

**MEETING**

**AUDIT COMMITTEE**

**DATE AND TIME**

**TUESDAY 29TH JULY, 2014**

**AT 6.00 PM**

**VENUE**

**HENDON TOWN HALL, THE BURROUGHS, NW4 4BG**

**TO: MEMBERS OF AUDIT COMMITTEE (Quorum 3)**

Chairman: Councillor Brian Salinger

Vice Chairman: Councillor Sury Khatri

**Councillors**

Geof Cooke  
Kathy Levine

Arjun Mittra  
Gabriel Rozenberg

Peter Zinkin

**Substitute Members**

Melvin Cohen  
Eva Greenspan

Anne Hutton  
John Marshall

Alan Schneiderman

**Independent Members:**

Richard Harbord

Debra Lewis

**You are requested to attend the above meeting for which an agenda is attached.**

**Andrew Nathan – Head of Governance**

Governance Services contact:

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Media Relations contact: Sue Cocker 020 8359 7039

**ASSURANCE GROUP**

## ORDER OF BUSINESS

| Item No | Title of Report   | Pages   |
|---------|---|---------|
| 1.      | Absence of Members (If any)   |         |
| 2.      | External Auditor's Report under International Standard on Auditing (ISA) 260 for the year 2013/14 | 1 - 106 |
| 3.      | Any item(s) the Chairman decides are urgent   |         |

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|   |   |
|---|---|
|   | AGENDA ITEM 2<br><br><h2 style="text-align: center;">Audit Committee<br/>22 July 2014</h2>  |
| <p style="text-align: center;"><b>Title</b></p>                   | <p><b>External Auditor’s Report under International Standard on Auditing (ISA) 260 for the year 2013/14</b></p>   |
| <p style="text-align: center;"><b>Report of</b></p>               | <p>Chief Operating Officer and Director of Finance</p>  |
| <p style="text-align: center;"><b>Wards</b></p>                   | <p>All</p>  |
| <p style="text-align: center;"><b>Status</b></p>                  | <p>Public</p>   |
| <p style="text-align: center;"><b>Enclosures</b></p>              | <p>Appendix A – Draft Pension Fund Accounts 2013/14<br/>                 Appendix B – ISA 260 report for the Statement of Accounts 2013/14<br/>                 Appendix C– ISA 260 report for The Pension Fund 2013/14</p> |
| <p style="text-align: center;"><b>Officer Contact Details</b></p> | <p>Paul Thorogood – Assistant Director of Finance, CSG Finance Service<br/> <a href="mailto:Paul.Thorogood@capita.co.uk">Paul.Thorogood@capita.co.uk</a><br/>                 07725 652910</p>                              |

|   |
|---|
| <h2>Summary</h2>  |
| <p>The audit is substantively complete and is being reported to Audit Committee two months earlier than required. Grant Thornton anticipate providing an unqualified opinion on the Council’s financial statements.</p> <p>In accordance with International Standard on Auditing (ISA) 260, the external auditor is required to issue detailed reports on matters arising from the audit of the council’s accounts and pension fund accounts. The final report of the auditors will be provided at the meeting. The salient points are noted below.</p> <p>The ISA 260 report has to be considered by “those charged with governance” before the external auditor can sign the accounts, which legally has to be done by 30 September 2014.</p> <p>Grant Thornton were presented with the draft financial statements on 31 May 2014 and accompanying working papers on 9 June 2014 and recognised that the Capita Customer Support Group finance team worked with their audit team effectively throughout the course of</p> |

the audit to progress testing and respond to audit queries. They also recognised that the good working papers were provided.

Grant Thornton have not identified any adjustments affecting the Council's financial position. They have identified a number of minor disclosure changes, none of which changed the financial results previously reported in the draft financial statements (published on 31st May 2014) or the outturn reported to the Performance and Contracts Committee on 11th June 2014.

The key messages arising from the audit of the financial statements are:

- Assurance was gained that the Council had adopted appropriate accounting policies regarding revenue recognition and testing supported compliance with the policies
- Assurance was gained that all provisions had appropriate supporting evidence and were in accordance with the requirements of the Code.
- There was no evidence of management override of controls or creditors being understated or not recorded in the correct period

Grant Thornton are presenting their Audit Findings Report to the Council's Pension Fund Committee on 29th July. Grant Thornton expect to give an unqualified opinion on the pension fund accounts.

In providing the opinion on the financial statements, Grant Thornton are required to reach a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources (the Value for Money Conclusion). Grant Thornton expect to present an unqualified Value for Money Conclusion.

The ISA 260 report contains matters raised by the auditor, their recommendations on the issues, and the management response. Any further update on these items will be given verbally at the meeting along with the final audited Statement of Accounts 2013/14. To assist Members in reviewing the external auditor's comments the draft Statement of Accounts 2013/14 can be found at:

[http://www.barnet.gov.uk/download/downloads/id/3545/draft\\_statement\\_of\\_accounts\\_201314](http://www.barnet.gov.uk/download/downloads/id/3545/draft_statement_of_accounts_201314) and the Pension Fund accounts can be found in Appendix A.

## **Recommendations**

- 1. That the Committee approve the audited Statement of Accounts and Pension Fund for 2013/14 and they be signed by the Chairman and the Chief Operating Officer/Director of Finance on behalf of the Council and the associated Letter of Representations.**
- 2. That the matters raised by the external auditor relating to detailed aspects of the 2013/14 accounts audit, including the pension fund accounts, be noted.**
- 3. That the officer response to matters raised by the external auditor be noted.**
- 4. That the Committee consider whether there are any areas on which they require additional information or action.**
- 5. That the Committee, following approval of the recommendations above and the Annual Governance Statement (considered elsewhere on the agenda) approve the Chief Operating Officer/Director of Finance to amalgamate the three documents and to publish these as one consolidated 'Statement of Accounts 2013/14'.**

### **1. WHY THIS REPORT IS NEEDED**

- 1.1 Under Section 151 Local Government Act 1972- "...every local authority shall make arrangements for the proper administration of their financial affairs. Additionally in accordance with International Standard on Auditing (ISA) 260, the external auditor is required to issue detailed reports on matters arising from the audit of the council's accounts and pension fund accounts. The final report of the auditors will be provided at the meeting

### **2. REASONS FOR RECOMMENDATIONS**

- 2.1 So that the Council can meet its legal obligation to produce Audited statement of accounts including its Pension Fund.

### **3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED**

- 3.1 None

### **4. POST DECISION IMPLEMENTATION**

- 4.1 None

### **5. IMPLICATIONS OF DECISION**

#### **5.1 Corporate Priorities and Performance**

Review of reports made under the International Standard on Auditing (ISA) 260 are an integral part of corporate governance. This is in line with Barnet's Corporate Plan within "Better services with less money".

#### **5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

5.2.1 The Statement of Accounts shows the financial position of the council as at 31 March 2014 and its Pension Fund to the same date.

### **5.3 Legal and Constitutional References**

5.3.1 Section 151 Local Government Act 1972- "...every local authority shall make arrangements for the proper administration of their financial affairs

5.3.2 The Council is a public authority that is subject to the audit of its annual accounts by an external auditor appointed by the Audit Commission, under the provisions of the Audit Commission Act 1998.

5.3.3 The Council's Constitution, Responsibility for Functions - the functions of the Audit Committee are detailed and include "To consider the external auditor's annual letter, relevant reports and the report to those charged with governance".

### **5.4 Risk Management**

5.4.1 A positive external audit opinion on Barnet's Statement of Accounts plays an essential and key role in providing assurance that Barnet's financial risks are managed in an environment of sound stewardship and control.

### **5.5 Equalities and Diversity**

5.5.1 Accurate financial reporting is important to ensure the management of resources to enable the equitable delivery of services to all members of the community and to reduce the differential impact of the services received by all of Barnet's diverse communities

### **5.6 Consultation and Engagement**

5.6.1 The Council's Constitution, Responsibility for Functions - the functions of the Audit Committee are detailed and include "To consider the external auditor's annual letter, relevant reports and the report to those charged with governance".

## **6. BACKGROUND PAPERS**

6.1 None.

## Pension Fund Account

|   | Note | 2013/14       |               | 2012/13       |               |
|---|------|---------------|---------------|---------------|---------------|
|   |      | £000's        | £000's        | £000's        | £000's        |
| <b>Contributions and Benefits</b>               |      |               |               |               |               |
| Contributions Receivable                        | 3    | 52,207        |               | 53,999        |               |
| Transfer in                                     | 4    | 2,591         |               | 2,670         |               |
| Other income                                    |      | 24            |               |               |               |
|   |      | <u>54,822</u> | <u>54,822</u> | <u>56,669</u> | <u>56,669</u> |
| Benefits Payable Account                        | 5    | 44,874        |               | 43,648        |               |
| Payments to and on behalf of Leavers            | 6    | 3,818         |               | 2,636         |               |
| Administrative Expenses                         | 7    | 1,088         |               | 1,023         |               |
|   |      | <u>49,780</u> | <u>49,780</u> | <u>47,307</u> | <u>47,307</u> |
| <b>Net additions from dealings with members</b> |      |               |               |               |               |
|   |      |               | 5,042         |               | 9,362         |
| <b>Return on investments</b>                    |      |               |               |               |               |
| Investment income                               | 8    | 58            |               | 68            |               |
| Change in market value of investments           | 9    | 27,963        |               | 78,273        |               |
| Investment management expenses                  | 11   | (1,620)       |               | (1,851)       |               |
| <b>Net returns on investments</b>               |      | <u>26,402</u> | <u>26,402</u> | <u>76,490</u> | <u>76,490</u> |
| <b>Net increase in the fund during the year</b> |      |               | <u>31,444</u> |               | <u>85,852</u> |

## Net Assets of the Scheme

|             | 2013/14        | 2012/13        |
|-------------|----------------|----------------|
|             | £000's         | £000's         |
| At 1 April  | 798,337        | 712,485        |
| At 31 March | <u>829,782</u> | <u>798,337</u> |

## Net Assets Statement

|                     | Note | 2013/14        | 2012/13        |
|---------------------|------|----------------|----------------|
|                     |      | £000's         | £000's         |
| Investment assets   | 9    | 819,561        | 791,598        |
| Current assets      | 12   | 12,990         | 13,788         |
| Current liabilities | 13   | (2,769)        | (7,049)        |
|                     |      | <u>829,782</u> | <u>798,337</u> |

## Notes to the Pension Fund Accounts for the year ended 31 March 2014

### 1. Introduction

The London Borough of Barnet Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS). The Fund is administered by the London Borough of Barnet (LBB) and the Council is the reporting entity for the Fund.

The day to day administration of the fund and the operation of the management arrangements and investment portfolio are delegated to the Chief Operating Officer and Director of Finance of the Council.

Further details of the management, operation and investment objectives of the fund are provided in the Fund's Annual Report for 2013/14, the Actuary's report (contained in Appendix 2 to these accounts), the Superannuation Act 1972 and the LGPS regulations which provide the underlying statutory powers underpinning the scheme.

#### General

The Fund is operated as a funded, defined benefit occupational pension scheme which provides for the payment of benefits to former employees of LBB and those bodies admitted to the Fund referred to as "members". The benefits include not only retirement pensions, but also widows pensions, death grants and lump sum payments.

The Fund is financed by contributions from members, employees and the interest and dividends from the Fund's investments. The funding policy aims to ensure that the assets held by the scheme in the future are adequate to meet accrued liabilities allowing for future increases in pay and pensions.

The Fund's accounts provide information on the financial position, investment performance and risk showing the results of the Council's stewardship in managing the resources entrusted to it. The fund is overseen by the Pension Fund Committee which is specifically set up as a committee of the London Borough of Barnet Council.

#### Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements (except teachers, who have a separate scheme). Organisations participating in the Fund are set out below and are classed as admitted and scheduled bodies:

#### **Admitted Bodies – organisations that participate in the Fund under an admission agreement between the Fund and the organisation; these include organisations undertaking a local authority function following the outsourcing of that service:**

|                                       |                         |
|---------------------------------------|-------------------------|
| BEAT (The Music Service)              | Mears Group             |
| Birkin Services                       | NSL Ltd                 |
| Birkin - St. James                    |                         |
| Blue 9 Security                       | Personnel and Care Bank |
| Fremantle Trust (2)                   | Viridian Housing        |
| Friends Moat Mount                    |                         |
| Capita CSG (Customer & Support Group) |                         |
| Capita RE (Regional Enterprise)       |                         |
| Go Plant Hire                         |                         |
| Housing 21 (2)                        |                         |
| London Care                           |                         |



Barnet Voluntary Service Council  
Enterprise Cleaning

Barnet MENCAP  
KGB Cleaning Services Ltd.

**Scheduled Bodies –local authorities and similar bodies whose staff are automatically entitled to be members of the Fund:**

|                                       |                                |
|---------------------------------------|--------------------------------|
| Alma Primary                          | London Academy                 |
| Archer Academy                        | Mapledown School               |
| Ashmole                               | Martin Primary School          |
| LB Barnet                             | Mathilda Marks                 |
| Barnet College                        | Menorah Foundation             |
| Barnet Homes                          | Middlesex University           |
| Barnfield School                      | Mill Hill County School        |
| Bishop Douglass                       | Monkfrith School               |
| Broadfields Primary                   | Osidge School                  |
| Christ Church                         | Parkfield Primary School       |
| Christ College                        | Queen Elizabeth Boys           |
| Compton School (Academy)              | Queen Elizabeth Girls          |
| Copthall School (Academy)             | Rimon Jewish Primary           |
| Danegrove School                      | Rosh Pinah                     |
| Deansbrook Junior                     | St. Andrew the Apostle School  |
| Dollis Junior                         | St James' Catholic High School |
| East Barnet School                    | St John's & St Mary's Primary  |
| Etz Chaim Jewish Primary              | St Michael's Grammar           |
| Fairway School                        | The Hyde                       |
| Finchley Catholic                     | Totteridge Academy             |
| Friern Barnet School                  | Underhill Infant               |
| Gravesnor Avenue Primary<br>(Academy) | Whitefield School              |
| Hasmonean High                        | Woodhouse College              |
| Hendon School                         | Wren Academy                   |
| Henrietta Barnett                     | Your Choice Barnet Ltd         |
| Independent Jewish Day School         |                                |

Contributions made by employees are tiered, related to salary and they range from 5.5% to 7.5%. These rates are applicable to all employees including manual workers.

The number of employees contributing to the fund increased during the year from 6,660 to 7,802 at 31 March 2014\*. During the same period the number of pensioners decreased from 6,772 to 6,727 and the number of deferred pensioners increased from 7,977 to 8,427.

\*The numbers of members have been extracted from the underlying membership records in the live system as at 31 March 2014; including the comparative figures. An analysis of membership movement in the year is provided in note 19 of these accounts.

A government scheme supplies teachers' pensions and as such they are not provided for under these arrangements.

## **2. Accounting Policies**

### **Accounting Standards**

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and follow the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes supported by International Financial Reporting Standards (IFRS).

## **Basis of Preparation**

### **Accruals Concept**

The financial statements are prepared on an accruals basis except in the case of transfer values, which are debited or credited in the year of payment or receipt in accordance with recommended practice. Investment income is taken into account where dividends are declared but not paid at the financial year end.

The financial statements summarise the transactions of the scheme and the net assets of the fund. The financial statements do not take account of liabilities to pay pension and other benefits after the financial year end. The actuarial position of the scheme, which does take account of such obligations, is dealt with in note 16 and these financial statements should be read in conjunction with them.

