

Audit for the year ended 31 March 2017 11 September 2017



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SUMMARY

AUDIT SCOPE AND OBJECT	IVES
Audit status	We have substantially completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to resolution of matters set out in the outstanding matters section below.
Audit risks	During the course of our audit we have elevated the risk level of three of our financial statements audit risks from 'normal' to 'significant'. These are as follows:
	Property, plant and equipment and investment property valuations (due to volatility and uncertainty over market prices in the year)
	Pension liability assumptions (draft accounts recorded a significant and unexpected decrease in the net pension liability)
	Changes in presentation of the financial statements (draft accounts included a number of unexpected differences relating to these changes)
	In addition, we identified two new significant risks to our use of resources opinion:
	Contract management and monitoring (concerns raised regarding arrangements for managing performance of contractors)
	• Failings in Children's service identified by Ofsted (critical report issued by Ofsted).
Materiality	Our final materiality for the group and the Council is £16 million.
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 ACCOUNTIL	KEY AUDIT AND ACCOUNTING MATTERS				
Material misstatements We identified a number of material misstatements in the draft financial statements as summarised at Appendix I.					
Management has corrected all material and some non-trivial misstatements. These corrections did not impact on the Council or group surplus provision of services for the year but has reduced net assets and reserves of the Council by £82.348 million and the Group by £89.295 million.					
Unadjusted misstatements	There are 9 unadjusted non-trivial misstatements identified by our audit work. If corrected, these would increase the Council's surplus on the provision of services and net assets by £2.894 million and increase the group surplus and net assets by £2.881 million.				
There are three misstatements carried forward from the previous year that suggests £7.186 million of income included in 2016/17 should be as 2015/16 income. We consider that the group's corrected underlying CIES position is a deficit for the year of £4.305 million.					
Control environment	Our audit identified no significant deficiencies in internal controls.				

A number of other deficiencies have been identified as summarised at Appendix II.

SUMMARY

KEY MATTERS FROM OUR A	KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES					
Sustainable finances	We are satisfied that the Council has adequate arrangements for setting and monitoring financial budgets, and that it has clearly identified its funding gap and savings requirements through to 2020.					
Contract management and monitoring	We are satisfied that the Council has adequate arrangements for contact management and performance management of key contracts. We also recognise and welcome the work identified in the AGS to improve the oversight, accountabilities, and roles and responsibilities across commissioning, finance and contract management and will continue to keep this area under review in the coming year to ensure a robust framework is in place to deliver value for money.					
Ofsted inspection	In April and May 2017, the Council was subject to an Ofsted inspection of its services for children in need of help and protection, children looked after and care leavers. The report assessed these services as inadequate.					

AUDIT OPINION	
	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 a result of the Ofsted inspection rating the Council's Children's services as inadequate, we are unable to conclude that the Council has adequate arrangements for the delivery of safe and effective services for Children's services. Our use of resources conclusion will be modified to reflect this.

OTHER MATTERS FOR THE ATTENTION OF THE AUDIT COMMITTEE					
Whole of Government Accounts (WGA) The Council received an extension to submit the unaudited WGA Data Collection Tool (DCT) to HM Treasury after the initial date of 7 July 201 we receive this on 1 August 2017. We will complete our review of the DCT after we have completed our audit of the financial statements. We aim to issue our opinion on the consistency of the DCT return with the audited financial statements before the 29 September 2017 deadline.					
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.				
Objections from members of the public	We have received objections regarding the legality of transactions in the financial statements including accruals for PCN parking income, gain share payments made to Capita and the decision to take borrow in the form of Lender Option Borrower Option (LOBOs) loans in previous years. Investigations into these transactions will continue. However, work completed to date does not suggests that there will be a material impact on the financial statements or use of resources and is unlikely to result in delay to the audit opinions on the financial statements or use of resources.				
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				

OTHER MATTERS FOR THE ATTENTION OF THE AUDIT COMMITTEE

resources and Whole of Government Accounts, and after responding appropriately to any objections received from local electors.

INTRODUCTION

PURPOSE AND USE OF THIS REPORT

We present our Audit Completion Report to the Audit Committee, which details the key findings arising from the audit 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) 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 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.

