LONDON BOROUGH OF BARNET

INTERIM AUDIT FINDINGS REPORT

Audit for the year ended 31 March 2017
Issued 25 July 2017

CONTENTS

SUMMARY

AUDIT SCOPE AND OBJECTIVES	
Audit status	We have partially completed our audit procedures in accordance with the planned scope. However, work remains ongoing in a number of areas, as set out on page 5, and this Interim Audit Findings Report reflects key findings to date. We will present an oral update at the Audit Committee for any new issues that arise and we will issue our final Audit Completion Report upon completion of our work and receipt of a revised final Statement of Accounts incorporating all agreed audit adjustments.
Audit risks update	During the course of our audit we have elevated the risk level of three of our audit risks from 'normal' to 'significant'. These are as follows:- • Property, plant and equipment and investment property valuations (page 10) • Pension liability assumptions (page 13) • Changes in presentation of the financial statements (page 16) There are no other changes to the audit risks included within our Audit Plan dated 3 April 2017.
Materiality	Our overall financial statement materiality for the group and Council is £16 million. This has been updated from our Audit Plan to reflect the expenditure amounts in the draft Statement of Accounts.
Changes to audit approach	There were no other significant changes to our planned audit approach nor were any restrictions placed on our audit.

KEY AUDIT AND ACCOUNTING MATTERS	
Material misstatements	Testing completed to date has identified the following material misstatements: • £153 million of internal recharges between departments as both income and expenditure in the CIES in the current year and £309 million in the restated prior year comparative figures (page 16) • Material omissions from the grant income note (page 8). • Public Health grants of £18.054 million were incorrectly classified as non-specific grant income but should be in Public Health income (page 8) • Errors and omissions in the related party transactions note, which is considered material by nature (page 19) • Errors in the exit packages note, which is considered material by nature (page 21).
Unadjusted audit differences	There is one unadjusted audit difference identified by our audit work which if corrected would not impact on the surplus on provision of services. Details are set out at Appendix I. However, as set out within this report, there are a number of areas where our audit work is ongoing. An updated list of unadjusted audit differences will be included within our final Audit Completion Report.
Control environment	Our audit identified no significant deficiencies in internal controls. A number of other deficiencies have been identified as set out at Appendix II.

SUMMARY

KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES	
Sustainable finances	Our work in this area is ongoing and we will update the Audit Committee at their meeting on 27 July.
Contract management and monitoring	We have identified an additional significant risk to our use of resources opinion in respect of contract management and monitoring. This has arisen as a result of the numerous issues identified by internal audit in 2016/17 and also our own external audit work. Work is ongoing in this area and further detail is provided on page 29.

AUDIT OPINION	
Financial statements	Subject to the successful resolution of outstanding matters set out on page 5, we anticipate issuing an unmodified opinion on the financial statements for the year ended 31 March 2017.
Use of resources	As above, our work on significant risks in ongoing. We will update the Audit Committee at their meeting on 27 July.

OTHER MATTERS FOR THE ATTENTION OF THE AUDIT COMMITTEE	
Whole of Government Accounts	Local authorities' were required to submit the unaudited DCT to HM Treasury and auditors by 7 July 2017. At the time of drafting this report we have not yet received a copy of the draft DCT, and it is our understanding that this has not yet been submitted to HM Treasury.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.
Audit certificate	We will issue our audit certificate after we have completed our work on the group financial statements, Pension Fund financial statements, use of resources and Whole of Government Accounts, and after responding to any objections received from local electors. The Audit Committee should note that our audit of the Pension Fund financial statements has been delayed due to a delay in receiving complete financial statements and supporting working papers, and is now scheduled to commence on 7 August.

INTRODUCTION

PURPOSE AND USE OF THIS REPORT

We present our Interim Audit Findings Report to the Audit Committee, which details the key findings arising from the audit to date for the attention of those charged with governance. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK & Ireland) (ISAs) which provide us with a framework which enables us to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures to date, which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. As the purpose of the audit is for us to express an opinion on the financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

This report has been prepared solely for the use of the Audit Committee. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

This report includes the results of the audit to date. We will issue our final Audit Completion Report upon clearance of the outstanding matters set out on page 5, and receipt of a final agreed Statement of Accounts.

We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

AUDIT QUALITY

BDO is totally committed to audit quality. It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. BDO welcome feedback from external bodies and is committed to implementing necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US firms), the firm undertake a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our latest Transparency Report at www.bdo.co.uk.

OUTSTANDING MATTERS

The following matters remain outstanding at the date of this report:

1 Completion of audit work in a number of areas, including testing of manual journals, investment properties, receivables, provisions, housing revenue account and housing benefit expenditure.

2 Clearance of outstanding issues on the audit tracker currently with the finance team. The most significant of these relate to:

- Receipt of an updated actuary's report in respect of the net pension liability
- Review of updated financial instruments note
- Review by management for transactions with related parties declared, but omitted from original finance working paper

3 Completion of the ongoing review of the audit file by the manager, Partner and Engagement Quality Control Reviewer, and clearance of any points arising.