Investments are shown in the Net Asset Statement at Fair Value. Fair Value has been determined as:

- a) Listed securities and securities on the Unlisted Securities Market (USM) are determined by Stock Exchange current bid prices at 31 March 2013.
- b) Unit trust investments are stated at the latest prices quoted by their respective managers as at 31 March 2013.
- c) Transactions in foreign currencies are taken into account at the ruling rate of exchange at the time of the transaction and in the financial statements at the rates prevailing on 31 March 2013.
- d) Withholding tax reclaims received for accumulation funds and all changes in value, including reinvested income and growth in the value of the underlying securities are aggregated and shown as changes in market value of the investments in the Fund Account.

### **Sale and Purchase of Investments**

The purchase and sale of investments is delegated to the fund managers and all settlements are accrued on the day of trading (the costs of acquiring investments are included in the value of the assets). The main fund managers are: Schroder Investment Management, Newton with the remaining funds held with Legal and General.

Investment Management are required to produce a return on investment within benchmarks set by the Authority. These restrictions and the fund managers analysis of the assets and issuing bodies, dictates the timing of sales and purchases of investments. The fund does not participate in stock lending arrangements.

### **Administration Expenses**

Administration expenses are calculated as a percentage of the London Borough of Barnet's expenses plus the direct costs of the Pensions section within the Human Resources Department.

### **Benefits Payable**

Benefits are provided in accordance with the provisions of the Local Government Pension Scheme. Benefits are accounted for in the period in which they fall due. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

### Contribution Income

Normal contributions both from the members and from the employer are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classified as a current financial asset.

### Investment Income

- i. **Interest Income:** Interest income is recognised in the fund as it accrues, using the effective interest rate of the financial instrument as at the date of the financial instrument and its amount as at the date of acquisition or origination. Income includes the amount of any amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis
- ii. **Dividend Income:** Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
- iii. **Distribution from pooled funds:** Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
- iv. **Movement in the net market value of investments:** Changes in the net market value of investments are recognised as income and comprise all realised profits/losses during the year.

### Cash and cash equivalents accounting policy

Cash comprises cash in hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

### Related party disclosure

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2) – (4) of the Accounts and Audit (England) Regulations 2011) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the London Borough of Barnet Pension Fund.

### Taxation

The Fund is an exempt approved fund and therefore not liable for UK income tax or capital gains tax. As the London Borough of Barnet is the administrating authority of the fund, VAT input tax is recoverable on all fund activities.

Taxation agreements exist between Britain and a number of countries whereby all or a proportion of the tax deducted locally from investment income may be reclaimed. The proportion reclaimable varies from country to country. Non-recoverable deductions are classified as withholding tax.

## Investment Management Expenses

All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the value of these investments change. The cost of obtaining investment advice from external consultants is included in investment management expenses.

## Assumptions made about the future and other major sources of uncertainty

The statement of accounts contains estimated figures that are based on assumptions made by the Council about the future, or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However as balances cannot be determined with certainty, actual result could be materially different as follows:

## Actuarial present value of promised retirement benefits

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are protected to increase changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund managers with expert advice about the assumptions to be applied

### 3. Contributions Receivable

|                            | 2013/14<br>£000's | 2012/13<br>£000's |
|----------------------------|-------------------|-------------------|
| <b>Employers</b>           |                   |                   |
| Council                    | 22,759            | 22,654            |
| Scheduled bodies           | 16,493            | 16,968            |
| Admitted bodies            | 2,930             | 4,729             |
|                            | <b>42,182</b>     | <b>44,351</b>     |
| <b>Members</b>             |                   |                   |
| Council                    | 5,110             | 5,581             |
| Scheduled bodies           | 3,988             | 3,713             |
| Admitted bodies            | 927               | 354               |
|                            | <b>10,025</b>     | <b>9,648</b>      |
| <b>Total Contributions</b> | <b>52,207</b>     | <b>53,999</b>     |

### 4. Transfers In

|  | 2013/14<br>£000's | 2012/13<br>£000's |
|--|-------------------|-------------------|
| Individual transfers in from other schemes | 2,591             | 2,670             |

### 5. Benefits Payable

|  | 2013/14<br>£000's | 2012/13<br>£000's |
|--|-------------------|-------------------|
|--|-------------------|-------------------|

|                                    |               |        |
|------------------------------------|---------------|--------|
| Pensions                           | <b>38,106</b> | 36,364 |
| Commutations and lump sum payments | <b>5,783</b>  | 6,361  |
| Lump sum death benefits            | <b>985</b>    | 923    |
|                                    | <b>44,874</b> | 43,648 |

## 6. Payments to and on Account of Leavers

|                                       | 2013/14<br>£000's | 2012/13<br>£000's |
|---------------------------------------|-------------------|-------------------|
| Refunds to members leaving service    | <b>8</b>          | 13                |
| Group transfers to other schemes      | -                 | -                 |
| Individual transfers to other schemes | <b>3,810</b>      | 2,623             |
|                                       | <b>3,818</b>      | 2,636             |

## 7. Administrative Expenses

|                               | 2013/14<br>£000's | 2012/13<br>£000's |
|-------------------------------|-------------------|-------------------|
| Administration and processing | <b>957</b>        | 923               |
| Actuarial fees                | <b>100</b>        | 66                |
| Audit fees                    | <b>31</b>         | 20                |
|                               | <b>1,088</b>      | 1,009             |

All other costs of administration are borne by the London Borough of Barnet.

## 8. Investment Income

|                                  | 2013/14<br>£000's | 2012/13<br>£000's |
|----------------------------------|-------------------|-------------------|
| Income from property unit trusts | -                 | -                 |
| Interest on cash deposits        | <b>25</b>         | 26                |
| Other income                     | <b>33</b>         | 42                |
|                                  | <b>58</b>         | 68                |
| Irrecoverable withholding tax    | -                 | -                 |
| Total investment income          | <b>58</b>         | 68                |

## 9. Investments

| 2013/14 | Value at<br>1/4/2013 | Purchases<br>at Cost | Sales<br>Proceeds | Unrealis<br>-ed gain | Change<br>in Market<br>Value | Value at<br>31/3/2014 |
|---------|----------------------|----------------------|-------------------|----------------------|------------------------------|-----------------------|
|---------|----------------------|----------------------|-------------------|----------------------|------------------------------|-----------------------|

|                            | £000's         | £000's       | £000's         | £000's    | £000's        | £000's         |
|----------------------------|----------------|--------------|----------------|-----------|---------------|----------------|
| Pooled investment vehicles | <b>790,106</b> | <b>6,887</b> | <b>(6,300)</b> | <b>68</b> | <b>27,963</b> | <b>818,587</b> |
|                            | <b>790,106</b> | <b>6,887</b> | <b>(6,300)</b> | <b>68</b> | <b>27,963</b> | <b>818,587</b> |
| Cash Deposits              | <b>1,492</b>   |              |                |           |               | <b>974</b>     |
|                            | <b>791,598</b> |              |                |           |               | <b>819,561</b> |

| 2012/13                    | Value at 1/4/2012 | Purchases at Cost | Sales Proceeds | Unrealised losses | Change in Market Value | Value at 31/3/2013 |
|----------------------------|-------------------|-------------------|----------------|-------------------|------------------------|--------------------|
|                            | £000's            | £000's            | £000's         | £000's            | £000's                 | £000's             |
| Pooled investment vehicles | 702,409           | 23,033            | (13,136)       | (473)             | 78,273                 | 790,106            |
|                            | 702,409           | 23,033            | (13,136)       | (473)             | 78,273                 | 790,106            |
| Cash Deposits              | 1,221             |                   |                |                   |                        | 1,492              |
|                            | <b>703,630</b>    |                   |                |                   |                        | <b>791,598</b>     |

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year as any income attributed to the unitised funds are reinvested and accounted for as a change in market value as opposed to income.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. There are also transaction costs incurred on behalf of the unitised funds, but these are reflected in the unit cost. In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

All the financial instruments of the fund are classified as level 1, where their fair values are derived from unadjusted quoted prices for identical assets or liabilities. The carrying value of investments is not materially different to their fair value. The carrying amount of investments held under management by the Fund's investment managers at year end including cash deposits totalled £819.561 million. This was split as follows:

| Investment Portfolio           | 2013/14       |              |
|--------------------------------|---------------|--------------|
|                                | £000's        | %            |
| Schroder Investment Management | <b>375,26</b> | <b>45.8</b>  |
|                                | <b>9</b>      |              |
| Newton Investment Management   | <b>383,45</b> | <b>46.8</b>  |
|                                | <b>2</b>      |              |
| Legal & General                | <b>60,840</b> | <b>7.4</b>   |
|                                | <b>819,56</b> |              |
|                                | <b>1</b>      | <b>100.0</b> |

## Major Investments

The fund investments are all held in pooled funds. The following investments represent more than 5% of the net assets of the scheme:

| Value<br>£000's | 2012/13<br>as % of<br>investment<br>assets |   |
|-----------------|--|---|
| 252,864         | 31.94                                      | Newton Real Return Fund                     |
| 118,908         | 15.02                                      | Newton Long Corporate Bond Fund             |
| 243,716         | 30.79                                      | Schroder Life Diversified Growth Fund       |
| 113,904         | 14.39                                      | Schroder All Maturities Corporate Bond Fund |
| 40,214          | 5.08                                       | Legal and General Index Linked Tracker Fund |
| <b>769,606</b>  |  |   |

| Value<br>£000's | 2013/14<br>as % of<br>investment<br>assets |
|-----------------|--|
| 257,787         | 31.45                                      |
| 120,499         | 14.7                                       |
| 256,539         | 31.3                                       |
| 118,081         | 14.41                                      |
| 43,305          | 5.28                                       |
| <b>796,211</b>  | <b>97.14</b>                               |

#### Pooled investment Vehicles

UK Managed funds  
UK Unit Trusts

#### Cash Deposits

Sterling

| 2013/14<br>£000's | 2012/13<br>£000's |
|-------------------|-------------------|
| 757,747           | 732,734           |
| 60,840            | 57,372            |
| <b>818,587</b>    | <b>790,106</b>    |
| 974               | 1,492             |
| <b>819,561</b>    | <b>791,598</b>    |

#### Pooled Investment Vehicles

Both Schroders and Newton run their portfolios on a unitised or pooled basis, the underlying economic exposure to asset classes for each manager are detailed below:

| <b>Newton as at 31 March 2014</b>     | <b>Long Corporate Bond</b> | <b>Long Gilt</b> | <b>Index-Linked Gilt</b> | <b>Global Dynamic Bond</b> | <b>Real Return</b> |
|---------------------------------------|----------------------------|------------------|--------------------------|----------------------------|--------------------|
| <b>EQUITIES</b>                       |                            |                  |                          |                            |                    |
| UK                                    | -                          | -                | -                        | -                          | 14.7               |
| North America                         | -                          | -                | -                        | 0.01                       | 17.32              |
| Europe ex UK                          | -                          | -                | -                        | -                          | 21.94              |
| Japan                                 | -                          | -                | -                        | -                          | 1.67               |
| Asia ex Japan                         | -                          | -                | -                        | 0.11                       | 2.59               |
| Other                                 | -                          | -                | -                        | 0.09                       | 2.03               |
| <b>Total Equities</b>                 | <b>0</b>                   | <b>0</b>         | <b>0</b>                 | <b>0.21</b>                | <b>60.25</b>       |
| <b>FIXED INTEREST</b>                 |                            |                  |                          |                            |                    |
| UK Gilts                              |                            | 91.66            | 93.21                    | 3.89                       | 0.95               |
| UK Index Linked Gilts                 | -                          | -                | -                        | 4.05                       | 1.23               |
| UK Corporate Bonds                    | 59.32                      | 2.3              | 3.99                     | 18.16                      | 1.98               |
| Overseas Government Bonds             |                            | 1.87             |                          | 26.6                       | 14.79              |
| Overseas Corporate Bonds              | 37.49                      | 2.27             | 1.13                     | 40.65                      | 9.54               |
| Overseas Index Linked Corporate Bonds |                            | 1.9              | 1.13                     |                            | 0.44               |
| <b>Total Fixed Interest</b>           | <b>96.81</b>               | <b>100</b>       | <b>99.46</b>             | <b>93.35</b>               | <b>28.93</b>       |
| <b>OTHER ASSETS</b>                   |                            |                  |                          |                            |                    |
| Commodities                           | -                          | -                | -                        | -                          | 2.82               |
| Derivatives                           | -                          | -                | -                        | -9.49                      | 0.05               |
| Other assets                          | -                          | -                | -                        | -                          | -                  |
| Cash                                  | 3.19                       | -                | 0.54                     | 15.93                      | 7.95               |
| <b>Total Other Assets</b>             | <b>3.19</b>                | <b>0</b>         | <b>0.54</b>              | <b>6.44</b>                | <b>10.82</b>       |
| <b>Total Assets</b>                   | <b>100</b>                 | <b>100</b>       | <b>100</b>               | <b>100</b>                 | <b>100</b>         |

|   | <b>Schroder Diversified Growth Fund</b> | <b>Schroder All Maturities Corporate Bond</b> |
|---|---|---|
| <b>Equities</b>                             |   |   |
| Schroder QEP Global Dynamic Blend Portfolio | 17.6                                    | -   |
| Quality Yield Equity Basket                 | 3.2                                     | -   |
| Shareholder Focus Basket                    | 2                                       | -   |
| Schroder European Alpha Plus Fund           | 3                                       | -   |
| Schroder ISF Asian Equity Yield             | 2.3                                     | -   |
| Passive Equities                            | 23.2                                    | -   |
|   | <b>51.3</b>                             | <b>-</b>                                      |
| <b>Commodities</b>                          |   |   |
| ETF Gold                                    | 1.9                                     | -   |



|   |             |       |
|---|-------------|-------|
| Schroder ISF Global Energy  | 1.4         | -     |
|   | <u>3.3</u>  | -     |
| High Yield Debt   |             |       |
| Schroder ISF Global High Yield  | 4.4         | -     |
| Schroder High Yield Portfolio   | 2.6         | -     |
|   | 7           | -     |
| Emerging Market Bonds   |             |       |
| Stone Harbor Emerging Debt Fund   | 1           | -     |
| Stone Harbor Emerging Local Debt Fund                                   | 0.8         | -     |
|   | <u>1.8</u>  | -     |
| Property  |             | -     |
| Schroder UK Property Fund   | <u>3</u>    | -     |
| Absolute Return   |             |       |
| Schroder ISF Emerging Market Debt                                       | 5           | -     |
| Schroder GAIA Sirios US Equity  | 2           | -     |
| Bespoke Hedge Fund Portfolio  | 1.9         | -     |
| Diversified Trend Strategy  | 1.8         | -     |
| Gam Star Global Rates   | 1           | -     |
| Henderson UK Absolute Return Fund                                       | 1           | -     |
| Brevan Howard Macro   | 0.7         | -     |
|   | <u>13.4</u> | -     |
| Infrastructure  |             |       |
| John Laing Infrastructure Limited International Public Partnerships Ltd | 1.5         | -     |
| HICL Infrastructure Company Limited                                     | 1.2         | -     |
| Bilfinger Berger Global infrastructure                                  | 0.7         | -     |
|   | <u>0.5</u>  | -     |
|   | <u>3.9</u>  | -     |
| Other Assets  |             |       |
| Private Equity  | 0.9         | -     |
| Asset Backed Securities Portfolio                                       | 3.9         | -     |
| RWC Global Convertibles Fund  | 1.9         | -     |
| M & G European Loan Fund  | 0.4         | -     |
| Invesco US Senior Loan Fund   | 0.5         | -     |
| Insurance-Linked Securities   | 3           | -     |
| Cash  | 5.7         | -     |
| Securitized   | -           | 14.77 |
| Government Related  | -           | 8.64  |

|              |        |        |
|--------------|--------|--------|
| Corporate    | -      | 57.38  |
| Cash         | -      | 19.21  |
|              |        | <hr/>  |
|              | 100.00 | 100.00 |
| <b>Total</b> |        | <hr/>  |

## 10. AVC Investments

The Authority holds assets invested separately from the main fund in the form of individual insurance policies securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions (AVC).

