the actuary. Our work on these is summarised in the table below:

Assumption	Applied by actuary	Consulting actuary view	Appropriate?
Discount rate	4.75%	Falls towards the prudent end of the acceptable range	✓ <input type="checkbox"/>
Pension increase rate (CPI)	3.00%	Falls in the middle of the acceptable range	✓ <input type="checkbox"/>
Salary increase rate	4.00%	Falls towards the prudent end of the acceptable range	✓ <input type="checkbox"/>
Mortality (current / future)	Male: 21.9 / 22.8 Female: 24.5 / 26.2	The approach aligns results in a reasonable best estimate	✓ <input type="checkbox"/>

Alongside the challenge of assumptions applied by the Council's actuary, we also rely on the work of the London Borough of Harrow Pension Fund auditor to provide assurance over the Council's share of investment asset values.

This resulted in the identification of an error totalling £7.5m that arose due to the initial valuation being based on estimated pension fund investment asset returns. Management have since obtained an updated valuation based on actual investment asset returns.

Audit conclusion

We have completed our planned procedures and have identified one material error that is reported above and in section 07 of this report. This has been amended by management.

Significant findings

Significant risk – valuation of property, plant and equipment and investment property

Description of risk

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

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

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

Our audit response

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

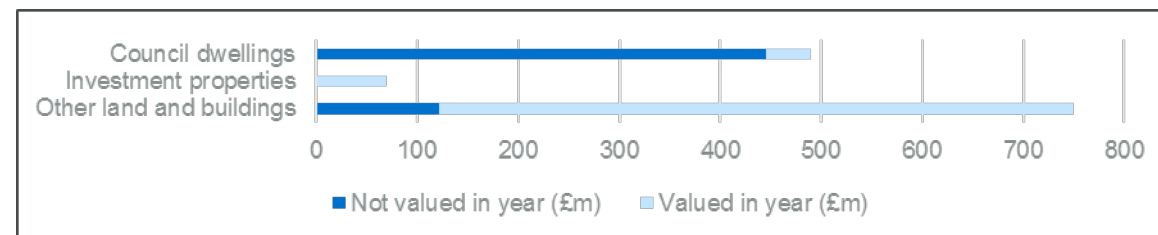
In addition, for those assets which have been revalued during the year we have:

- assessed the valuer's qualifications;
- assessed the valuer's objectivity and independence;
- reviewed the methodology used;
- performed testing of the associated underlying data and assumptions; and
- ensured the accounting treatment of the valuation and associated movements is compliant with relevant accounting framework.

We have also followed up on control recommendations made during the 2021/22 audit regarding property, plant and equipment and investment property valuations. We have reviewed the approach adopted by the Council to assess the risk that assets not subject to valuation at year end are not materially misstated and considered the robustness of that approach.

Analysis of our work performed

The Council's Land and building portfolio is made of 3 key components: Other land and buildings (£750m), investment property (£69m) and Council dwellings (£490m). The graphic below highlights the proportion of this portfolio that was valued during 2022/23:



The balance of other land and buildings not revalued was considered against appropriate index movements since the last date of valuation. This indicated a potentially material impact of not valuing these assets. The Council have since appropriately adjusted the value of these assets in the statement of accounts based on indexation, resulting in an upward amendment of £11.7m.

Our testing of other land and building and investment property valuations performed during the year identified a material misstatement due to the application of inappropriate land values. This resulted in a downward amendment of £139m to other land and buildings and £0.1m to investment properties. In addition to this, several schools had inappropriate rates of build costs applied by the valuer resulting in an upward amendment of £10.4m. A further error was identified during our investment property testing whereby the valuers had not provided an updated valuation for a single asset, resulting in a downward amendment of £3.9m. Our testing of dwellings valuations performed in year did not identify any amendments.

We identified a small number of misstatements that we do not deem significant enough to require amendment in our testing of other land and buildings and dwellings valuations. These have been reported in section 07 of this report.

Audit conclusion

We have completed our planned procedures and have identified material errors that are reported above and in section 07 of this report. These have been amended by management.

Significant findings

Significant risk – migration of payroll data

Description of risk

The Council's payroll system is integrated within the HR module of the ledger system. Data was migrated across from the SAP HR module to the Dynamics 365 HR module during the period from 05/03/2022 – 25/04/2022.

There is a risk that the migration will not capture all data held in the prior system. The omission of such data could ultimately lead to material misstatement within the financial statements. The implementation of a new system also poses a significant risk to the integrity and validity of the Council's reporting if change management processes are not robust, and the new system is not correctly tested and implemented.

There is a further risk the migration leads to a loss of data and payroll records during transfer. Such a loss of data may result in a risk that during the audit, we are unable to obtain sufficient and appropriate third part evidence to support transactions entered by the Council.

Our audit response

We have addressed this risk by completing the following procedures:

- reviewing project governance controls to confirm that approach project management controls were in place to ensure an effective cutover.
- reviewing the Council's reconciliation of old system closing balances to the new system opening balances.

We have not deemed it necessary to formally engage an internal IT specialist to perform work around the data migration process.

Analysis of our work performed

Our review of project governance controls considered 8 key themes. A summary of these key themes, the objective of the testing performed against those themes, and the outcome of the testing is summarised in the following graphic:

Theme	Objective	Outcome
Project business case	The aims and business worthiness or the project are documented and assessed	✓ <input type="checkbox"/>
Design requirements	Requirements of the proposed system are considered and approved	✓ <input type="checkbox"/>
Project risk management	A project governance team is in place and suitably skilled and resourced	✓ <input type="checkbox"/>
Integration and regression testing	The new system is tested, and patches identified are implemented and tested	✓ <input type="checkbox"/>
User training	System users are appropriately trained to use the new platform	✓ <input type="checkbox"/>
Data migration	Data is migrated from the legacy system and suitably tested and reconciled	✓ <input type="checkbox"/>
User communication	Implementation of the new system is clearly communicated to stakeholders	✓ <input type="checkbox"/>
Release management	Approval for go-live and phased release	✓ <input type="checkbox"/>

To support our financial audit work, we performed detailed reviews and testing of the data migration between the legacy system and new system for all relevant data sets, including salary, pensions, position and HR related data. No issues were identified.

Audit conclusion

We have completed our planned procedures and have no matters to report in respect of the risk of migration of payroll data.

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