4 Receipt of outstanding bank and lender confirmations.

5 Receipt of a component auditor return from the auditor of The Barnet Group Ltd.

6 Partner and final technical review of the financial statements and clearance of any points arising.

7 Receipt and checking of final amended financial statements, incorporating any agreed audit adjustments.

8 Subsequent events review.

OUTSTANDING MATTERS

9 Final review and approval by you of the financial statements, including the management representation letter attached in Appendix VI.

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

We assessed the following matters as significant audit risks. Since we issued our Audit Plan on 3 April 2017, we have amended the risk from normal risk to significant risk in respect of: property, plant and equipment and investment property valuations; pension liability assumptions; and changes in presentation of the financial statements.

Below we set out how these risks have been addressed and the outcomes of our procedures to date.

Key: ■ Significant risk ■ Normal risk

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1	Management override of controls	Under ISA 240 there is a presumed significant risk of management override of the system of internal controls in all entities. By its nature, there are no controls in place to mitigate the risk of management override.	We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.	We have used data analytics software to review the Council's general ledger, in order to focus our testing of journals on higher risk areas. Our detailed testing of a sample of journals is still in progress, although work to date has not identified any significant issues.
			We reviewed significant accounting estimates for biases and evaluating whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.	We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are set out in this report.
			We obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.	We have identified no significant or unusual transactions to date which we consider to be indicative of fraud in relation to management override of controls.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2	Revenue recognition	Under Auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the existence of income. In particular, we considered there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance conditions before these may be recognised as revenue in the Comprehensive Income and Expenditure Statement (CIES). We also considered there to be a significant risk in relation to the existence of fees and charges income recorded in the CIES.	We tested a sample of grants subject to performance conditions to confirm that conditions of the grant have been met before the income is recognised in the CIES.	The first draft accounts included public health grant income of £18.054 million incorrectly classified within taxation and non-specific grant income in the CIES, when it should have been included within the Public Health line above deficit on continuing operations. There were significant omissions within the first draft grant income disclosure note, for example the housing benefit subsidy grant which is material by value, although we are satisfied that the correct amounts had been recognised as income within the CIES. Management has agreed to correct the above errors, and provided updated accounts on 18 July, which we are in the process of reviewing. In addition, we have identified that Community Infrastructure Levy (CIL) income is being recognised when cash is received, not at the point that a chargeable development commences, as required by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The correct treatment would generally result in income being recognised earlier. The finance team is currently undertaking an exercise to quantify any understatement of income.

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
Revenue recognition (continued)		We tested a sample of fees and charges income to ensure income has been recorded in the correct period and that all income that has been recorded should have been recorded.	Our testing of fees and charges income is substantially complete and we have not identified any significant issues to date. We did find one payment of £7,000 which had been incorrectly accounted for as a reduction to income, rather than expenditure. Although this amount is trivial, a review of the Council's ledger identified purchase ledger transactions totalling £1.073 million which have been recorded against income codes, and could be similarly misclassified. The finance team is currently undertaking a review of these transactions to quantify the extent of any error arising.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	Property, plant and equipment and investment property valuations	Local authorities are required to ensure that the carrying value of land, buildings, dwellings and investment properties is not materially different to existing use value for operational assets, or fair value for surplus assets and investment properties at the balance sheet date. The Council applies an annual revaluation process which is determined through consultation between the finance team and Principal Valuation Manager. High value properties, and those which are expected to be subject to significant valuation movements, are revalued on an annual basis. This covers approximately 90% of properties by value. Other properties are revalued on a rolling 5-yearly basis. There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at year-end. *(This has been increased from a normal risk to a significant risk due to volatility and uncertainty over market prices in the year)*	We reviewed the instructions provided to the valuer and reviewed the valuer's skills and expertise in order to determine if we can rely on the management expert. We assessed whether the basis of valuation for assets valued in year is appropriate based on their usage, and whether an instant build modern equivalent asset basis has been used for assets valued at depreciated replacement cost. We reviewed valuation movements against indices of price movements for similar classes of assets and followed up valuation movements that appeared unusual.	We have gained sufficient assurance over the independence, objectivity and competence of the Council's valuation team, and therefore can rely upon their work in valuing the Council's property assets. In addition, we note that there is a robust review and challenge process in place within the finance team which provides further assurance. We have reviewed a sample of in-year revaluations and we are satisfied that the valuation bases used are appropriate. We have challenged the valuer in respect of a number of property valuation movements which appeared unusual in comparison to general indices, and some of this work is still ongoing. Further information about our assessment of the estimates applied can be found on the following page.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES		
Property, plant and equipment and investment property valuations		
ESTIMATE	**COMMENT**	**AUDIT CONCLUSION**
Operational land and buildings are valued by reference to existing use market values Dwellings are valued by reference to open market value less a social housing discount Investment properties and surplus land and buildings are valued by reference to fair value for highest and best use Some specialist buildings (for example schools) are valued at depreciated replacement cost for a modern equivalent asset	For Council dwellings, a flat rate of 5.0% increase in valuations has been applied to each property for 2016/17 (giving a total revaluation gain of £27.2 million after accounting for stock movements). We have compared this to a range of national house price indices, which show increases of between 2.8% and 4.2% over the same period. However, Land Registry data for the Barnet local authority area shows an increase in house prices over the period of 8.0%. Management have explained that the 8.0% increase relates primarily to private sales of non-social housing, and that in the view of the valuer this increase will not be replicated within the Council's social housing stock. We are currently carrying out further work to evaluate this explanation. Council owned schools are valued at depreciated replacement cost on the basis of government guidance on the required floor area per pupil for different types of school. It is noted that the Council applies the maximum recommended floor area per pupil which is allowed by the government guidelines, which will result in valuations towards the top end of the range. The rationale for this is that schools constructed by the Council in recent years have been built to a high specification. This year, the Council has recognised a valuation decrease of 2.7% (£5.5 million) in respect of its schools' land and buildings, which is primarily as a result of a fall in pupil numbers of 2.4%. Building costs per square metre have been held at their prior year levels, compared to an increase in the BCIS All-In Tender Price index of 2.2% (between April 2015 and April 2016, which is the effective date of valuation). We are currently undertaking an exercise to benchmark the build costs used against other authorities, before concluding on the appropriateness of the estimates applied. Investment properties have seen an overall increase in valuation of 0.3% (£0.4 million) in year. However, this overall increase incorporates significant downwards revaluations totalling £6.5 million on three individual properties (Mill Hill Depot, and two sites relating to the Brent Cross redevelopment). Our review of a sample of investment property valuations and challenge of the assumptions used is ongoing. Surplus assets have seen a significant overall revaluation increase of 37.7% (£9.4 million). Of this, £7.4 million relates to two properties: the first is in the Burnt Oak development area, and the second is in the Brent Cross regeneration area. Both properties have been revalued in year on the basis of their future development potential.	**TBC**