Members participating in this arrangement each receive an annual statement confirming the amounts held to their account and the movements in the year.

| 2013/14<br>AVC Investments   | 2012/13<br>£000's | Contributions<br>£000's | Income<br>£000's | Expenditure<br>£000's | 2013/14<br>£000's |
|------------------------------|-------------------|-------------------------|------------------|-----------------------|-------------------|
| <b>Aviva /Norwich Union</b>  | <b>681</b>        | <b>15</b>               | <b>21</b>        | <b>-</b>              | <b>717</b>        |
| <b>Prudential</b>            |                   |                         |                  |                       |                   |
| With Profits                 | 532               | 79                      | 25               | (77)                  | 559               |
| Deposit                      | 325               | 82                      | 2                | (19)                  | 390               |
| Unit Linked                  | 665               | 120                     | 26               | (48)                  | 763               |
| <b>Total Prudential AVCs</b> | <b>1,522</b>      | <b>281</b>              | <b>53</b>        | <b>(144)</b>          | <b>1,712</b>      |
| <b>Total AVC's</b>           | <b>2,203</b>      | <b>296</b>              | <b>74</b>        | <b>(144)</b>          | <b>2,429</b>      |

| 2012/13<br>AVC Investments   | 2011/12<br>£000's | Contributions<br>£000's | Income<br>£000's | Expenditure<br>£000's | 2012/13<br>£000's |
|------------------------------|-------------------|-------------------------|------------------|-----------------------|-------------------|
| <b>Aviva /Norwich Union</b>  | <b>648</b>        | <b>20</b>               | <b>13</b>        | <b>-</b>              | <b>681</b>        |
| <b>Prudential</b>            |                   |                         |                  |                       |                   |
| With Profits                 | 507               | 84                      | 26               | (85)                  | 532               |
| Deposit                      | 289               | 63                      | 2                | (29)                  | 325               |
| Unit Linked                  | 448               | 99                      | 131              | (13)                  | 665               |
| <b>Total Prudential AVCs</b> | <b>1,244</b>      | <b>246</b>              | <b>159</b>       | <b>(127)</b>          | <b>1,522</b>      |
| <b>Total AVC's</b>           | <b>1,892</b>      | <b>266</b>              | <b>172</b>       | <b>(127)</b>          | <b>2,203</b>      |

The Aviva Additional Voluntary contributions in respect of 2013/14 are partly estimates pending the provision of final valuations by the provider based on 2012/13 actual.

## 11. Investment Management Expenses

2013/14

2012/13

|  | £000's       | £000's       |
|--|--------------|--------------|
| Administration, management and custody | 1,547        | 1,796        |
| Performance Measurement Services       | 8            | 11           |
| Other advisory fees                    | 65           | 44           |
|  | <b>1,620</b> | <b>1,851</b> |

## 12. Current Assets

|  | 2013/14<br>£000's | 2012/13<br>£000's |
|--|-------------------|-------------------|
| Contributions due from employers in respect of |                   |                   |
| Employer contributions                         | 1,292             | 1,121             |
| Member contributions                           | 354               | 225               |
| Sundry Debtors                                 | 2,180             | 2,348             |
| Cash Balances                                  | 9,164             | 10,095            |
|  | <b>12,990</b>     | <b>13,789</b>     |

## 13. Current Liabilities

|                     | 2013/14<br>£000's | 2012/13<br>£000's |
|---------------------|-------------------|-------------------|
| Unpaid Benefits     | 369               | 794               |
| Unsettled Purchases | -                 | 27                |
| Accrued Expenses    | 2,400             | 6,214             |
|                     | <b>2,769</b>      | <b>7,035</b>      |

## 14. Statement of Investment Principles

The Authority is required by law to prepare and publish a Statement of Investment Principles (SIP). This Statement, approved in May 2010 and reviewed at least annually, sets out the Fund's policy on a range of matters relating to the investment and management of the Pension Fund. The Statement is published on the Borough's website at:

[https://www.barnet.gov.uk/downloads/download/144/statement\\_of\\_investment\\_principles\\_oct\\_2010](https://www.barnet.gov.uk/downloads/download/144/statement_of_investment_principles_oct_2010)

## 15. Related Party Transactions

Fund administration expenses payable to the administrating authority, the London Borough of Barnet are outlined below

|                            | 2013/14<br>£000's | 2012/13<br>£000's |
|----------------------------|-------------------|-------------------|
| Human Resources            | 580               | 451               |
| Accountancy Administration | 352               | 401               |
|                            | <b>932</b>        | <b>852</b>        |

The costs of payroll support are included in the Human Resources Recharge. Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2) – (4) of the Accounts and Audit (England) Regulations 2011) satisfy the key

management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the London Borough of Barnet Pension Fund.

## 16. Actuarial Valuation

Barnett Waddingham LLP undertook a formal actuarial valuation of the fund as at 31 March 2013, in accordance with the Local Government Superannuation Regulations 1986. The actuarial valuation calculates the contribution rate payable by Authority, as an employer, to meet the Administering Authority's funding objectives. The actuarial method used by the Actuary is known as the "projected unit credit method".

The key feature of this method is that in assessing the future service cost, the Actuary calculates the contribution rate, which meets the cost of benefits accruing in the year after the valuation date. This is the same method adopted at the previous valuation and is an appropriate method for a fund, which is open to new members.

| <b>Assumption</b>           | <b>Rate</b> |
|-----------------------------|-------------|
| Future pension increases    | 2.8%        |
| Future salary increases     | 4.6%        |
| Price inflation             | 3.5%        |
| Risk adjusted discount rate | 6.1%        |

The 2013 valuation actuarially assessed the value of the Fund's assets as, being sufficient to meet 79% of the Fund's liabilities. This corresponded to a deficit of £211 million. The latest valuation as at 31<sup>st</sup> March 2014 as per the requirements of IAS26 is attached. The figures below relate to the FRS17 valuation as at 31<sup>st</sup> March 2013, and are given for comparison;

| <b>Assumption</b>                      | <b>Rate</b> |
|--|-------------|
| Assumed retail price inflation (RPI)   | 3.5%        |
| Assumed customer price inflation (CPI) | 2.7%        |
| Salary increases                       | 4.5%        |
| Pension increases                      | 2.7%        |
| Discount rate                          | 4.4%        |

The triennial valuation was reported to the London Borough of Barnet Pension Fund Committee on 18 March 2014.

## 17. Classification of Financial Assets

The following table analyses the carrying amounts of financial assets and liabilities, (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

| <b>31 March 2014</b>         | <b>Designated<br/>as fair value<br/>through<br/>profit and<br/>loss<br/>£'000</b> | <b>Loans and<br/>receivables<br/>£'000</b> | <b>Financial<br/>liabilities at<br/>amortised<br/>cost<br/>£'000</b> |
|------------------------------|---|--|--|
| <b>Financial Assets</b>      |   |  |  |
| Pooled Investments           | 818,517   | -  | -  |
| Pooled Property              | -   | -  | -  |
| Cash Deposits                | -   | 10,138                                     | -  |
| Investment income due        | -   | -  | -  |
| Debtors                      | -   | 2,180                                      | -  |
| <b>Financial Liabilities</b> |   |  |  |
| Creditors                    | -   | -  | (2,349)  |
|                              | <b>818,517</b>  | <b>12,318</b>                              | <b>(2,349)</b>   |
| <b>31 March 2013</b>         | <b>£'000</b>  | <b>£'000</b>                               | <b>£'000</b>   |
| <b>Financial Assets</b>      |   |  |  |
| Pooled Investments           | 790,106   | -  | -  |
| Pooled Property              | -   | -  | -  |
| Cash Deposits                | -   | 11,589                                     | -  |
| Investment income due        | -   | -  | -  |
| Debtors                      | -   | 2,348                                      | -  |
| <b>Financial Liabilities</b> |   |  |  |
| Creditors                    | -   | -  | (7,049)  |
|                              | <b>790,106</b>  | <b>13,937</b>                              | <b>(7,049)</b>   |

## 18. Nature and Extent of Risks Arising from Financial Instruments

The Pension Fund maintains positions in a variety of financial instruments including bank deposits, equity instruments and fixed interest securities. This exposes it to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

### Overall procedures for managing risk

The principal powers to invest are contained in the Local Government Pension scheme (Management and Investment of Funds) regulations 2009 and require an Administering Authority to invest any pension fund money that is not needed immediately to make payments from the Pension Fund. These regulations require the Pension Fund to formulate a policy for the investment of its fund money.

The Administering Authority's overall risk management procedures focus on the unpredictability of the financial markets and implementing restrictions to minimise these risks.

The Pension Funds has prepared a Statement of Investment Principles which sets out the Pension Fund's policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed. Investment performance by external Investment Managers is reported to the Pensions Committee quarterly. Performance of

Pension Fund investments managed by external Investment Managers is compared to benchmark returns.

### Credit and counterparty risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Pension Fund. The Pension Fund reviews its exposure to credit and counterparty risk through its external Investment Managers by review of the Managers annual internal control reports to ensure that Managers exercise reasonable care and due diligence in its activities for the Pension Fund.

The Pension Fund investment assets are held in pooled funds by Custodians who have acceptable credit ratings determined by three Credit rating agencies. As at 31 March 2014 working capital was held in the Pension Fund Bank account with the Co-operative Bank and, in a call account with the Bank of Scotland, in accordance with the Council's Treasury management strategy credit rating criteria.

|   | Long Term<br>Credit Rating | Source                           | Holding<br>31/3/2014<br>£'000 | Holding<br>31/3/2013<br>£'000 |
|---|----------------------------|----------------------------------|-------------------------------|-------------------------------|
| Schroder Group<br>JP Morgan (Schroder<br>Custodian) | AA3<br>AA-                 | Moody's<br>Standard and<br>Poors | <b>375,269</b>                | <b>358,204</b>                |
| Newton –Bank of New York<br>Mellon (Parent)         | A+                         | Standard and<br>Poors            | <b>383,452</b>                | <b>376,022</b>                |
| Bank of Scotland                                    | A1                         | Moody's                          | <b>8,779</b>                  | -                             |
| Co-operative Bank                                   | BBB+                       | Fitch                            | <b>155</b>                    | <b>10,097</b>                 |

### Liquidity Risk

Liquidity risk is the risk that the Pension Fund will not be able to meet its financial obligations when they fall due.

The main risk for the Pension Fund is not having the funds available to meet its commitments to make pension payments to its members. To manage this, the Pension fund has a comprehensive cash flow management system that seeks to ensure that the cash is available when needed. The Pension Fund also manages its liquidity risk by having access to money market funds and call accounts where funds are repayable without penalty and on notice of not more than 24 hours.

### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument can fluctuate because of changes in market prices.

The Pension fund is exposed to the risk of financial loss from a change in the value of its investments and the risk that the Pension Fund's assets fail to deliver returns in line with the anticipated returns underpinning the valuation of its liabilities over the long term. In order to manage the market value risk, the Pension Fund has set restrictions on the type of investments it can hold, subject to investment limits, in accordance with local Government Pension Scheme (Management and Investment of Funds) regulations 2009.

Details of these can be found in the Pension fund's Statement of Investment Principles.

As the Pension Fund's Multi Asset Strategy does not provide a breakdown by asset class, following analysis of historical data and in consultation with the fund adviser, sensitivity analysis is based on an assumed a 10% volatility for pooled assets and 1% for cash.

#### 2013/14

| Asset Type                | Market Value<br>31.3.2014<br>£'000 | Percentage Change<br>% | Value on Increase<br>£'000 | Value on Decrease<br>£'000 |
|---------------------------|------------------------------------|------------------------|----------------------------|----------------------------|
| <b>Pooled Investments</b> | <b>818,587</b>                     | <b>10.0</b>            | <b>900,445</b>             | <b>736,728</b>             |
| <b>Cash Deposits</b>      | <b>9,164</b>                       | <b>1.0</b>             | <b>10,239</b>              | <b>10,037</b>              |

#### 2012/13

| Asset Type         | Market Value<br>31.3.2013<br>£'000 | Percentage Change<br>% | Value on Increase<br>£'000 | Value on Decrease<br>£'000 |
|--------------------|------------------------------------|------------------------|----------------------------|----------------------------|
| Pooled Investments | <b>791,598</b>                     | <b>10.0</b>            | <b>870,758</b>             | <b>712,438</b>             |
| Cash Deposits      | <b>10,095</b>                      | <b>1.0</b>             | <b>10,196</b>              | <b>9,994</b>               |

#### Exchange rate risk

The Pension Fund holds a number of financial assets and liabilities in overseas financial markets and therefore could be exposed to the risk of loss from exchange rate movements of foreign currencies. This risk is managed by holding the fund assets in Sterling.

#### Refinancing risk

The key risk is that the Pension Fund will be required to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Pension Fund does not have any financial instruments that carry a refinancing risk.

## 19. Membership of the Pension Fund

|   | 2013/14              |
|---|----------------------|
| <b>Employees</b>                                      |                      |
| Number of Employees at 31/03/2013                     | 6,660                |
| Employees joining during the year                     | 1,916                |
|   | <u>8,576</u>         |
| Members leaving during the year:                      |                      |
| Normal retirements                                    | 113                  |
| Ill-health retirements                                | 8                    |
| Deaths in service                                     | 8                    |
| Refunds of Contributions                              | 47                   |
| Deferred pensions                                     | 598                  |
|   | <u>-774</u>          |
| <b>Number of Employees at end of year</b>             | <b><u>7,802</u></b>  |
| <b>Pensioners</b>                                     |                      |
| Number of Pensioners at start of year                 | 3,772                |
| New pensioners during the year:                       |                      |
| Normal retirements                                    | 154                  |
| Ill-health retirements                                | 0                    |
| Dependants' pensions                                  | 64                   |
| Deferred pensions becoming payable                    | 101                  |
|   | <u>319</u>           |
| Deaths/dependants ceasing to be eligible              | <u>-709</u>          |
| <b>Number of Pensioners at end of year</b>            | <b><u>6,727</u></b>  |
| <b>Deferred Pensioners</b>                            |                      |
| Number of Deferred Pensioners at start of year        | 7,977                |
| New deferred pensioners during the year:              | 637                  |
|   | <u>8,614</u>         |
| Deferred Pensioners leaving the fund during the year: |                      |
| Normal retirements                                    | 95                   |
| Ill-health retirements                                | 0                    |
| Transferred   | 78                   |
| Back to active status                                 | 0                    |
| Deaths  | 14                   |
|   | <u>-187</u>          |
| <b>Number of Deferred Pensioners at end of year</b>   | <b><u>8,427</u></b>  |
| <b>Total Membership at 31 March 2014</b>              | <b><u>22,956</u></b> |

## 20. Events after the Balance Sheet date

Since the Balance Sheet date of 31 March 2014, there have been no post balance sheet events to report. The only non-adjusting event that is reported is the latest market value of the total externally managed investments of the Fund which increased slightly from £819.561 million to £822.262 million (as valued at 31 May 2014). This represents an increase of £2.7 million.

Barnett Waddingham  
Public Sector Consulting

29 May 2014





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## Introduction

We have been instructed by the London Borough of Barnet, the Administering Authority to the London Borough of Barnet Pension Fund (“the Fund”), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (“the LGPS”) to members of the Fund as at 31 March 2014.

This report is addressed to the Administering Authority and its advisers; in particular, this report is likely to be of relevance to the Fund’s auditor.