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 welcomes 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

We have substantially completed our audit work for the year ended 3	31 March 2017	r ended 31	the vear	work for the	our audit	pleted	/ com	substantially	have	W
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The following matters are outstanding at the date of this report. We will update you on their current status at the Audit Committee meeting at which this report is considered:

- 1 Review of information and supporting evidence provided by management in response to the remaining queries in the audit tracker.
- 2 Clearance of review by the Engagement Quality Control Reviewer.
- Receipt of a component auditor return from the auditor of The Barnet Group Ltd.
- 4 Subsequent events review.
- 5 Final review and approval of the amended financial statements, incorporating any agreed audit adjustments.
- 6 Management representation letter, as attached in Appendix VI, to be approved and signed.

AUDIT RISKS

We assessed the following matters as 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.

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 auditing standards there is a presumed significant risk of management override of the system of internal controls	entries recorded in the general ledger and	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.
	in all entities. By its nature, there are no controls in place to mitigate the risk of management override.	the financial statements.	Our detailed testing of a sample of journals identified no evidence of inappropriate journal entries or management override of controls.	
			We reviewed significant accounting estimates for biases and evaluated 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 identified no significant or unusual transactions which we consider to be indicative of fraud in relation to management override of controls.

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 also considered there to be a significant risk in relation to the existence of fees and charges income recorded in the CIES.	Our testing of grant income identified the following issues: The first draft accounts included public health grant income of £18.054 million which was 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 and errors within the first draft grant income disclosure notes, 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. We identified that the Council is accounting for Community Infrastructure Levy (CIL) income on the passis of when cash is received, not at the point that a chargeable development commences (as required by the Code). As a result, there is net total income of £3.693 million recognised in the current year which should have been recognised in a previous year, and total income due of £1.958 million which should have been accrued in the current year but was not. The net impact is that current year income is overstated by £1.735 million. Management has informed us that it will not adjust for this error and it has been included in our summary of unadjusted misstatements at Appendix I.

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
Land, buildings, dwellings 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.	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 have gained sufficient assurance over the independence, objectivity and competence of the Council's outsourced 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.
	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	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 have reviewed a sample of in-year revaluations and we are satisfied that the valuation bases used are appropriate.
	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	We reviewed valuation movements against indices of price movements for similar classes of assets and followed up valuation movements that appeared unusual.	We have challenged the valuer in respect of a number of property valuation movements which appeared unusual in comparison to general indices. Following this additional work we are satisfied that all valuations fall within a reasonable estimation range. Further information about our assessment of the
	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)		estimates applied can be found on the following page. We did identify two presentational errors within the PPE note in respect of revaluation movements. These related to Council dwellings (incorrect grossing up of upwards and downwards revaluations by £21.643 million) and investment properties (incorrect netting down of upwards and downwards revaluations by £2.322 million). In both cases there was no impact on the total closing net book value of assets, and the errors have been corrected in the final accounts.

SIGNIFICANT ACCOUNTING ESTIMATES

Land, buildings, dwellings and investment property valuations

ESTIMATE

Land and buildings are valued by reference to existing use market values

Dwellings are valued by discount

Investment properties and surplus land and buildings are valued by reference to fair value for highest and best use

Some specialist buildings valued at depreciated replacement cost for a modern equivalent asset, by reference to building indices

HOW RISK WAS ADDRESSED BY OUR AUDIT

Council dwellings

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 reference to open market of 7.2%. Discussions with the valuer revealed that there is the significant variation in market conditions across the value less a social housing Borough, and that the Council's dwellings tend to be located within more deprived areas which have not experienced the same degree of valuation increases seen elsewhere. As such, we have concluded that the increase of 5.0%, whilst on the prudent side, results in an overall valuation which falls within a reasonable range.

Schools

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 permitted 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 (for example schools) are 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%.

> We have carried out an exercise to benchmark the assumptions used by the Council's valuers against other authorities, and a review of the evidence provided by the valuer to support the valuations. We are satisfied that overall the valuations fall within a reasonable range, although they are on the high side as compared to other local authorities which reflects higher than average building costs experienced in recent projects.

Surplus assets

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. We have reviewed the valuation basis and assumptions applied for these assets and we are satisfied that overall the valuations fall within a reasonable range.

AUDIT CONCLUSION



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reasonable range.