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES		
Property, plant and equipment and investment property valuations		
ESTIMATE	**COMMENT**	**AUDIT CONCLUSION**
Continued	Other land and buildings have been revalued upwards by a total of 2.3% (£3.4 million). IPD regional capital growth indices (for buildings) show regional increases of 2.7% for retail, 10.5% for office, and 12.7% for industrial, for the period Q1 2015 to Q1 2016 (as the effective date of the Council's valuations is 1 April 2016). However, research conducted by Knight Frank shows that land values within the region (based upon residential development land) have decreased by 1.8% over the same period. We have tested a sample of properties, and challenged the valuer where individual movements appear unusual, and we are satisfied that overall the Council's valuations fall within a reasonable range.	

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4	Pension liability assumptions	The net pension liability comprises the group and Council's share of the market value of assets held in the pension fund and the estimated future liability to pay pensions. An actuarial estimate of the liability is calculated by an independent firm of actuaries. The Council has appointed new actuaries, Hymans Robertson, for 2016/17. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. At the planning stage it was our understanding that the actuary was likely to take a more prudent assessment of future assumptions that would increase the pension liabilities. We identified a risk that the valuation would not be based on accurate membership data or would use inappropriate assumptions to value the liability. *(This has been increased from a normal risk to a significant risk following a review of the draft accounts which showed a larger decrease in the net pension liability)*	As the auditors of the Pension Fund, we will review the controls for providing accurate membership data to the actuary. We reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data. This included review of the PwC consulting actuary report commissioned by the NAO on behalf of all local authority auditors for the review of the methodology of the actuary and reasonableness of the assumptions.	Our work in respect of controls over providing accurate membership data to the actuary is still ongoing, and has been affected by significant delays to our audit of the Pension Fund. As such, we are not yet in a position to conclude on this risk. In addition, we note that the actuary has based his estimate of fund assets upon index returns, as the authority has not provided actual investment return information. If actual investment returns were to differ significantly from the index returns used, the asset value and thus the net pension liability could be materially misstated. Again, we are not yet in a position to conclude upon this due to significant delays to our audit of the Pension Fund. However, our preliminary review of the draft Pension Fund accounts indicates that the net liability is likely to be materially understated. Management has contacted the actuary to request an updated report. We consider that the assumptions and methodology used by the Council's actuary are appropriate, and will result in an estimate of the net pension liability which falls within a reasonable range. Further details are provided on the following page. However, we did identify issues in respect of the draft pensions disclosure note, in that disclosures relating to the LGPS and Teachers' Pension Scheme (TPS) had been combined. This is incorrect, since the accounting requirements for the two schemes are very different (in that the TPS is accounted for as a defined contribution scheme). Management has agreed to separate the notes and correct the disclosures in the final accounts.

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
Pension liability assumptions (continued)			We note that the gross pension liability of the Council has increased by £147 million, from £1.030 billion to £1.177 billion. This is principally due to the reduction in the discount rate used to value future liabilities (from 3.5% to 2.5%) along with a slightly higher increase in future pension increases (from 2.3% to 2.4%). Offsetting this increase is a reduction in mortality years applied to current and future pensioners and a lower increase rate for salaries (from 4.1% to 2.4%).