These figures are prepared in accordance with our understanding of IAS26. In calculating the disclosed numbers we have adopted methods and assumptions that are consistent with IAS19.

This advice complies with all Generic Technical Actuarial Standards (TASs) and the Pensions TAS.

## Valuation Data

### Data Sources

In completing our calculations for pension accounting purposes we have used the following items of data, which we received from the London Borough of Barnet.

- The results of the valuation as at 31 March 2013 which was carried out for funding purposes;
- Estimated whole Fund income and expenditure items for the period to 31 March 2014.

Estimated Fund returns based on assets used for the purpose of the funding valuation as at 31 March 2013 and a Fund asset statement as at 31 March 2014.

- Details of any new early retirements for the period to 31 March 2014 that have been paid out on an unreduced basis, which are not anticipated in the normal Employer service cost.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report. Further, we are not aware of any material changes or events since we received the data.

### Fund Membership Statistics

The table below summarises the membership data, as at 31 March 2013.

| Member Data Summary | Number | Salaries/Pensions | Average Age |
|---------------------|--------|-------------------|-------------|
|                     |        | £000's            |             |
| Actives             | 6,702  | 141,943           | 47          |
| Deferred Pensioners | 8,992  | 14,264            | 46          |
| Pensioners          | 6,738  | 33,831            | 71          |

## Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2014 is estimated to be 4%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for London Borough of Barnet Pension Fund as at 31 March 2014 is as follows:

| Employer Asset Share - Bid Value | 31 March 2014  |             | 31 March 2013  |             |
|----------------------------------|----------------|-------------|----------------|-------------|
|                                  | £000's         | %           | £000's         | %           |
| Equities                         | 563,734        | 68%         | 545,151        | 68%         |
| Gilts                            | 0              | 0%          | 0              | 0%          |
| Other Bonds                      | 256,996        | 31%         | 248,525        | 31%         |
| Cash                             | 8,290          | 1%          | 8,017          | 1%          |
| <b>Total</b>                     | <b>829,020</b> | <b>100%</b> | <b>801,693</b> | <b>100%</b> |

We have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2014 is likely to be different from that shown due to estimation techniques.

From the information we have received from the administering authority, we understand that of the total Fund at 31 March 2014;

- Of the Equities allocation above, 46% is invested in the BNY MFM Ltd Newton Real Return 'X' Acc Fund, 46% in the Schroder Pension Management Ltd SIM Life Diversified Growth Fund, and 8% in the Legal & General Index Linked Tracker Fund - (World (Ex UK) Equity Index).
- The Other Bonds allocation consists of 47% in the BNY MFM Ltd Newton Long Corp Bond 'X' (Acc) GR Fund, 1% in the BNY MFM Ltd Newton Global Dynamic Bond 'X' (Acc), 45% in the Schroder All Maturities Corp Bond Fund, and 7% in the Legal & General Active Corporate Bond - All Stock – Fund.
- A small amount of the Fund, less than 0.5% is invested in BNY MFM Ltd Newton Long Gilt Fund 'X' (Acc) GR (43%) and BNY MFM Ltd Newton Index Linked Gilt 'X' (Acc) GR Fund (57%).

We do not have any further detail on the current asset allocation of the Fund; we suggest that if further information is required the Administering Authority is contacted in the first instance.

## Unfunded Benefits

We have excluded any unfunded benefits as these are liabilities of employers rather than the Pension Fund.

## Actuarial Methods and Assumptions

### Valuation Approach

To assess the value of the Fund's liabilities at 31 March 2014, we have rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2013, using financial assumptions that comply with IAS19.

The full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Scheme as well as pensions (and lump sums) that may be payable in future to members of the Scheme or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2014 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2014 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

### Demographic/Statistical Assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the funding valuation as at 31 March 2013. The post retirement mortality tables adopted are the S1PA tables with a multiplier of 110%. These base tables are then projected using the CMI 2012 Model, allowing for a long term rate of improvement of 1.5% per annum.

The assumed life expectations from age 65 are;

| Life Expectancy from age 65 (years) | 31 March 2014 | 31 March 2013 |
|-------------------------------------|---------------|---------------|
| Retiring today                      |               |               |
| Males                               | 22.0          | 20.1          |
| Females                             | 24.3          | 24.1          |
| Retiring in 20 years                |               |               |
| Males                               | 24.1          | 22.1          |
| Females                             | 26.7          | 26.0          |

We have also made the following assumptions:

Members will exchange half of their commutable pension for cash at retirement;

Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age;

10% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

## Financial Assumptions

The financial assumptions used for the purposes of the calculations are as follows:

| Assumptions as at | 31 March 2014 |       | 31 March 2013 |       | 31 March 2012 |       |
|-------------------|---------------|-------|---------------|-------|---------------|-------|
|                   | % p.a.        | Real  | % p.a.        | Real  | % p.a.        | Real  |
| RPI Increases     | 3.5%          | -     | 3.4%          | -     | 3.3%          | -     |
| CPI increases     | 2.7%          | -0.8% | 2.6%          | -0.8% | 2.5%          | -0.8% |
| Salary Increases  | 4.5%          | 1.0%  | 4.8%          | 1.4%  | 4.7%          | 1.4%  |
| Pension Increases | 2.7%          | -0.8% | 2.6%          | -0.8% | 2.5%          | -0.8% |
| Discount Rate     | 4.4%          | 0.9%  | 4.6%          | 1.2%  | 4.6%          | 1.3%  |

These assumptions are set with reference to market conditions at 31 March 2014.

Our estimate of the duration of the Fund's liabilities is 17 years.

The discount rate is the annualised yield at the 17 year point on the Merrill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Fund's liabilities. This is consistent with the approach used at the last accounting date.

The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England, specifically the 17 year point on the BoE spot inflation curve. This is consistent with the approach used at the last accounting date.

This measure has historically overestimated future increases in the RPI and so, in the past, we have made a deduction of 0.25% to get the RPI assumption. However, the evidence for this in more recent periods is weaker and so we have made no such deduction at 31 March 2014. The RPI assumption is therefore 3.5%. As future pension increases are expected to be based on CPI rather than RPI, we have made a further assumption about CPI which is that it will be 0.8% below RPI i.e. 2.7%. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods.

Salary increases are then assumed to increase at 1.8% per annum above CPI in addition to a promotional scale. However, we have allowed for a short-term overlay from 31 March 2013 to 31 March 2015 for salaries to rise in line with CPI.

### **Expected Return on Assets**

For accounting years beginning on or after 1 January 2013, the expected return and the interest cost will be replaced with a single net interest cost, which will effectively set the expected return equal to the discount rate.



## Results and Disclosures

The results of our calculations for the year ended 31 March 2014 are set out in Appendix 1. We estimate that the net liability as at 31 March 2014 is a liability of £515,554,000.

In addition, Appendix 2 details a reconciliation of assets and liabilities during the year.

The figures presented in this report are prepared only for the purposes of IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

We would be pleased to answer any questions arising from this report.



**Anna Short FFA  
Associate**

## Appendix 1 Balance Sheet Disclosure as at 31 March 2014

| Net Pension Asset as at                 | 31 Mar 2014    | 31 Mar 2013    | 31 Mar 2012    |
|---|----------------|----------------|----------------|
|   | £000's         | £000's         | £000's         |
| Present Value of Funded Obligation      | 1,344,574      | 1,305,450      | 1,212,469      |
| Fair Value of Scheme Assets (bid value) | 829,020        | 801,693        | 716,032        |
| <b>Net Liability</b>                    | <b>515,554</b> | <b>503,757</b> | <b>496,437</b> |

\*Present Value of Funded Obligation consists of £1,214,083,000 in respect of Vested Obligation and £130,491,000 in respect of Non-Vested Obligation.

## Appendix 2 Asset and Benefit Obligation Reconciliation for the year to 31 March 2014

| Reconciliation of opening & closing balances of<br>the present value of the defined benefit<br>obligation | Year to          | Year to  | Year to          |
|---|------------------|--|------------------|
|   | 31 Mar 2014      | 31 Mar 2013                                    | 31 Mar 2013      |
|   | £000's           | £000's   | £000's           |
|   |                  | (had the revised<br>IAS19 standard<br>applied) | disclosed        |
| <b>Opening Defined Benefit Obligation</b>   | <b>1,305,450</b> | <b>1,212,469</b>                               | <b>1,212,469</b> |
| Current Service cost  | 40,544           | 37,366   | 37,366           |
| Interest cost   | 59,331           | 55,136   | 55,136           |
| Change in financial assumptions   | 49,856           | 28,011   | combined below   |
| Change in demographic assumptions   | (21,008)         | -  | combined below   |
| Experience loss/(gain) on defined benefit obligation  | (56,965)         | -  | combined below   |
| Total Actuarial losses (gains)  | separated above  | separated above                                | 28,011           |
| Losses (gains) on curtailments  | combined below   | combined below                                 | 1,565            |
| Liabilities assumed / (extinguished) on settlements   | -                | -  | -                |
| Estimated benefits paid net of transfers in   | (44,332)         | (38,759)                                       | (38,759)         |
| Past service cost   | combined below   | combined below                                 | -                |
| Past service costs, including curtailments  | 1,671            | 1,565  | separated above  |
| Contributions by Scheme participants  | 10,027           | 9,662  | 9,662            |
| Unfunded pension payments   | -                | -  | -                |
| <b>Closing Defined Benefit Obligation</b>   | <b>1,344,574</b> | <b>1,305,450</b>                               | <b>1,305,450</b> |

| Reconciliation of opening & closing balances of<br>the fair value of Scheme assets | Year to        | Year to  | Year to        |
|--|----------------|--|----------------|
|  | 31 Mar 2014    | 31 Mar 2013                                    | 31 Mar 2013    |
|  | £000's         | £000's   | £000's         |
|  |                | (had the revised<br>IAS19 standard<br>applied) | disclosed      |
| <b>Opening fair value of Scheme assets</b>   | <b>801,693</b> | <b>716,032</b>                                 | <b>716,032</b> |
| Expected return on scheme assets   | n/a            | n/a  | 38,566         |
| Interest on assets   | 36,959         | 33,098   | n/a            |
| Return on assets less interest   | (8,831)        | 46,824   | n/a            |
| Other actuarial gains/(losses)   | (3,475)        | -  | n/a            |
| Total Actuarial gains/(losses)   | n/a            | n/a  | 40,020         |
| Administration expenses  | (914)          | (1,336)  | n/a            |
| Contributions by employer including unfunded                                       | 37,893         | 36,172   | 36,172         |
| Contributions by Scheme participants   | 10,027         | 9,662  | 9,662          |
| Estimated benefits paid plus unfunded net of transfers in                          | (44,332)       | (38,759)                                       | (38,759)       |
| Settlement prices received / (paid)  | -              | -  | -              |
| <b>Closing Fair value of Scheme assets</b>   | <b>829,020</b> | <b>801,693</b>                                 | <b>801,693</b> |



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# The Audit Findings for the London Borough of Barnet

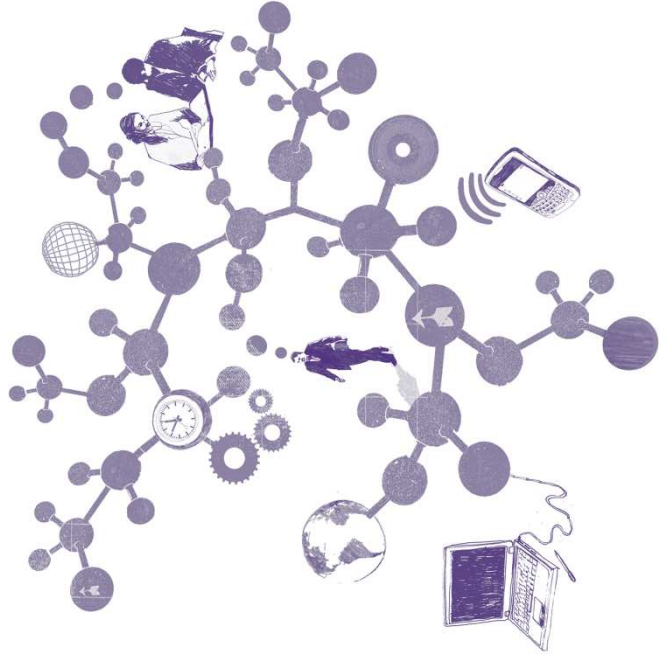
**Year ended 31 March 2014**

11 July 2014

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.



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## **Section 1: Executive summary**

- 01. Executive summary**
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence
- 05. Communication of audit matters

## Executive summary

### Purpose of this report

This report highlights the key matters arising from our audit of London Borough of Barnet's ('the Council') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting ('the Code'). We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

### Introduction

In the conduct of our audit we have not had to change our planned audit approach, which we communicated to you in our Audit Plan dated 29 April 2014. We received draft financial statements and accompanying working papers at the start of our audit on 9 June 2014, in accordance with the agreed timetable. The Council's finance team has worked effectively with our audit team throughout the course of the audit to progress testing and has responded promptly to all audit queries promptly.

Our audit is substantially complete although we are finalising our work in the following areas:

- HRA rental revenue, Council Tax, NNDR and Operating expenses audit procedures

- initial DWP certification testing
- our internal review process
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion
- certification of the Council's Whole of Government Accounts return.

The CSG contract started in the middle of the year and resulted in the outsourcing of the finance function to Capita. With this change in arrangements it has been important for the audit team to work closely with the Capita finance team to enable the timetable for an early accounts sign off to be met. This represented a significant risk to the Council and we are pleased to report that the changes in arrangements have not impacted on the delivery of the audit with a timetable for completion 2 months in advance of the national deadline.

### Key issues arising from our audit

#### Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements by the end of July, in line with the timetable for early audit completion agreed with the Council.

At the time of writing, we have not identified any adjustments affecting the Council's reported financial position. The draft financial statements recorded net income of £50,576k and currently this remains unchanged. We have identified a number of minor amendments to improve the presentation of the financial statements (details are recorded in section 2 of this report).

The key messages arising from our audit of the Council's financial statements are:

- We have tested in detail the accounting treatment of the CSG contract with Capita to ensure that it is correctly recognised within the accounts. No issues have been noted from the review completed.
- As part of our review of asset valuations, we identified that the Council has a different interpretation of the new Code requirements regarding the regularity of revaluations. Our view of the guidance is that whole classes of assets should be revalued within a single year to avoid reporting a mixture of values at different dates. The Council interprets that a rolling programme of revaluations is sufficient on the basis of the Code requirement allowing for rolling revaluations over a 'short period' of three to five years. Whilst we have highlighted this difference in interpretation we are satisfied that any difference in valuation as a result of the different interpretations is unlikely to be material
- We have completed initial Department of Work and Pensions certification testing of 60 individual benefits cases across all award types and have identified one error, with the review of 3 cases still being finalised. Whilst we are still trying to quantify the full extent of these errors, they are not considered to be material in relation to the financial statements. We will, however, be required to complete additional 40+ testing as part of our grant certification process.
- We have reported in detail on the pension fund audit within the separate Audit Findings Report to Audit Committee.

Further details are set out in section 2 of this report.

### **Value for Money conclusion**

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion

Further detail of our work on Value for Money is set out in section 3 of this report.

### **Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

## Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Our work has not identified any significant control weaknesses, but we draw your attention to some control issues in relation to the IT control environment (please see section 2 of this report) that, while unlikely to lead to a material misstatement in the financial statements, we nevertheless consider important and are therefore reporting them to you.

We note that the Council's overall control environment, as measured by Internal Audit's programme of work, has remained good and the Head of Internal Audit has again given 'satisfactory' assurance on the effectiveness of the Council's overall control framework.