SIGNIFICANT ACCOUNTING ESTIMATES Land, buildings, dwellings and investment property valuations (continued) **ESTIMATE** HOW RISK WAS ADDRESSED BY OUR AUDIT **AUDIT CONCLUSION** Investment properties 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). The Mill Hill Depot valuation is based upon future expected cash flows from the Council's participation in the Inglis Consortium, of which the Mill Hill Depot site forms part. This has seen a decrease in year as estimated by the Consortium's advisers. In respect of the two Brent Cross sites, these were purchased by the Council at a price which incorporated some degree of future development potential. However, their fair value is currently impaired pending the outcome of **PRUDENT AGGRESSIVE** the ongoing planning process. Should planning approval be granted, an increase in valuation would be anticipated. We have reviewed the valuation basis and assumptions applied for a sample of investment properties and we are satisfied that overall the valuations fall within a reasonable range. Other operational land and buildings 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) **AGGRESSIVE PRUDENT** 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

	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	As the auditors of the Pension Fund, we reviewed the controls for providing accurate membership data to the actuary. Our audit of the Pension Fund accounts in 2015/16 highlighted issues in respect of the maintenance and timely updating of membership data, which could impact on the Council and the Group (The Barnet Group) net pension liability.	During this year's audit we have seen evidence that the outsourced pension administrator, along with the actuary preparing the 2016 triennial valuation, has undertaken a data cleansing exercise which has resulted in a number of issues being identified and corrected. However, we have still identified a relatively high level of errors in the details for active members at 31 March 2017 which indicates that the problems are not yet fully resolved. Additional testing has been undertaken on the pension fund audit and we have discussed the impact of these errors with the actuary. The actuary has confirmed that he undertook an exercise when preparing the 2016 triennial valuation membership data to remove 'false' actives where no contributions had been received and reallocated these members to deferred status. No update is required to the 2016 data as the roll-forward of data remains appropriate for preparing the 31 March 2017 valuations. We have reported our concerns over maintenance of the membership data to the Pension Fund Committee.

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
Pension liability assumptions (continued)		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	We noted that the estimate of the Council's share of fund assets used to calculate the net pension liability in the draft accounts was based upon index returns, as the actuary had not been provided with actual investment return information at the time of drafting her report.
		by the NAO on behalf of all local authority auditors for the review of the methodology of the actuary and reasonableness of the assumptions.	As a result, we requested that management obtain an updated actuarial report based upon actual returns. This showed that the initial estimate had understated the Council's net pension liability by £82.348 million.
			Although a similar updated report was not requested for The Barnet Group for inclusion in the Group accounts, by applying a similar adjustment, we have estimated that The Barnet Group net pension liability is understated by £6.947 million.
			Management has updated the final accounts accordingly.
			We consider that the assumptions and methodology used by the Council's actuary within the updated report are appropriate, and will result in an estimate of the net pension liability which falls within a reasonable range, subject to us gaining suitable assurance over the accuracy of the membership data used as described above.
			However, we did identify a number of presentational issues within the draft pensions note, as follows:
			 The presentation of changes in actuarial assumptions was incorrect as it did not split movements between changes in demographic assumptions, changes in financial assumptions, and other experience gains.

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
Pension liability assumptions			 The asset descriptions within the employer asset share disclosure were incorrect.
(continued)			 Sensitivity analysis disclosures were incorrect and did not agree to the actuary's report.
			 The treatment of administration expenses (£717,000) was incorrect within the pension note as these had been incorrectly deducted from service costs, with a corresponding overstatement of employer contributions in the reconciliation of scheme assets.
			 Certain narrative disclosures were missing, including a description of the regulatory framework in which the plan operates, a description of the plan's governance arrangements, and a description of the risks to which the plan exposes the authority.
			 The Pensions Reserve section of the note was incorrectly presented.
			 There was no disclosure concerning the maturity profile of the defined benefit obligation as required by the Code.
			Management has agreed to address the above issues in the final accounts.

SIGNIFICANT ACCOUNTING ESTIMATES

Pension liability assumptions

The key assumptions

expected cash flows to

pay pensions including inflation, salary increases

and mortality of members; and the discount rate to calculate

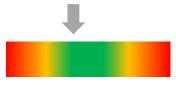
the present value of these cash outflows

ESTIMATE HOW RISK WAS ADDRESSED BY OUR AUDIT

The gross pension liability of the Council has increased by £147 million, from £1.030 billion to £1.177 billion. This is include estimating future principally due to a reduction in the discount rate used to value future liabilities (from 3.5% to 2.5%) along with a slight increase to the pension increase rate (from 2.3% to 2.4%). Offsetting this is a reduction in mortality years applied to current and future pensioners and a lower increase rate for salaries (decreased from 4.1% to 2.7%).