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES

Gross pension liability assumptions

ESTIMATE

The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows

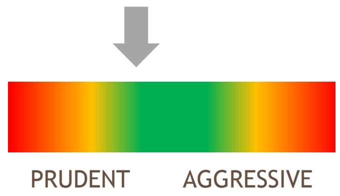
HOW RISK WAS ADDRESSED BY OUR AUDIT

The actuary has used the following assumptions (actual used below) to value to future pension liability:

	Actual used	Acceptable range (PwC report)	Assessment of assumption against expectations
RPI increase	3.4%	3.4%	Reasonable
CPI increase	2.4%	2.4%	Reasonable
Salary increase	2.7%	--	Employer specific – appears reasonable in context of CPI/RPI
Pension increase	2.4%	2.4%	Reasonable
Discount rate	2.5%	2.5-2.7%	Lower end of range
Mortality:			
Retiring today			
- Male	21.9 years	21.5-22.8	Reasonable
- Female	24.3 years	24.1-25.1	Reasonable
Retiring in 20 years			
- Male	23.9 years	23.7-24.4	Reasonable
- Female	26.5 years	26.2-26.9	Reasonable
Commutation rate :			
Pre-April 2008	50%	25%-75%	Reasonable
Post-April 2008	50%	25%-75%	Reasonable

All of the assumptions used fall within the reasonable range for the actuary as per the PwC consulting actuary report. We note that the use of a discount rate at the bottom of the expected range is likely to result in an estimate of net liability which is slightly on the prudent side, although combined with the mortality estimates which tend towards the lower end for life expectancy, we are satisfied that overall the estimate falls within a reasonable range.

AUDIT CONCLUSION



KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5	**Changes in presentation of the financial statements**	The Code requires a change to the presentation of some areas of the financial statements this year. This includes: • Change to the format of the Comprehensive Income and Expenditure Statement (CIES) • Change to the format of the Movement in Reserves Statement (MIRS) • New Expenditure and Funding Analysis (EFA) note • Change to the Segmental Reporting note • New Expenditure and Income analysis note This requires a restatement of the 2015/16 CIES. We identified a risk that these presentational changes would not be correctly applied in the financial statements. *(This has been increased from a normal risk to a significant risk following a review of the draft accounts which included a number of unexpected differences relating to these changes.)*	We reviewed the draft financial statements and checked these against the CIPFA Disclosure Checklist and whether the analysis by service in the CIES is consistent with the internal reporting within the Council. We reviewed the restatement of the comparative 2015/16 information to ensure that this was presented consistently with the current year basis.	We are satisfied that the new format and structure of the CIES is appropriate, and consistent with internal reporting to the Policy and Resources Committee, which is deemed to fulfil the role of Chief Operating Decision Maker for the Council. We found a number of errors were made in the restatement of the prior year CIES into the new format in the draft accounts, which resulted in both income and expenditure being grossed up by £332 million. There was no overall impact on the net surplus on provision of services. It has taken significant effort by the finance team to identify the causes of these errors, so that they can be corrected. This is in part due to the Council's highly complex ledger structure and chart of accounts, and the resulting high level of manual intervention which is required during the accounts preparation process. The finance team has now presented a revised version of the prior year CIES which has reduced income and expenditure by £309 million from the first draft. We have been informed that the remaining difference of £23 million from the prior year accounts relates to prior year errors to be corrected by way of retrospective restatement. As such, a prior period adjustment note will need to be included within the final accounts. Due to the issues identified with the prior year restatement, we also asked the finance team to revisit the current year CIES. Similar grossing up errors were found totalling £153 million.

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
Changes in presentation of the financial statements (continued)			In addition, we found that the Expenditure and Funding Analysis note presented within the draft financial statements did not follow the format required by the Code. In light of the number and value of errors found, our detailed audit testing is ongoing. In particular, work is ongoing to review the revised statements provided by the finance team on 18 July, and there are still outstanding issues to resolve in respect of the treatment of material adjustments relating to capital reserves, and other non-trivial adjustments which have not yet been substantiated. In addition, given the level of misstatement in the current year accounts, and evidence of netting errors in the prior year accounts, we have recognised a control deficiency in respect of the Council's accounts preparation process (see recommendation in Appendix II).

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
6	Allowances for non-collection of receivables	The Council recognises a significant allowance for the non-collection of receivables, primarily in respect of council tax arrears, NDR arrears, housing benefit overpayments, housing rents arrears and parking charges. The Council assesses each type of receivable separately in determining how much to allow. There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied.	We will review the provision model for significant income streams and debtor balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears.	This work is ongoing at the time of drafting this report.