This performance is positive and has been achieved by Council officers in a year involving significant structural change with the outsourcing of back office functions, including finance, to Capita. Management must continue to focus on maintaining the controls in place as a number of systems undergo further changes.

## The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed and agreed with the Council's Chief Operating Officer and the finance team.

## Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team, the housing benefits team and other Council staff during our audit.

**Grant Thornton UK LLP**  
July 2014

## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

## Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 29 April 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

### **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 29 April 2014.

### **Audit opinion**

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion wording is set out in Appendix B.

## Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

|    | <b>Risks identified in our audit plan</b>   | <b>Work completed</b>  | <b>Assurance gained and issues arising</b>  |
|----|---|--|---|
| 1. | <p><b>Improper revenue recognition</b><br/>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p> | <p>Throughout the course of the audit we have performed the following:</p> <ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual and significant transactions</li> </ul>                 | <p>Our audit work has not identified any issues in respect of revenue recognition. The Council has adopted appropriate accounting policies regarding revenue recognition and our testing supports compliance with the policies.</p>   |
| 2. | <p><b>Management override of controls</b><br/>Under ISA 240 there is a presumed risk of management over-ride of controls</p>                    | <p>Throughout the course of the audit we have performed the following:</p> <ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual and significant transactions</li> </ul> | <p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p> |



## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

| Transaction cycle                   | Description of risk  | Work completed  | Assurance gained & issues arising   |
|-------------------------------------|--|---|---|
| <p><b>Operating expenses</b></p>    | <p>Creditors understated or not recorded in the correct period</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>We have documented our understanding of processes and key controls over the transaction cycle</li> <li>We have undertaken walkthrough testing of the key controls to assess whether those controls are designed effectively and operating in accordance with our documented understanding</li> <li>We have undertaken testing on a sample of expenditure invoices throughout the year to gain assurance that expenditure has occurred and has been correctly classified</li> <li>We have undertaken cut off testing</li> <li>We have reviewed large and unusual creditor balances and tested a sample of items</li> </ul>   | <p>We are still completing the final areas of audit testing but, at the time of writing, our audit work has not identified any significant issues in relation to the risk identified.</p> |
| <p><b>Employee remuneration</b></p> | <p>Employee remuneration accrual understated</p>                   | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>We have documented our understanding of processes and key controls over the transaction cycle</li> <li>We have undertaken walkthrough testing of the key controls to assess whether those controls are designed effectively and operating in accordance with our documented understanding</li> <li>We have undertaken testing on a sample of employees throughout the year, including the agreement of pay run data to individual pay slips and contracts of employment</li> <li>We have completed monthly trend analysis of payments recognised</li> <li>We have undertaken cut off testing</li> <li>We have reviewed senior management remuneration and disclosures</li> <li>We have agreed the pensions liability to third party confirmation</li> </ul> | <p>We are still completing the final areas of audit testing but, at the time of writing, our audit work has not identified any significant issues in relation to the risk identified.</p> |

## Audit findings against other risks (continued)

| Transaction cycle                          | Description of risk                                    | Work completed   | Assurance gained & issues arising   |
|--|--|--|---|
| <p><b>Welfare expenditure</b></p>          | <p>Welfare benefit expenditure improperly computed</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>We have documented our understanding of processes and key controls over the transaction cycle</li> <li>We have undertaken walkthrough testing of the key controls to assess whether those controls are designed effectively and operating in accordance with our documented understanding</li> <li>We have completed initial Department of Work and Pensions certification testing of Housing Benefits, including analytical review and verification of benefits awarded on a sample basis</li> <li>We have completed testing of a sample of Council Tax support payments</li> </ul> | <p>Our audit work has included testing 60 cases across all award types. At the time of writing we had identified one error (in relation to HRA rent rebates) and three cases were still to be finalised. The Council's benefit team is carrying out further work around these outstanding cases.</p> <p>The impact of these errors is not considered to be material in relation to the financial statements, but we will be required to complete 40+ testing as part of our grant certification work.</p> |
| <p><b>Housing Rent Revenue Account</b></p> | <p>Revenue transactions not recorded</p>               | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>We have documented our understanding of processes and key controls over the transaction cycle</li> <li>We have undertaken walkthrough testing of the key controls to assess whether those controls are designed effectively and operating in accordance with our documented understanding</li> <li>We have performed detailed analytical review procedures to gain assurance over the completeness of rental income</li> <li>We has completed testing of a sample of properties listed to verify the completeness of rental income</li> </ul>  | <p>We are still completing several areas of audit testing but, at the time of writing, our audit work has not identified any significant issues in relation to the risk identified.</p>   |

## Audit findings against other risks (continued)

| Transaction cycle                             | Description of risk           | Work completed   | Assurance gained & issues arising   |
|---|-------------------------------|--|---|
| <p><b>Property, plant &amp; equipment</b></p> | <p>PPE activity not valid</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>We have documented our understanding of processes and key controls over the transaction cycle</li> <li>We have undertaken walkthrough testing of the key controls to assess whether those controls are designed effectively and operating in accordance with our documented understanding</li> <li>We have reviewed and tested a sample of additions and disposals</li> <li>We have performed existence testing on a sample of assets</li> <li>We have reviewed the work completed by the Valuations Team, including ensuring that any valuations have been undertaken in accordance within the requirements of the appropriate accounting and professional standards</li> </ul> | <p>As part of our review of asset valuations, we identified that the Council has a different interpretation of the new Code requirements regarding the regularity of revaluations. Our view of the guidance is that revaluations of a whole class of assets should be considered within a single year to avoid reporting a mixture of values at different dates. The Council interprets that a rolling programme of revaluations is sufficient on the basis of the Code requirement allowing for rolling revaluations over a 'short period' (3 to 5 years).</p> <p>We are satisfied that any difference in valuation as a result of the different interpretations is unlikely to be material.</p> <p>We are still completing the final areas of audit testing but, at the time of writing, our audit work has not identified any further significant issues in relation to the risk identified.</p> |

## Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

| Accounting area                  | Summary of policy  | Comments  | Assessment |
|----------------------------------|--|---|------------|
| <b>Revenue recognition</b>       | <ul style="list-style-type: none"> <li>We have reviewed the accounting policies in place with regard to revenue recognition</li> <li>The accounting policy ensures that income for services provided is recognised when, and to the extent that, performance occurs. Grant income is recognised when there is assurance that the Council will comply with any conditions attached to the payments</li> </ul> | <ul style="list-style-type: none"> <li>The revenue recognition policy is in line with the requirements of the Code and accounting standards</li> <li>Testing performed on revenue balances has confirmed that, for the sample selected, the Council has accounted for income in line with the policy</li> </ul>   | ●          |
| <b>Judgements and estimates</b>  | <ul style="list-style-type: none"> <li>Judgements and estimates have been considered in the following areas:                             <ul style="list-style-type: none"> <li>Asset valuations</li> <li>Useful economic lives of PPE assets</li> <li>PFI disclosures</li> </ul> </li> </ul>  | <ul style="list-style-type: none"> <li>We have reviewed the work completed by the Valuations Team. This testing has not identified any issues with the individual valuations performed, all of which were found to be in line with appropriate professional standards. However, as part of our review, we identified that the Council has a different interpretation of the new Code requirements regarding the regularity of revaluations. Our view of the guidance is that revaluations of a whole class of assets should be considered within a single year to avoid reporting a mixture of values at different dates. The Council interprets that a rolling programme of revaluations is sufficient on the basis of the Code requirement allowing for rolling revaluations over a 'short period'. We are satisfied that any difference in valuation as a result of the different interpretations is unlikely to be material</li> <li>We completed a review of the useful economic lives of PPE assets and no issues were noted from the testing performed.</li> <li>We reviewed the PFI disclosures and ensured that information presented in the financial statements was in line with the operating model. No issues were noted from the work performed.</li> </ul> | ●          |
| <b>Other accounting policies</b> | <ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the Code and accounting standards.</li> </ul>   | <ul style="list-style-type: none"> <li>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</li> </ul>   | ●          |

### Assessment

● Inappropriate accounting policy

● Accounting policy subject to interpretation

● Accounting policy appropriate and disclosures sufficient

## Adjusted misstatements

At the time of writing, no significant adjustments to the draft financial statements have been identified during the audit process.

## Misclassifications & disclosure changes

As at the time of writing, the table below provides details of misclassification and disclosure changes identified during the audit which have been made within the financial statements.

| Adjustment type | Value<br>£'000 | Account balance                                     | Impact on the financial statements   |
|-----------------|----------------|---|--|
| 1 Disclosure    | -              | Note 35 – Audit Costs                               | <ul style="list-style-type: none"> <li>In line with auditor expectations, following changes to the scale fee made by the Audit Commission, the Council has amended the 2013/14 audit fee disclosed within the financial statements.</li> </ul> |
| 2 Disclosure    | -              | Note 38 – Related Parties                           | <ul style="list-style-type: none"> <li>The related parties disclosure has been amended to show the amounts of transactions and any outstanding balances with subsidiaries and joint ventures</li> </ul>  |
| 3 Disclosure    | -              | Note 39 – Capital Expenditure and Capital Financing | <ul style="list-style-type: none"> <li>The note has been restated by the Council to amend the original version submitted within the draft financial statements which was based on incorrect information.</li> </ul>                            |
| 4 Disclosure    | -              | Note 46 – Contingent Liabilities                    | <ul style="list-style-type: none"> <li>In line with auditor expectations, the contingent liabilities note has been updated through the audit process to disclose additional liabilities identified by the legal team.</li> </ul>               |
| 5 Disclosure    | -              | Financial Statements                                | <ul style="list-style-type: none"> <li>There were a number of minor presentational issues that were identified during the course of our audit. These have been amended in the financial statements.</li> </ul>                                 |


## Unadjusted misstatements

At the time of writing, our audit work has not identified any adjustments which we requested be processed, but which have not been made within the financial statements.

## Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

| Assessment  | Issue and risk   | Recommendations   |
|---|--|---|
| <b>IT findings:</b>   |  |   |
| <p>1. </p> | <p><b>IT controls</b><br/>As part of our review of IT controls, we identified a number of minor points in relation to the SAP system. These related to access controls in place, which aligns with the results of Internal Audit work. As this system is currently being replaced with a new Integra system, we have reported these points in generic terms to the Council to ensure that they are resolved in the new system. The Council has provided comments against each of these points and as part of our 2014/15 audit work we will be monitoring and reviewing implementation of the new system, which will include consideration of the points raised.</p> | <ul style="list-style-type: none"> <li>The Council should ensure that all points raised following the review of the SAP system are considered as part of the new Integra system.</li> </ul> |

**Assessment**

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement



## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

| Issue  | Commentary   |
|--|--|
| <p><b>1. Matters in relation to fraud</b></p>                | <ul style="list-style-type: none"> <li>We have discussed the risk of fraud with the Council's management including the Operational Assurance Assistant Director who oversees the delivery of the Council's counter-fraud work programme. We note the fraud investigations the Council has undertaken during the year, details of which it has reported to the Audit Committee and to the Audit Commission as part of its annual fraud and corruption survey of local councils. We do not consider that the frauds identified in 2013/14 or currently under investigation have a material impact on the Council's accounts. We have not been made aware of any other incidents in the period from discussions with other officer, including the Chief Operating Officer and no other issues have been identified during the course of our audit procedures</li> </ul>   |
| <p><b>2. Matters in relation to laws and regulations</b></p> | <ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>   |
| <p><b>3. Written representations</b></p>                     | <ul style="list-style-type: none"> <li>We have requested a standard letter of representation from management, a draft of which is included at Appendix C to this report for information. We have requested, representations from management in respect of the adequacy of the judgments and significant estimated made by management in preparing the financial statements, the completeness of information provided to audit by management, and the completeness of the financial statements themselves and management's awareness of fraud, control weaknesses or other irregularities that could materially affect the position reported in the Council's financial statements.</li> <li>We request these representations for all our local government audits and have not identified any specific risks from our audit testing requiring additional representations specific to this Council.</li> </ul> |
| <p><b>4. Disclosures</b></p>                                 | <ul style="list-style-type: none"> <li>We have reviewed all narrative disclosures included within the financial statements and have agreed improvements to these disclosures with finance officers where we have identified these.</li> </ul>  |
| <p><b>5. Matters in relation to related parties</b></p>      | <ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed in the financial statements.</li> </ul>  |
| <p><b>6. Going concern</b></p>                               | <ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis. The Council has set a balanced budget for 2014/15 and has detailed plans in place to achieve savings targets.</li> </ul>   |
| <p><b>7. Annual Governance Statement</b></p>                 | <ul style="list-style-type: none"> <li>We are in the process of reviewing the Council's Annual Governance Statement to confirm it complies with the requirements of 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007. Initial review has confirmed that the disclosures made are consistent with our knowledge of the Council and its key strategic risks.</li> </ul>  |

## Section 3: Value for Money

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money**
- 04. Fees, non audit services and independence
- 05. Communication of audit matters

## Value for Money

### Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

**The Council has proper arrangements in place for securing financial resilience.**

The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.**

The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.





### Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

### Key findings – securing financial resilience

In common with local authorities nationally, the financial challenges facing the Council are significant. The Council is, however, meeting these challenges well and has good arrangements in place to ensure it remains resilient to deal with the new financial risks as they emerge.

We have undertaken a review which considered the Council's arrangements against the expected characteristics of proper arrangements as defined by the Audit Commission and have summarised our overall assessment of each area in the table below :

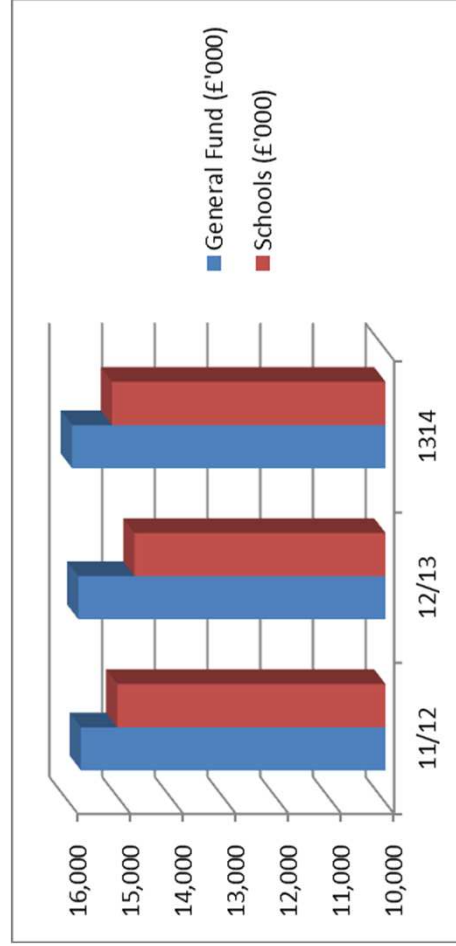
| Characteristic                          | 2013/14 Assessment   |
|---|--|
| Key indicators of financial performance |  <b>Green</b>   |
| Financial planning                      |  <b>Green</b> |
| Financial governance                    |  <b>Green</b> |
| Financial control                       |  <b>Green</b> |

## Value for Money (continued)

### Key indicators of financial performance:

The Council continues to perform well in this area and has been able to manage its financial position effectively in the year with the 2013/14 budget including a freeze on Council Tax.

The Council has reported a service underspend of £120k for the year. This has been taken to the General Fund, from which there has been a net transfer of £16,111k to earmarked reserves. The £15m minimum level for the General Fund balance remains in place (equivalent to just over 5% of the Council's expenditure budget) and the Council remains ahead of this, with the closing balance at 31 March 2014 being just under £16m. Schools balances also remain healthy, with a £428k increase to a balance of £15,189k at the year end. The graph below shows the year on year balances across the General Fund and Schools, highlighting the consistent nature of the balances.



The liquidity position of the Council remains strong, with the financial statements showing a healthy cash position at the year end. The cash balance at 31 March was £24,890k, set against an overdraft of £22,423k. In addition, the Council was holding £135,287k in short term deposits.

Workforce indicators show an improvement in performance against the sickness indicator, with the average number of sickness days improving from 7.7 days to 7.2 days. Whilst this remains above the Council's 6 day target, this is the right direction of travel and is below the benchmarking level of 9 days.

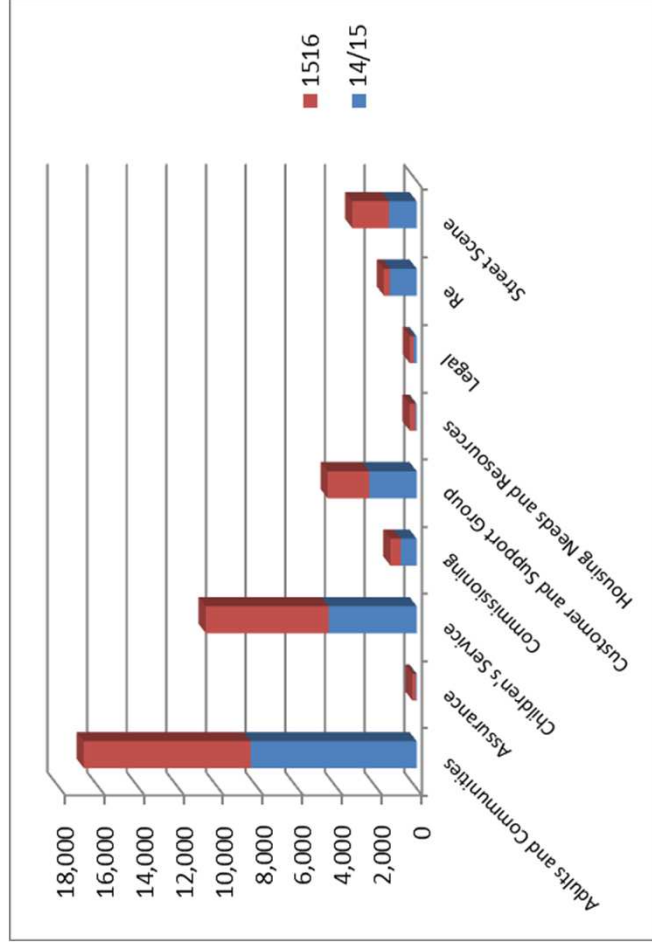
Review of performance reports shows that the Council has managed emerging cost pressures during the year to ensure that the budget has been met. As part of this process, the contract with Capita has now been signed with CSG now providing the back office services. Going forward, the Council must closely monitor performance to ensure that the contracts are delivering in line with expectations and not impacting adversely on front line service delivery.

### Financial planning:

The Council continues to have a clear process in place to manage its financial planning. The Business Planning report was presented to the Cabinet in February 2014, including the medium term financial strategy (MTFS) for 2014/15 and 2015/16. This plan has been prepared on the basis of a 1% reduction in Council Tax for 2014/15 and a freeze in 2015/16.

## Value for Money (continued)

The budget identifies that the total budget gap over the 2 year period is £36.7m. With additional pressures of £2.4m, the Council has been required to identify savings of £39.1m to enable a balanced budget to be set. These savings have been subject to detailed review to ensure that they are both deliverable and in line with Council policy. They are split across individual delivery units as shown below:



Clearly there are many challenges faced by the Council, but it is a positive to have set a balanced budget for both 14/15 and 15/16. Built into this process is consideration of the reserve levels and the budget confirms that both the General Fund Reserve and the Housing Revenue Account will be above the minimum levels as set by the Reserves Policy.

What is clear from the work performed around financial planning is that the Council has not just focussed on the short term. This is particularly evidenced through the Priorities and Spending Review 2014. This report is the result of a very detailed piece of work performed by the Council to both gather evidence and generate ideas to enable important services to be provided going forward.

The Report forecasts a gap of £72m in the Council's finances between 2016 and 2020. Effectively this means that the Council's spending power in 2020 will be roughly half of what it was in 2010.

This Plan sets out a number of options totalling potential savings of around £51m. It is made up of a range of different focuses:

- preventative action and investment to unlock future savings
- changing behaviour to reduce demand on services
- provide more efficient and better integrated services with other parts of the public sector
- prioritise resources, potentially resulting in the need to stop providing services others may be able to do better.



The Council has clearly taken a long term view and has tried to get ahead of the likely challenges. The Plan recognises that whilst the scale of this challenge is massive, the Council will still have a significant budget that it will need to use effectively. It also recognises that there will be a number of opportunities which the Council must be in a position to utilise.

## Value for Money (continued)

### Financial governance:

Our prior year Audit Findings Report confirmed that the Council was performing well in this area. We have updated this review to cover 2013/14 and no issues have come to light that have indicated any significant changes to this position.

The Council has a good track record of delivering its financial plan and ensuring that reserves are maintained in excess of the target levels. Clear reporting arrangements remain in place and members continue to receive detailed quarterly reports to help them oversee the performance of the Council.

The Council has consulted extensively on the budget and medium term financial strategy and has been able to identify savings sufficient to enable budgeting for a balanced budget in both 2014/15 and 2015/16. In addition to this, the Council has developed the Priorities and Spending Review to ensure that the focus is not solely on the short term.

Management has scrutinised both the financial and operational performance of the Council effectively throughout the year, including through the Delivery and Strategic Commissioning Boards. These meetings have proven effective at ensuring that the focus of senior management is on the key high risk areas, enabling mitigating actions to be discussed and agreed at the earliest possible opportunity.

In the year, the outsourcing of the back office functions to Capita has taken place, representing a significant change for the Council. We have considered separately how this contract is monitored on an on-going basis, but it is vital that the Council remains confident in the governance arrangements it has in place around the performance of these back office functions.

### Financial control:

Our prior year Audit Findings Report confirmed that the financial control at the Council was assessed as green and no significant issues had been identified. We have updated our review for 2013/14 and no issues have come to light that have indicated any changes to this position.

A review of the Head of Internal Audit opinion has noted that the Council has continued to make good progress around its internal control environment. Internal Audit provided the following opinions:

- satisfactory assurance on the Council's overall internal control environment
- satisfactory assurance on the key controls in operation within key financial systems.

The Council continues to produce reliable financial information and audit work has not highlighted significant adjustments to the draft financial statements. Following the outsourcing of the finance function to Capita, the finance system has been upgraded for the 2014/15 financial year. This should provide some efficiencies to the Council, but it is key that the quality of the financial information available remains high.

A key point raised in the 2012/13 Audit Findings Report was the management of the capital programme and this remains a key area for improvement. In 2013/14, the Council delivered an actual spend of £103m against a revised budget of £136m. Against the original budget for the full financial year there has been slippage of £99m. This slippage represents 49% of the programme, compared to 65% in 2012/13.



## Value for Money (continued)

Whilst it is positive to see the slippage reducing as a proportion of the total plan, this is still a significant variance from plan and the Council must continue to monitor their performance in this area closely. The major slippage in the year relates to the Children's Education and Skills programme and the work on the school expansion programme. This slippage is across all schemes and is not limited to individual projects.

### Key findings – challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

We have undertaken a review which considered the Council's arrangements against the expected characteristics of proper arrangements as defined by the Audit Commission and have summarised our overall assessment of each area in the table below:

| Characteristic                        | 2013/14 Assessment   |
|---------------------------------------|--|
| Prioritising resources                |  <b>Green</b> |
| Improving efficiency and productivity |  <b>Green</b> |

In line with the Audit Plan, we have considered a number of areas as part of this review.

### Performance monitoring of the CSG contract and the Re (Regional Enterprise) joint venture:

During 2013/14, the Council has entered into a major contract and a joint venture with Capita:

- Customer and Support Group (CSG)
- Re (Regional Enterprise) Limited.

Given the importance of these contracts to the Council, as part of the VFM work for the year it was agreed that we would consider the performance monitoring in place to understand the arrangements that exist to measure the achievement of value for money from the contracts.

#### Customer and Support Group:

Capita was awarded the contract to run the Council's back office services starting from September 2013. The contract was established with the aim of both reducing back office costs and improving customer service to residents. Essentially, these can be split into financial and non financial benefits.

#### Re (Regional Enterprise) Limited:

Re is the joint venture between LBB and Capita to provide development and regulatory services to residents both in Barnet and more widely across the South East. Whilst the agreement has guaranteed the Council a cost saving of £39m, there will also be significant investment in new technology, improving facilities and training staff. As with the CSG contract, there should be both financial and non-financial benefits, with an improved service being provided for residents.

The monitoring processes in place for both of these contracts is based on a standard structure. This has been considered in detail over the page.

## Value for Money (continued)

Within both the CSG and the Re delivery units there is a detailed programme of monthly monitoring in place. This ensures that each month there is a detailed report produced reflecting on performance against the indicators contained within the contracts.

These indicators were established prior to the contract being signed and are based on clear service objectives and priorities that were set by the Council as part of the contract agreement process. Review of the contract has shown that each individual indicator is clearly defined within the agreement, where there is a detailed data sheet in place. This covers a wide range of information about the indicator but, most importantly, sets out in detail how the outcome is to be calculated.

The monthly performance reports are provided to the Senior Responsible Officer (SRO) for the service within 10 days of the month end. The SRO is then required to review these reports and to challenge the information presented. Using the data sheet requirements, the SRO is able to drill down against any of the reported indicators to ensure that information is being reported accurately. In addition to this, a programme of data quality testing is performed by the Commercial Team. Through a risk based approach, it is possible to ensure that key indicators are subject to regular review and re-performance.

This information is then discussed at the monthly Contractual Board chaired by the Chief Operating Officer. Separate Boards exist for CSG and Re and they act as a forum through which to monitor and govern contract performance. These meetings also help to highlight what issues need to be subject to escalation into the quarterly reports. Furthermore, they provide an opportunity to assess whether the indicators are providing information as intended. Where this is not considered to be the case, the Council then has the right to amend the indicator as part of an annual review.

Above the monthly monitoring, delivery units all produce an individual performance report each quarter. All of these reports are made available on the Council's website.

Review of this report has shown that it contains a significant amount of supporting narrative. Both CSG and Re report against all of their contract PIs, with the quarterly report highlighting and explaining the major points. Whilst not presented formally to the Delivery Board or the Performance and Contract Monitoring Committee, these reports can be called in for detailed discussion at any time. This is made clear by the Terms of Reference for the Committee.

The focus of the report is based on the escalation model with three distinct tiers:

- 1) there is an issue but it is containable within the Delivery Unit
- 2) a more significant issue exists which requires an improvement plan, but the delivery unit is able to handle it
- 3) major issue where a policy needs fixing, or where there is a long term failure of the delivery unit.

The level of escalation is decided following a review of data by the Performance Team and the Lead Commissioner. In all cases, where an issue continues to repeat it will be recommended to the Delivery Board that it should be escalated.

Performance against these contracts is monitored at a committee level through the quarterly budget and performance monitoring report as presented to the Performance and Contract Management Committee. All of these reports are made available on the Council's website.



## Value for Money (continued)

This Report is discussed in detail at Delivery Board, Strategic Commissioning Board and Performance and Contract Monitoring Committee.

This Report contains high level summary information in relation to all delivery units, including both CSG and Re. Primarily, it reports performance against both revenue and capital budgets and it also highlights the number of performance indicator targets being met by the contract. A link to the more detailed information made available is also included.

It is clear from the review above that both the CSG and the Re contracts are monitored in substantial detail. Reporting is completed against a wide range of performance indicators and these all reconcile back to the requirements of the contract. Data is provided in a timely manner and reviewed on a monthly basis by key officers within the Council. Key issues are then subject to the standard escalation process before being highlighted within the quarterly reporting to senior officers and the Performance and Contract Monitoring Committee.

Whilst detailed monitoring is taking place, it is vital that the Council ensures that the indicators remain subject to regular review and data quality checks. This will continue to provide assurance that the indicator information being provided is in line with the contract, can be traced back to source data and that accurate information on performance is being reported.

### Performance monitoring of the in-house waste contract

The Council started a new waste and recycling service in October 2013. This was intended to make recycling easier and also enable more to be recycled.

This new service was seen as very important by the Council and as part of the VFM work for the year it was agreed that we would consider the performance monitoring in place to understand the arrangements that exist to measure the achievement of value for money from the contract.

As part of the Street Scene delivery unit there is a detailed programme of monthly monitoring in place. This ensures that each month there is a detailed report produced reflecting on the performance of the waste service.

When each refuse vehicle tips its load it is provided with a weighbridge ticket. This details how much waste of each waste stream has been tipped. North London Waste perform detailed checks on the weighbridge information and provide final audited figures on a quarterly basis.

Unaudited information is provided by North London Waste to the Waste Performance Team at the Council. This is split into the following waste streams:

- refuse
- green waste
- dry recyclables
- food waste.

In addition to the data provided by North London Waste, the Council also collect data regarding the Household Waste and Recycling Centre along with green banks across the borough.

## Value for Money (continued)

The Performance Team then collate all of the information received to get a detailed view of the levels of waste each week. This is then discussed through a monthly 'business as usual' performance meeting which considers performance patterns across the different types of waste.

As the waste service is still new, there are not a wide range of indicators being monitored as the base data is yet to be in place. As more monthly information is obtained, the performance team will consider establishing a number of more detailed performance indicators across the different types of waste. This will provide improved monitoring information for the Council to use to manage and improve the service.

The new bins also contain chips which will enable the Council to monitor participation in recycling. As this information begins to be recorded, it will enable to Council to set their focus on areas of underperformance in the Borough.

Above the monthly monitoring, the performance of the waste contract is included within the Street Scene delivery unit performance report each quarter. All of these reports are made available on the Council's website.

Review of this Report has shown that it contains the key indicator in relation to the waste contract, which is to increase the percentage of household waste sent for refuse, recycling and composting to 40%. As with the CSG and Re reports already discussed, this Report is based on the escalation model and is not presented formally to the Delivery Board or the Performance and Contract Monitoring Committee, but it can be called in for detailed discussion at any time.

Street Scene performance, as with CSG and Re, is monitored at a committee level through the quarterly budget and performance monitoring report as presented to the Performance and Contract Management Committee. This report again includes the key indicator in relation to the waste contract.

It is clear from the review above that the performance of the waste contract is monitored closely and on a regular basis. Data is provided in a timely manner and reviewed on a monthly basis by key officers within the Council. Key issues are then subject to the standard escalation process and highlighted within the quarterly reporting to senior officers and the Performance and Contract Monitoring Committee.

In comparison to the Capita contracts which we have also considered, there are far fewer performance indicators regularly monitored. The Council recognises that this is the case and as suitable base data becomes available, the intention is to record and report on a far greater range of targeted indicators going forward. By reviewing the information in greater detail, the Council will be able to better focus on achieving its target of 50% recycling by 2020.

## Value for Money (continued)

### 2012/13 follow up – NSL parking contract:

The key point for follow up was in relation to the failure to collect income due for the year as a result of weaknesses in the management of the parking enforcement contractor NSL Ltd.

The monitoring of the contract has been discussed in detail with the Council. It was agreed that there was a period up to 2012/13 where the level of debt recovery was poor. This led to a build up of old outstanding debt, requiring a significant write off.

As part of the outsourcing of the parking contract to NSL, there was a requirement for NSL to appoint bailiffs. However, when they took over the contract in May 2012, due to the shortened lead in time, they did not have these contracts in place. This was not resolved as quickly as hoped and it was six months before they were finalised. We reported this issue last year.