SIGNIFICANT ACCOUNTING ESTIMATES

ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT CONCLUSION
Estimate of future write-off for uncollectable debt	This work is in progress.	TBC

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
7	Consideration of related party transactions	We consider if the disclosures in the financial statements concerning related party transactions are complete and accurate, and in line with the requirements of the accounting standards.	We reviewed the related party transactions identification procedures in place and relevant information concerning any such identified transactions. We also carried out Companies House searches for undisclosed interests. We discussed with management and reviewed Member and senior officer declarations to ensure there are no potential related party transactions which have not been disclosed.	At the time of drafting this report, annual related party declarations have not been received from 7 current Members of the Council. We consider this to be a poor response rate as compared to other authorities, and accordingly have recognised a deficiency in internal control (see recommendation in Appendix II). From our work completed to date, we have identified no evidence of undisclosed related party transactions within the draft accounts. However, we have identified the following disclosure errors in the draft related party transactions note:- • Outstanding balances to and from The Barnet Group Ltd are not consistent with the consolidation schedules used to prepare the group accounts. As such, the creditor balance is understated by £5.989 million, and the debtor balance is understated by £3.231 million • There is no disclosure of the total level of transactions between the Council and its subsidiaries • The balance of investments held with other local authorities has not been updated with the current year figure. Management has agreed to correct these errors in the final accounts. We also identified that not all declared related parties had been included on the finance team’s analysis of related party transactions, which raises the possibility that there may be undisclosed transactions with these bodies.

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
Consideration of related party transactions (continued)			The finance team is currently undertaking an exercise to identify any such transactions, and a recommendation has been raised in respect of this process (see recommendation in Appendix II).

KEY AUDIT AND ACCOUNTING MATTERS

OTHER ISSUES

We comment below on other issues identified in the course of our audit, of which we believe you should be aware:

	AUDIT AREA	AUDIT FINDINGS
8	**Exit package disclosures**	During our interim audit visit, we identified payments totalling £23,000 made during 2016/17 in relation to two exit packages which had been agreed during 2015/16. In accordance with Code requirements, these should have been included within the 2015/16 exit packages disclosure note, but were not. As a result of this, we requested that the finance team carry out an exercise to identify any similar exit packages which should have been disclosed in the prior year, and also carry out an additional exercise at year-end to consider payments in the first 3 months of 2017/18, which may be indicative of exit packages agreed in 2016/17 which need to be disclosed. The exit packages note within the first draft accounts did not agree to the underlying supporting working papers, and the finance team have confirmed that the draft note was incorrect. We have now received updated working papers, however these are once again based upon payments made during the year per payroll, and do not consider whether there are exit packages which have been agreed but not paid at year-end. We received a further updated note on 19 July and we are in the process of reviewing this.
9	**Investment classification**	One investment balance with another local authority (£5.053 million including accrued interest) has been incorrectly classified within long-term investments, when it should have been classified within short-term investments as it matures within 12 months of the balance sheet date. Management has agreed to correct this error in the final accounts.
10	**Credit balances on receivables ledger**	Our review of the Council's receivables ledger has identified credit balances totalling approximately £1.613 million which should be reclassified to payables. We are waiting for management to inform us whether or not it will adjust the final accounts in respect of this error. In the meantime, we have included this as an unadjusted error at Appendix I.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	AUDIT FINDINGS
11	**Immaterial disclosures**	The draft accounts include a number of immaterial or surplus disclosure notes, as follows: • Heritage assets • Intangible assets • Inventories • Construction contracts • Assets held for sale • Usable reserves (refers directly to MIRS) • Acquired and discontinued operations • Impairment losses We recommend that these notes are removed to improve clarity for the user of the accounts. In addition, the accounting policies note includes policies relating to inventories, assets held for sale, intangibles, contingent assets, and the Carbon Reduction Scheme which should be removed on materiality grounds.
12	**Other disclosure issues**	We have identified a number of other disclosure issues within the draft accounts to date, the most significant of which are as follows: • Property, plant and equipment note did not include an analysis of balances by revaluation date, as required by the Code • Further analysis or explanation was required of material 'other receipts from investing activities' within the notes to the Cash Flow Statement • Further analysis of explanation was required of material 'other earmarked reserves' • Further analysis was required of receipts in advance and payments in advance by counter-party type • There were a number of disclosure issues and errors within the financial instrument notes, which we are still reviewing in detail • Auditors' remuneration was incorrectly stated • Movement on the HRA Statement did not match the format required by the Code • Various other minor rounding, casting or consistency errors which have been communicated to management. We are currently in the process of reviewing the revised draft accounts provided by management, to assess the extent to which the issues raised have been addressed.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	AUDIT FINDINGS
13	**CSG prepayment**	As at 31 March 2017, the Council has a prepayment balance of £44.7 million in respect of its Customer and Support Group (CSG) contract. This contract covers a number of frontline and back office services including finance, ICT, HR, customer services, revenues and benefits, procurement, estates, and corporate programmes. As this is a significant prepayment, we challenged management with regard to its basis. Of the prepayment amount, £21.4 million is in accordance with the payment profile set out in the contract, whereby significant payments were made at the start of the contract (and in subsequent years) to cover capital investment and transformational expenditure. A further £3.7 million relates to services paid for prior to the commencement of the contract, but delivered over the contract life. The financial profile of the contract anticipates these amounts being utilised by the end of the 2022/23 financial year. A further payment of £19.1 million was made in December 2016 in respect of service charge payments relating to the first three quarters of 2017/18. This payment was made in advance of the originally agreed profile, on the basis that the Council was offered a discount of approximately £0.5 million in the following financial year. A similar prepayment of £1.9 million was made to the same supplier in respect of other projects which the Council had committed to fund. The prepayment was endorsed by the Performance and Contract Management Committee, following a report by a Member-led Working Group. In forming its recommendations, the Group considered the risk of supplier failure (which was deemed to be highly unlikely), contract withdrawal by the supplier, and the Council's ability to issue service improvement notices or apply service credits in year (which it concluded was not impinged). We are therefore satisfied that the decision has been subject to an appropriate degree of scrutiny, and management confirm that this transaction presented value for money.