The current position is that NSL have contracts with two bailiff companies. The Council has insisted that there is an even split between the work of these two companies and that their individual performance is closely monitored. Using this information, the Council intends to route cases to the best performing company and also to recycle cases between the two if progress is not being made.

Through discussions with NSL, the Council is also attempting to focus on those debts with the best chance of recovery. For example, there is now a requirement for the bailiff companies to complete a pre debt check before they register the debt and start recovery work. A system has also been put in place to ensure that when debt reaches a certain age it is automatically put through a pre debt check and, if suitable, is then issued directly to the bailiff.

The Council has been able to request detail around the contracts between NSL and the bailiffs and they are able to drill down to review individual cases, to understand what activity has taken place and to ensure that the bailiffs are not 'cherry picking' cases.

NSL provide the Council with monthly reports detailing the level of recovery and the Council are able to see all remittances on a monthly basis. They also have access to the NSL system to be able to confirm the data that is being reported to them.

All of this information is monitored by the Council's Parking & Client Team and the data is used in compiling the monitoring reports as highlighted above. However, having reviewed these reports, there is no key performance indicator within the contract that reports back on the level of debt recoverability. Whilst it is clear that this information is made available and reported to the Council, it is not one of the indicators linked to the contract. This was discussed with the Council and it is agreed that this is an indicator that they would like to see added to the contract. By doing this they will increase the visibility around the recovery performance and it will also become linked to the payments made to NSL. This would clearly be beneficial.

It is clear that performance around the recoverability of debt is now monitored in more detail than previously. The Council has recognised that there was underperformance in this area and they now have far greater access to information around performance. However, this would be improved by including this as a performance indicator in relation to the contract as this would ensure that performance in this area is then directly linked to the payments made to NSL.

## Value for Money (continued)

### 2012/13 follow up – interim staffing:

As a response to the objection, the Council committed to undertake a review to ensure that:

- all interim staff are contracted and paid through Comensura, who take responsibility for ensuring contractors' PAYE or Limited Company status
- all suppliers are VAT registered or provide an income tax return to confirm their responsibility for tax
- where contractors are not VAT registered or provide an income tax return, then the payments will be processed via the payroll and paid net of appropriate deductions.

The follow up to this objection was discussed in detail with Council officers and we were able to confirm that the Council now has arrangements in place to ensure that all interim staff are paid through Comensura. Comensura are then required to ensure that staff have the required PAYE or Limited Company status in place.

To ensure that this remains the case a detailed monitoring process has been established by the Council. Each month, the Financial Planning Team provide two detailed reports around interim staff to HR. The first of these shows all expenditure that has been coded to the agency and consultancy account codes and the second shows the element of the spend that is non-Comensura. These reports are then reviewed by the Delivery Units to identify any staff that they think should be dealt with through Comensura and accordingly to ensure that the required arrangements are in place where appropriate.

It is clear that use of interim staff is now monitored in much more detail that it had been previously. The monthly reports are in place to clearly highlight payments made outside of the arrangement with Comensura and these are followed up on an individual basis.

## Section 4: Fees, non audit services and independence

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence**
- 05. Communication of audit matters

## Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

### Fees

|                              | Per Audit plan | Actual fees |
|------------------------------|----------------|-------------|
|                              | £              | £           |
| Council audit                | 224,100        | 224,100     |
| Grant certification (i)      | 38,400         | TBC         |
| <b>Total audit fees (ii)</b> | <b>262,500</b> | <b>[xx]</b> |

### Fees for other services

| Service | Fees £ |
|---------|--------|
| None    | Nil    |

### Independence and ethics

- (i) Certification of grant claims and returns are not due until later in the year so this remains work in progress at the date of this report. The Audit Commission has also revised its scale fee to £31,597. Confirmation of the final fee will be included within the separate Certification Report later in the year
- (ii) Pension fund audit work is completed separately from the main Council audit (please see Pension Fund Audit Findings Report for further details)

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

## Section 5: Communication of audit matters

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence
- 05. Communication of audit matters**

# Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

### Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

| Our communication plan  | Audit Plan | Audit Findings |
|---|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance   | ✓          |                |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications  | ✓          |                |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought |            | ✓              |
| Confirmation of independence and objectivity  | ✓          | ✓              |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.                                | ✓          | ✓              |
| Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged  |            |                |
| Details of safeguards applied to threats to independence  |            |                |
| Material weaknesses in internal control identified during the audit   |            | ✓              |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements  |            | ✓              |
| Compliance with laws and regulations  |            | ✓              |
| Expected auditor's report   |            | ✓              |
| Uncorrected misstatements   |            | ✓              |
| Significant matters arising in connection with related parties  |            | ✓              |
| Significant matters in relation to going concern  |            | ✓              |



# Appendices

## Appendix A: Action plan

| Rec No.              | Recommendation   | Priority | Management response   | Implementation date & responsibility |
|----------------------|--|----------|---|--------------------------------------|
| <b>IT findings:</b>  |  |          |   |                                      |
| 1.                   | The Council should ensure that all points raised following the review of the SAP system are considered as part of the new Integra system.  | Medium   | The Council is conducting a review of the system access controls to Integra as it's new financial system, which will ensure officers have the correct level of access and addresses the points raised regarding the former SAP system | Paul Thorogood<br>September 2014     |
| <b>VFM findings:</b> |  |          |   |                                      |
| 2.                   | The Council should ensure that, as the base data becomes available, additional performance indicators are put in place against which to monitor performance of the waste contract. | Medium   | As the data becomes available following the insourcing, this will be used to update the indicators used for performance management of the waste and recycling service   | Lynn Bishop<br>November 2014         |
| 3.                   | The Council should consider adding the recovery levels of parking notice debt to the KPIs monitored as part of the parking contract with NSL.                                      | Medium   | The Council will review the appropriateness of all KPIs within the NSL contract   | Claire Symonds<br>November 2014      |

## Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

The final wording for the audit opinion has yet to be made available by the Audit Commission. Once confirmed the draft wording will be circulated to members of the Audit Committee.

## Appendix C: Draft letter of representation

- We have included a draft of the letter of representation requested from the Council's management below. We request a letter of representation containing standard representations from all our local government clients.
- We have requested, representations from management in respect of the adequacy of the judgments and significant estimated made by management in preparing the financial statements, the completeness of information provided to audit by management, and the completeness of the financial statements themselves and management's awareness of fraud, control weaknesses or other irregularities that could materially affect the position reported in the Council's financial statements.

### **London Borough of Barnet and London Borough of Barnet Pension Fund**

#### **Financial Statements for the year ended 31 March 2014**

This representation letter is provided in connection with the audit of the financial statements of London Borough of Barnet for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### **Financial Statements**

- i. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii. We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- iv. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- v. We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.

## Appendix C: Draft letter of representation (continued)

- vi We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).
- vii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the code.
- viii All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the code requires adjustment or disclosure have been adjusted or disclosed.
- ix The financial statements are free of material misstatements, including omissions.
- x We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xi We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

### Information Provided

- xii We have provided you with:
- a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xiii We have communicated to you all deficiencies in internal control of which management is aware.
- xiv All transactions have been recorded in the accounting records and are reflected in the financial statements.

## Appendix C: Draft letter of representation (continued)

- xv We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xvi We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
- a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xvii We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xviii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xix We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xx We have provided you with the most recent agreements between the Council and the Barnet Group, Barnet Homes and Your Choice Barnet setting out indemnities provided by the Council, on which the Council has based its accounting treatment for pension costs in the financial statements.

### Annual Governance Statement

xxi We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

### Approval

The approval of this letter of representation by the management signatories below was minuted at the Council's Audit Committee meeting on 22 July 2014.

### Signed



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# The Audit Findings London Borough of Barnet Pension Fund

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

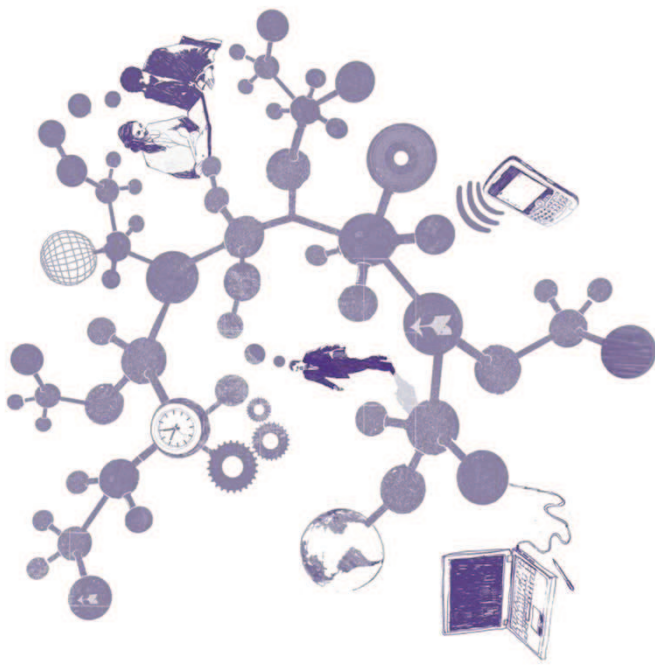
**Year ended 31 March 2014**

3 July 2014

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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**Appendices**

- A Action plan
- B Audit opinion

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## Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

## Executive summary

### **Purpose of this report**

This report highlights the key matters arising from our audit of London Borough of Barnet Pension Fund's ('the Fund') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

### **Introduction**

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated April 2014.

During the year, Barnet Council awarded to Capita plc the contract for the running of the council's back office services including the administration of the Council's pension fund. The change had an impact on our audit arrangements which was not envisaged in the scale fee. Specifically, the Borough had used its existing pension fund member database Axis for the first 10 months of the year. The data was then transferred to a Capita owned system called Hartlink for the last 2 months of the year. This member database which is managed off site contributes to the information within the pension fund year end statements. In response, we documented our understanding of the nature and significance of the services provided by Capita and their effect on your internal controls, sufficient to identify and assess the risks of material misstatement. We designed and performed audit procedures as part of our testing of the financial statements and the results are set out in section 2 of this report.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- pension strain (early retirees contributions) included in Note 3
- receipt of direct bank account confirmations
- review of the final version of the financial statements
- review of the final version of the Pension Fund Annual Report
- obtaining and reviewing the management letter of representation and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and some of the accompanying working papers at the start of our audit. The pension fund annual report and journal listings was only made available a few days before our fieldwork was due to end. Evidence to support our sample of pension strain (early retirees contributions) included within Note 3 is outstanding as at the start of July 2014. We commented on a similar issue in last year's Audit Findings report.

Overall, the quality of the working papers has improved from last year, however delays in production, gaps in working papers such as the pension strain and testing of member data off site have contributed to the increased the cost of auditing the Fund statement.

### **Key issues arising from our audit Financial statements opinion**

Our audit is substantially complete although we are yet to complete our review of the pension strain balance (early retirees contributions) included in Note 3

Our review to date identified one non trivial error within the notes to the Pension Fund Accounts statements which management agreed to amend

- investment sales and purchases were overstated by an equal value within unrealised gains

We identified some disclosure and trivial classification errors within the notes to the Fund Accounts which officers have agreed to amend.

The draft financial statements recorded net assets carried forward of £829,782k which remains unchanged post audit.

Subject to the satisfactory conclusion of our work, we anticipate that we will provide the Fund with an unmodified opinion confirming the Pension Fund account give a true and fair view of the transactions of the fund for the year ended 31 March 2014.

We will update this report on conclusion of our work. The updated report will be presented to the Audit Committee on 24 July 2014 showing the outcome of remaining tests before the accounts are approved.

### **Acknowledgment**

We would like to take this opportunity to record our appreciation for the assistance provided by the Capita team and other staff during our audit.

**Grant Thornton UK LLP**  
**July 2014**

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## Section 2: *Audit findings*

01. Executive summary

**02. Audit findings**

03. Fees, non audit services and independence

04. Communication of audit matters

## Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 29 April 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

### **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 29 April 2014.

### **Audit opinion**

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B. At this stage the wording of the opinion for local government pension schemes remains subject to agreement with the Audit Commission. We will update Appendix B to this report to include the opinion once this is agreed.



## Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

|    | <b>Risks identified in our audit plan</b>   | <b>Work completed</b>   | <b>Assurance gained and issues arising</b>   |
|----|---|---|--|
| 1. | <p><b>Improper revenue recognition</b><br/>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p> | <ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions</li> </ul>                 | <p>We have rebutted this presumption as we do not consider this to be a significant risk for the London Borough of Barnet Pension Fund since:</p> <ul style="list-style-type: none"> <li>• the nature of the Pension Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions</li> <li>• the split of responsibilities between the Pension Fund, your fund managers and the custodian, provides a very strong separation of duties reducing the risk around investment income</li> <li>• revenue contributions are made by direct salary deductions and direct bank transfers from admitted/scheduled bodies, are supported by separately sent schedules and are directly attributable to gross pay, making any improper recognition unlikely</li> <li>• transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving funds.</li> </ul> <p>Our audit work has not identified any issues in respect of revenue recognition.</p> |
| 2. | <p><b>Management override of controls</b><br/>Under ISA 240 there is a presumed risk of management over-ride of controls</p>                    | <ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> </ul> | <p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>   |

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

| Transaction cycle              | Description of risk  | Work completed   | Assurance gained & issues arising   |
|--------------------------------|--|--|---|
| <p><b>Investments</b></p>      | <p>Investments not valid<br/>Investments activity not valid<br/>Fair value measurement not correct</p> | <p>We reviewed the reconciliation between information provided by the fund managers, the custodian and the Fund's own records, seeking explanations for any variances.</p> <p>We selected a sample of the individual investments held by the fund at the year end and tested the valuation of the sample by agreeing prices to third party sources (quoted investments) or by review of the valuation methodology used to ensure it represents fair value</p> <p>The existence of investments was confirmed directly to relevant documentation.</p> <p>We tested a sample of purchases and sales during the year back to information provided by the fund managers and/or custodians.</p>                                      | <p>Our work is substantially complete.</p> <p>We identified non trivial error where Fund Manager Schroder's investment sales and purchases were overstated by an equal value within unrealised gains.</p> <p>You have agreed to amend disclosure Note 9 Investments.</p>  |
| <p><b>Benefit Payments</b></p> | <p>Benefits improperly calculated/claims liability understated</p>                                     | <p>We confirmed the existence of controls operated by the Fund to ensure that all benefits are correctly calculated and that the appropriate payments are generated and recorded. With a view to reducing the level of substantive testing required, we also tested key controls identified in these areas.</p> <p>We selected a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and refunds and tested them by reference to member files.</p> <p>We reviewed pensions paid with reference to changes in pensioner numbers and increases applied in the year. We also compared pensions paid on a monthly basis to ensure that any unusual trends were satisfactorily explained.</p> | <p>Our work is complete, there are no significant issues to bring to your attention.</p> <p>We note within benefit payments the following:</p> <ul style="list-style-type: none"> <li>• accrued in 2012/13 had not been reversed out in 2013/14, and</li> <li>• accruals for 2013/14 is understated.</li> </ul> <p>The value of accruals individually or in aggregate was not material. We have made a recommendation to strengthen your controls around your accruals.</p> |

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

| Transaction cycle      | Description of risk                | Work completed  | Assurance gained & issues arising   |
|------------------------|------------------------------------|---|---|
| <b>Contributions</b>   | Recorded contributions not correct | <p>We confirmed the existence of controls operated by the Pension Fund to ensure that it identifies and receives all expected contributions from admitted and scheduled bodies. We also substantively tested a sample of contributions from admitted and scheduled bodies.</p> <p>We substantively tested contributions from the Administering Authority. We also reviewed contributions received with reference to changes in member body payrolls and numbers of contributing members to ensure that any unexpected trends were satisfactorily explained.</p> | <p>Our work is in progress.</p> <p>We are awaiting pension strain reconciliation (early retirees contributions) included in Note 3 to undertake our sample testing.</p> |
| <b>Membership Data</b> | Member data not correct            | <p>We confirmed the existence of controls and reconciliations covering the determination of member eligibility, the input of evidence onto the Pensions Administration System and the maintenance of member records. With a view to reducing the level of substantive testing, we also tested the key controls identified in these areas.</p>   | <p>Our work is substantially complete.</p> <p>We are awaiting your reconciliation of membership data as at 31 March 2014.</p>   |




## Other issues

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

| Transaction cycle  | Description   | Work completed   | Assurance gained & issues arising   |
|--|---|--|---|
| <p><b>Pension fund administration</b></p>                | <p>During the financial year, Capita was awarded the contract to manage the administration of pension fund. Some former LB Barnet pension fund staff transferred to Capita whilst others took redundancy.</p>   | <ul style="list-style-type: none"> <li>We have held planning meetings with Capita team responsible for managing the pension fund closedown.</li> </ul>                                     | <ul style="list-style-type: none"> <li>We held meetings with Capita and provided them with our working paper requirements for the audit of the financial statements.</li> </ul>   |
| <p><b>Member data transfer from Axis to Hartlink</b></p> | <p>The Borough used its existing pension fund member database Axis for the first 10 months of the year. The data was then transferred to a Capita owned system called Hartlink for the last 2 months of the year. The database is managed off site. Member data contributes to the information within the pension fund year end statements.</p> | <ul style="list-style-type: none"> <li>The testing of the completeness of pension fund data migration to the new systems as part of our IT review was undertaken in April 2014.</li> </ul> | <ul style="list-style-type: none"> <li>Our specialist IT team undertook a review of the Member data transferred from Axis to Hartlink. There are no issues arising.</li> <li>We also tested individual pension contributions to member data as part of the financial statements testing.</li> </ul> |

## Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

| Accounting area                  | Summary of policy   | Comments   | Assessment  |
|----------------------------------|---|--|---|
| <b>Revenue recognition</b>       | <ul style="list-style-type: none"> <li>The Council's policy for major sources of revenues (contribution income and Investment income) are set out in detail within Note 2 Accounting Policies</li> </ul>  | Your revenue recognition policy is consistent with our audit of the pension fund financial statements.   | <br><b>Green</b> |
| <b>Judgements and estimates</b>  | <ul style="list-style-type: none"> <li>Key estimates and judgements disclosed in the notes to the accounts [Notes 2 and 20] include:                             <ul style="list-style-type: none"> <li>- pension fund valuations and settlements</li> <li>- investment valuation.</li> </ul> </li> </ul> | We reviewed key estimates and judgements made by management within the notes to the accounts. For the disclosures listed, we concluded they were consistent with guidance set out in the Code of Practice of Local Authority Accounting.             | <br><b>Green</b> |
| <b>Other accounting policies</b> | <ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>  | Our review of accounting policies has not highlighted any issues. We note that your cash balance within Note 12 Current Assets are material. We recommend you include a policy on Cash and Cash equivalents in your accounting policy note (Note 2). | <br><b>Amber</b> |

### Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

## Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

### Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

| Detail                    | Comprehensive Income and Expenditure Account<br>£'000 | Balance Sheet<br>£'000 | Impact on total net expenditure<br>£'000 |
|---------------------------|---|------------------------|--|
| 1 None identified to date |   |                        |  |
| <b>Overall impact</b>     | <b>£X,XXX</b>   | <b>£X,XXX</b>          | <b>£X,XXX</b>                            |

## Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

| Adjustment type     | Value<br>£'000 | Account balance            | Impact on the financial statements  |
|---------------------|----------------|----------------------------|---|
| 1 Misclassification | n/a            | Note 9 Investments         | Investment sales and purchases were overstated by an equal value within unrealised gains. You agreed to amend the note.   |
| 2 Disclosure        | n/a            | Note 15 Related parties    | The disclosure requirements of key management personnel under IAS 24 are satisfied by the disclosure requirements for officer remuneration and members' allowances in the main statements. Recommend adding a statement to this effect in the note. |
| 3 Disclosure        | n/a            | Note 2 Accounting Policies | We note that your cash balance within Note 12 Current Assets are material. We recommend you include a policy on Cash and Cash equivalents in your accounting policy note.   |

## Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:


| Detail                           | Comprehensive<br>Income and<br>Expenditure Account<br>£'000 | Balance Sheet<br>£'000 | Reason for not adjusting |
|----------------------------------|---|------------------------|--------------------------|
| 1 <b>None identified to date</b> |   |                        |                          |
| <b>Overall impact</b>            | <b>£X,XXX</b>   | <b>£X,XXX</b>          |                          |



## Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment   | Issue and risk   | Recommendation  |
|--|--|---|
| <p>1.  <b>Amber</b></p> | <p><b>IT controls</b><br/>As part of our review of general IT controls, we identified a number of minor points in relation to the SAP system. As part of our 2014/15 audit work we will be monitoring and reviewing implementation of the new Integra system, which will include consideration of the minor points identified.</p> | <p>The agreed recommendation with managements comment is set out in full within the financial statements Audit Findings Report.</p> |

### Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

|           | <b>Issue</b>                                       | <b>Commentary</b>  |
|-----------|--|--|
| <b>1.</b> | <b>Matters in relation to fraud</b>                | <ul style="list-style-type: none"> <li>We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul> |
| <b>2.</b> | <b>Matters in relation to laws and regulations</b> | <ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>   |
| <b>3.</b> | <b>Written representations</b>                     | <ul style="list-style-type: none"> <li>A standard letter of representation for the Council and its pension fund audit will be requested from the Fund at the conclusion of our audit.</li> </ul> |
| <b>4.</b> | <b>Disclosures</b>                                 | <ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>  |
| <b>5.</b> | <b>Matters in relation to related parties</b>      | <ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed.</li> </ul>  |
| <b>6.</b> | <b>Going concern</b>                               | <ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.</li> </ul>          |

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## Section 3: Fees, non audit services and independence

- 01. Executive summary
- 02. Audit findings
- 03. Fees, non audit services and independence**
- 04. Communication of audit matters

## Fees, non audit services and independence

We confirm below our final fees charged for the audit and there were no fees for the provision of non audit services.

### Fees

|                         | Per Audit plan<br>£ | Actual fees<br>£ |
|-------------------------|---------------------|------------------|
| Fund audit              | 21,000              | *25,500          |
| <b>Total audit fees</b> | <b>21,000</b>       | <b>25,500</b>    |

The Audit Commission defines the scale audit fee as "the fee required by the auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate statements with supporting working papers within agreed timeframes."

\* Some of these assumptions underpinning the scale fee were not met in respect of the Fund account audit. We will discuss the impact of this on the fee with the Deputy Chief Operating Officer. We estimate that additional fees will be approximately £4k to £5k.

### Fees for other services

| Service | Fees £ |
|---------|--------|
| None    | Nil    |

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

**04. Communication of audit matters**

# Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

| Our communication plan  | Audit Plan | Audit Findings |
|---|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance   | ✓          |                |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications  | ✓          |                |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought |            | ✓              |
| Confirmation of independence and objectivity  | ✓          | ✓              |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.                                | ✓          | ✓              |
| Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged  |            |                |
| Details of safeguards applied to threats to independence  |            |                |
| Material weaknesses in internal control identified during the audit   |            | ✓              |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements  |            | ✓              |
| Compliance with laws and regulations  |            | ✓              |
| Expected auditor's report   |            | ✓              |
| Uncorrected misstatements   |            | ✓              |
| Significant matters arising in connection with related parties  |            | ✓              |
| Significant matters in relation to going concern  |            | ✓              |

# Appendices

## Appendix A: Action plan

**Priority**  
**Significant deficiency** – risk of significant misstatement  
**Deficiency** - risk of inconsequential misstatement

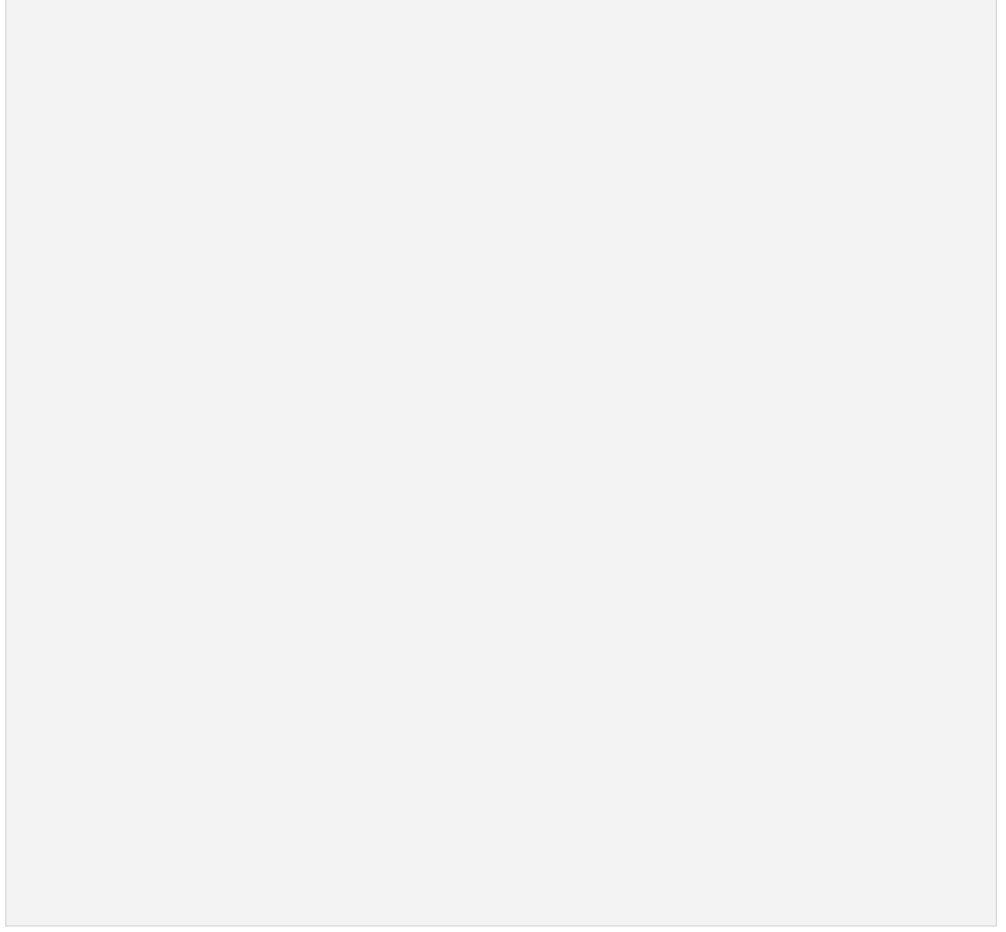
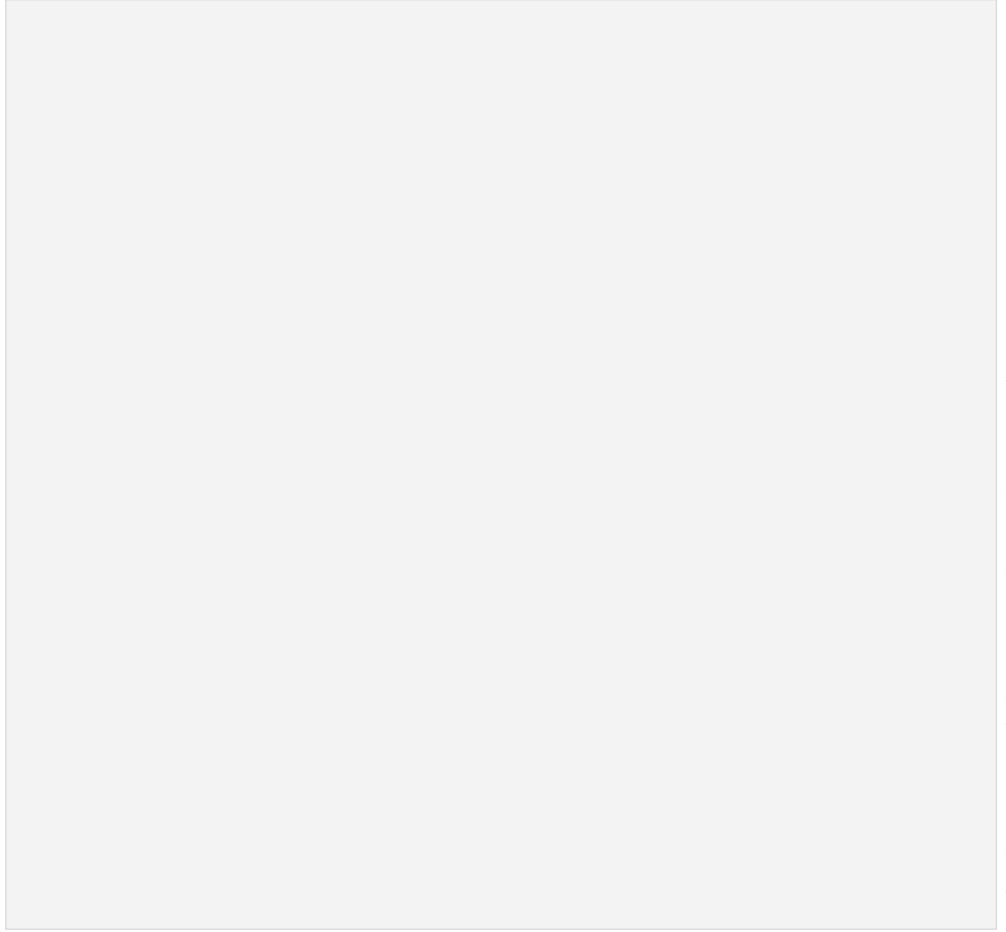
| Rec No. | Recommendation   | Priority | Management response  | Implementation date & responsibility   |
|---------|--|----------|--|--|
| 1       | <b>Pension strain</b><br>Ensure pension strain Integra balances are reconciled to member data on Hartlink monthly  | High     | Agreed. Processes for accounting for pension strain/ added years on Integra to be reviewed to ensure employer invoices supporting documentation reconciles to member data on Hartlink.   | 30th September 2014<br>Head of Treasury Capita CSG<br>Service Delivery Manager<br>Capita Employee Benefits |
| 2       | <b>Membership of the Pension Fund</b><br>Retain a screen print from the Hartlink system as at 31 March 2015 as evidence supporting your disclosure of a) number of employees contributing to the fund; b) number of pensioners; and c) number of deferred pensioners. We made a similar recommendation in our Findings report last year. | Medium   | Agreed. Head of Treasury, CSG and Service Delivery Manager, CEB to agree year-end reporting requirements and delivery timetable for 2014-15 accounts and annual report, to include fund membership and supporting documentation as at 31 March 2015. | 30th September 2014<br>Head of Treasury Capita CSG<br>Service Delivery Manager<br>Capita Employee Benefits |
| 3       | <b>Benefit payments accruals</b><br>Ensure accruals are appropriately reversed in the next accounting period. Reverse prior years benefit payments accruals are reversed in the current financial year.  | Medium   | Agreed. Year-end accruals were reversed in the first accounting period of 13-14 with the exception of the prior year benefit payment accruals. This will be adjusted on Integra in 14-15.  | 30th July 2015<br>Head of Treasury Capita CSG  |



## Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

FULL TEXT OF THE PROPOSED OPINION WILL BE INSERTED HERE





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