OTHER REPORTING MATTERS

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

	MATTER	COMMENT
1	The draft financial statements, within the Statement of Accounts, was prepared and provided to us for audit on 31 May 2017.	As set out elsewhere within this report, we have identified a number of errors within the first draft financial statements, many of which were material. We received an updated set of accounts on 18 July, and we are currently in the process of reviewing these.
2	We are required to review the draft Annual Governance Statement and be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Councils review of effectiveness and our knowledge of the Council.	We received a copy of the draft Annual Governance Statement on 19 July, and our review is ongoing. We will provide an update to the Audit Committee at its meeting on 27 July.
3	We are required to read all the financial and non-financial information in the Narrative Report to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.	As a result of the significant issues identified within the draft CIES and EFA (see page 16), we did not commence our review of the Narrative Report until receipt of the updated accounts on 18 July, and this work is ongoing. We will provide an update to the Audit Committee at its meeting on 27 July.

CONTROL ENVIRONMENT

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you.

As the purpose of the audit is for us to express an opinion on the Council's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We note that the Council's internal audit function has issued a number of observations and recommendations on the Council's control environment during 2016/17. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control which we are required to report to you.

Our audit has identified no significant deficiencies in internal control. Other deficiencies have been discussed with management and are included in the action plan at Appendix II.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

	MATTER	COMMENT
1	For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Authority for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.	Local authorities' were required to submit the unaudited DCT to HM Treasury and auditors by 7 July 2017. At the time of drafting this report we have not yet received a copy of the draft DCT, and it is our understanding that this has not yet been submitted to HM Treasury. We will complete our review of the DCT after we have completed our audit of the Council's financial statements. We will aim to issue our opinion on the consistency of the DCT return with the audited financial statements before the 30 September 2017 statutory deadline, subject to timely receipt of the draft DCT and supporting working papers.

USE OF RESOURCES

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money). This is based on the following reporting criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

There are three sub criteria that we consider as part of our overall risk assessment:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

We reported our risk assessment, which included use of resources significant risks, in the 2016/17 audit plan issued in 18 April 2017. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements, and we have included one additional significant risk relating to contract management and monitoring (see page 29).

We report below our findings of the work designed to address these significant risks and any other relevant use of resources work undertaken.

Key: ■ Significant risk

USE OF RESOURCES

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
1	Sustainable finances	In 2016/17, the Council has reported an overspend on services against budget of £8.3 million. The majority of this relates to adults and communities (£5.4 million) and housing needs and resources (£1.8 million), as a result of sustained demand pressures in these areas. During the year, the Council has seen a reduction in its General Fund and earmarked reserves balances (combined) of £18.5 million. The Medium Term Financial Strategy (MTFS) was updated in March 2017 and now forecasts a budget gap prior to identified savings of £53.9 million over the 3 year period from 2017/18 to 2019/20. The Council has fully identified savings plans in order to address this budget gap. However, the savings targets remain significant and achievement of these will be inherently challenging, as evidenced by the overspend in 2016/17. Ahead of 2020, the MTFS and Council Plan will be subject to fundamental review as continued support from reserves will not be viable.	Our work in this area is ongoing, and we will update the Audit Committee at their meeting on 27 July.

USE OF RESOURCES

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
2	Contract management and monitoring	The Council relies heavily on external contractors for the provision of a large number of its frontline and back office services. Some of these contractors are completely separate private sector organisations, whilst others are wholly or partly controlled by the Council, despite being separate legal entities. The vast majority of the Council's services are now delivered through one of these outsourcing arrangements. In order to continue to make informed decisions and manage risk in an appropriate way within such an environment, it is important to establish strong contract management and monitoring controls. Such controls should allow the Council to monitor the operational performance of its main contractors, compliance with agreed service standards, and any risks to the Council arising from the contractor's work. They also allow the Council to ascertain whether or not it is receiving value for money from the use of its contractors, and to take remedial action where issues are identified. During the course of 2016/17 we have noted a number of internal audit reports which have raised significant findings in this area. In addition, further concerns have been identified through our own audit work. As such, we have recognised a significant risk to our use of resources opinion.	We are in the process of carrying out additional work in this area before we are able to conclude upon whether there is any impact on our use of resources opinion.

APPENDICES

APPENDIX I: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit Committee is required to consider. This includes audit differences that have been corrected by management, and those that remain uncorrected along with the effect that they have individually, and in aggregate, on the financial statements.

ADJUSTED AUDIT DIFFERENCES

We have identified a number of material misstatements within the first draft Statement of Accounts presented for audit, as set out within this report. These include:

- £153 million of internal recharges between departments as both income and expenditure in the CIES in the current year and £309 million in the restated prior year comparative figures (page 16)
- Material omissions from the grant income note (page 8).
- Public Health grants of £18.054 million were incorrectly classified as non-specific grant income but should be in Public Health income (page 8).
- Errors and omissions in the related party transactions note, which is considered material by nature (page 19).
- Errors in the exit packages note, which is considered material by nature (page 21).

Management has agreed to correct the above errors in the final Statement of Accounts.

In addition, other non-trivial adjusted audit differences have been set out in the main body of this report.

UNADJUSTED AUDIT DIFFERENCES

There is one unadjusted audit difference identified by our audit work which if corrected would not impact on the surplus on provision of services. You consider this identified misstatement to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement however we also request that you correct it even though not material.

However, as set out within this report, there are a number of areas where our audit work is ongoing. An updated list of unadjusted audit differences will be included within our final Audit Completion Report.

APPENDIX I: AUDIT DIFFERENCES

		INCOME AND EXPENDITURE		BALANCE SHEET	
		DR	CR	DR	CR
	£'000	£'000	£'000	£'000	£'000
Surplus on provision of services before adjustments	**3,842**				
DR Short term debtors				1,613	
CR Short term creditors					(1,613)
(1) Impact of credit balances on the receivables ledger	-				
TOTAL UNADJUSTED AUDIT DIFFERENCES	**-**	**-**	**-**	**1,613**	**(1,613)**
Deficit on provision of services if adjustments accounted for	**3,842**				

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

Key: ■ Significant deficiency in internal control ■ Other deficiency in internal control ■ Other observations

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
STATEMENT OF ACCOUNTS					
Accounts preparation process	The first draft accounts presented for audit included material 'grossing up' errors whereby both income and expenditure for both the current and prior years was materially overstated. In addition, management has confirmed that there were material 'netting off' errors in the prior year financial statements such that income and expenditure were understated by £23 million. We have also identified several classification errors within the current year draft accounts. Whilst these errors have arisen partly as a result of the changes to the format of the CIES this year, it is also our view that the Council's ledger structure and chart of accounts is too complex, and the level of manual intervention and off-ledger adjustments required presents a risk to the accuracy of the financial statements.	We recommend that management conducts a detailed review with a view to determining whether there is scope to simplify the current ledger structure and accounts preparation process, particularly around the level of manual intervention and off-ledger adjustments required in the preparation of the CIES. Where off-ledger adjustments are required, the process should be clearly documented in advance of year-end, with explanations of each adjustment required. This will reduce the risk of error or omission during the accounts preparation phase. Off-ledger adjustments should be subject to a documented review and authorisation process which mirrors that required for journals posted within Integra.			
Related party declaration process	At the time of drafting this report, related party declaration forms have not been received by a number of Members and senior officers who are required to complete them. The poses a risk that related party transactions may not be identified, and may therefore be undisclosed within the financial statements. We note that attempts have been made by officers to chase the outstanding declarations but with no success.	We recommend that a process is put into place whereby there is appropriate Member oversight of the process (for example through the Audit Committee), in an attempt to improve compliance rates.			

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Related party transaction controls	We identified that not all declared related parties had been included on the finance team's analysis of related party transactions, which increases the risk of undisclosed related party transactions.	We recommend that a control is put into place to check that all declared related parties have been included within the finance team's analysis at year-end.			
Exit packages	Our review of the draft exit packages disclosure note identified that this had been prepared on the basis of payments made during the year, rather than exit packages agreed in the year as required by the Code. The note was therefore misstated.	We recommend that a control is put into place as part of the year-end process to ensure that any exit packages which have been agreed in year but paid in the following year are identified and reported.			
Bank reconciliations	The year-end bank reconciliations which were first provided to us contained a number of errors, and did not reconcile. We have now been provided with satisfactory reconciliations. However, discussions with the finance team have confirmed that reconciliations have not always been prepared and reviewed on a timely basis throughout the year. This increases the risk that errors or fraud relating to the Council's bank accounts may not be detected in a timely way, and this may result in financial loss to the Council.	We recommend that a monitoring process is put into place to ensure that all control account reconciliations (including bank reconciliations) are prepared and reviewed at an appropriate level on a timely basis throughout the year.			

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
High level oversight of financial controls	Throughout our audit, we noted that many of the control activities which provide assurance over the completeness and accuracy of the Statement of Accounts take place outside of the finance team, for example within payroll, adults and communities, revenues and benefits or IT teams. This includes key controls around the initiation of material income and expenditure streams, and the interfacing of financial information between feeder systems and Integra. This in itself is not unusual within a large and complex organisation such as the Council. However, we do have some concerns about a lack of high level understanding and oversight of the complete control framework, and how this provides management with the required level of assurance that the internal control system, as a whole, is suitable for the Council's needs.	We recommend that management conducts a review and assessment of the overall internal control system. Process notes and/or system diagrams should be drawn up for key transaction streams, setting out the key control activities in each place, who has responsibility for their operation, and how their effectiveness is monitored.			

APPENDIX III: MATERIALITY

MATERIALITY - FINAL AND PLANNING

	FINAL	PLANNING
Group materiality	£16,000,000	£14,300,000
Significant components: • London Borough of Barnet	£16,000,000	£14,300,000
Non-significant components: • The Barnet Group Ltd [100% subsidiary] and its subsidiaries - Barnet Homes Ltd - Your Choice (Barnet) Ltd - TBG Flex Ltd - Opendoor Homes Ltd	£5,000,000	£5,000,000
Immaterial components excluded from the Group financial statements: • Barnet Holdings Ltd • BXS LLP • Hill Green Homes Ltd	-	-
Immaterial joint ventures that are not adjusted for equity accounting in the Group financial statements: • Regional Enterprise Ltd [49% joint venture via Barnet Holdings Ltd] • The Inglis Consortium LLP [13.9% joint venture] • BXS GP Ltd [50% joint venture via BXS LLP]	-	-

APPENDIX III: MATERIALITY

MATERIALITY – FINAL AND PLANNING (continued)
Planning materiality for the group and the Council was based on 1.5 % of gross expenditure based upon the prior year group financial statements. We revised our materiality upwards upon receipt of the draft financial statements, due to an increase in expenditure this year. Component materiality is set for those entities where component auditors perform an audit or a review for the purposes of the group audit. The local materiality applied for the statutory audit of the component financial statements, where required, cannot exceed the component materiality and is likely to be lower than the component materiality set as part of the group audit. We understand that the component auditor has agreed materiality at a level significantly below our component materiality level. The final clearly trivial threshold for the group and the Council has been set at £320,000, based upon 2% of the materiality level of the group.

APPENDIX IV: INDEPENDENCE

We confirm that the firm complies with the Financial Reporting Council's Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired. These policies include engagement lead and manager rotation, for which rotation is required after 5 years and 10 years respectively.

INDEPENDENCE - ENGAGEMENT TEAM ROTATION	
Senior team members	Number of years involved
LEIGH LLOYD-THOMAS – Audit engagement lead	2
JODY ETHERINGTON – Audit manager	2

We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the group and we have not identified any potential threats to our independence as auditors.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

APPENDIX V: FEES SCHEDULE

	2016/17 FINAL PROPOSED £	2016/17 PLANNED £	2015/16 FINAL £	EXPLANATION FOR VARIANCES
Code audit fee	170,025(1)	170,025	170,025(1)	N/A
Certification fee (Housing benefits subsidy)	20,310	20,310	21,617(2)	N/A
TOTAL CODE AUDIT AND CERTIFICATION FEES	**190,335**	**190,335**	**191,642**	
Audit related services:				
• Pooling of Housing Capital Receipts certification fee	2,750	2,750	2,750	N/A
• Teachers' Pension certification fee	5,000	5,000	5,000	N/A
Fees for non-audit services	-	-	-	N/A
OTHER ASSURANCE SERVICES	**7,750**	**7,750**	**7,750**	
TOTAL ASSURANCE SERVICES	**198,085**	**198,085**	**199,392**	

(1) The Code audit fee quoted is as per the scale fee set by Public Sector Audit Appointments Ltd (PSAA). A fee variation is yet to be agreed in respect of additional work carried out in relation to objections to the accounts received from local electors in 2015/16 and 2016/17.

(2) The fee for the 2015/16 housing benefits subsidy claim does not yet include a fee variation to be agreed in respect of additional work requested in response to correspondence from the Department of Work and Pensions.

APPENDIX VI: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED NOTEPAPER
BDO LLP
55 Baker Street
London
WIU 7EU

[XX] September 2017

Dear Sirs

Financial statements of the London Borough of Barnet for the year ended 31 March 2017

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2017 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and Members of the Council.

The Director of Resources has fulfilled her responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of responsibilities of auditors and of audited bodies: local government issued by Public Sector Audit Appointments (PSAA), and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2017 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the 'Code') and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

APPENDIX V: DRAFT REPRESENTATION LETTER

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with international financial reporting standards and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving Councillors, management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

We have disclosed to you all allegations of fraud or suspected fraud affecting the financial statements that have been communicated by Councillors, employees, former employees, analysts, regulators or any other party.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

a) Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- Rate of inflation (CPI): 2.4%
- Rate of increase in salaries: 2.7%
- Rate of increase in pensions: 2.4%
- Rate of discounting scheme liabilities: 2.5%
- LGPS commutation take up option: 50%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

b) Valuation of housing stock, other land and buildings and investment properties

We are satisfied that the useful economic lives of the housing stock and other land and buildings, and their constituent components, used in the valuation of the housing stock and other land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to council dwellings and other land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

We are satisfied that investment properties have been appropriately assessed as level 2 on the fair value hierarchy for valuation purposes and valued at fair value, based on highest and best use.

APPENDIX VI: DRAFT REPRESENTATION LETTER

c) Allowance for non-collection of receivables

We are satisfied that the impairment allowances for council tax arrears, NDR arrears, housing benefit overpayments, housing rent arrears and parking charges are reasonable, based on collection rate data.

We consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

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

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Anisa Darr
Director of Resources
XX September 2017

Cllr Hugh Rayner
Chair
Signed on behalf of the Audit Committee
XX September 2017

FOR MORE INFORMATION:

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