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	Actual used	Accept range (Assessment of assumption against expectations
RPI increase	3.4%	3.4	1%	Reasonable
CPI increase	2.4%	2.4	1%	Reasonable
Salary increase	2.7%			Employer specific - appears reasonable in context of CPI/RPI
Pension increase	2.4%	2.4	1%	Reasonable
Discount rate	2.5%	2.5	-2.7%	Lower end of range (will increase liability)
Mortality:				
Retiring today				
- Male	21.9 ye	ars 21.	5-22.8	Reasonable
- Female	24.3 ye	ars 24.	1-25.1	Lower end of range (will decrease liability)
Retiring in 20 year	ırs			
- Male	23.9 ye	ars 23.	7-24.4	Reasonable
- Female	26.5 ye	ars 26.	2-26.9	Lower end of range (will decrease liability)
Commutation rat	e:			
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 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.				





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5 Changes in presentation o financial state		Checklist and whether the analysis by service in the CIES is consistent with the internal reporting within the Council.	reporting to the Policy and Resources Committee, which is deemed to fulfil the role of Chief Operating Decision Maker for the Council. However, we identified significant issues in respect of
	Expenditure Statement (CIES)Change to the format of the Movement		
l l			the format and content of the draft EFA. The note was not presented in the 'three column' format required by the Code, and the total figures for net expenditure
	 New Expenditure and Funding Analysis (EFA) note 		chargeable to the General Fund and HRA did not agree to the MIRS as the note had been prepared on an
	Change to the Segmental Reporting note		incorrect basis. In addition, the draft accounts did not include an
	New Expenditure and Income analysis note		analysis of income and expenditure by nature, or a segmental reporting analysis for revenue from external customers, both of which are required by the Code.
	This requires a restatement of the 2015/16 CIES.		Management has agreed to correct the above errors in the final accounts.
	We identified a risk that these presentational changes would not be correctly applied in the financial statements.		the final accounts.
	(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.)		

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
Changes in presentation of the financial statements (continued)		We reviewed the restatement of the comparative 2015/16 information to ensure that this was presented consistently with the current year basis.	We found a number of errors were made in the restatement of the prior year CIES into the new format, which resulted in both income and expenditure being grossed up by a material amount. There was no overall impact on the net surplus on provision of services.
			It took significant effort by the finance team to identify the causes of these errors so that they could 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.
			Following the additional work conducted by the finance team, an updated prior year CIES has been prepared. This shows gross income and expenditure which is greater than that disclosed in the prior year by £40.9 million, as a result of errors in the prior year accounts which were identified during the restatement exercise. There is no net impact upon the surplus on provision of services or the opening reserve balances.
			Due to the issues identified with the prior year restatement, we also asked the finance team to revisit the current year CIES. This identified the following issues:
			Education and skills
			 Income and expenditure were both understated by £17.812 million as a result of the incorrect netting down of external income and expenditure relating to Council controlled schools.

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
Changes in			Central expenses
presentation of the financial statements (continued)			 Income and expenditure were both overstated by £129.840 million as a result of a spreadsheet error in the Council's working paper.
			 Income and expenditure were both overstated by £28.010 million due to the incorrect recognition of amount relating to academies.
			 Income and expenditure were both overstated by £20.750 million due to an error in the posting of an off-ledger adjustment relating to capital financing.
			 Income and expenditure were both understated by £8.042 million due to the incorrect netting down o amounts in the Special Parking Account.
			Capital financing errors
			• There were also corresponding overstatements of income and expenditure on Regional Enterprise of £16.030 million, Commissioning Group £3.220 million, parking and infrastructure £997,000, stree scene £264,000 and family services £239,000.
			None of these errors impact upon the total net surplus on provision of services or the General Fund balance.
			We are satisfied that all of the issues identified have been addressed in the final accounts. Nevertheless, given the level of misstatements found in the current year and prior year accounts, we have recognised a control deficiency in respect of the Council's accounts preparation process (see Appendix II).

	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 an allowance for the non-collection of receivables, primarily in respect of council tax arrears, non-domestic rate (NDR) arrears, housing rents arrears and parking charges. The Council assesses each type of receivable separately	We reviewed the provisioning model for significant income streams and debtor balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears.	Our assessment of the Council's significant accounting estimates in respect of allowances for non-collection of receivables is set out on the following page. We concluded that all estimates fall within a reasonable range.
		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.	There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate We reviewed the aging profile of debts and the total amount of debt to confirm that all amounts at risk had been taken into account in actimating the allowance for non-cellostics.	As part of the review of aged debts, we noted that the Council had excluded two older debts from the calculation of the allowance for non-collection or for impairment as management was of the view that these were recoverable.
				The first relates to The Barnet Group at £296,000 that is in excess of one year old. Management has stated that as The Barnet Group is a wholly owned subsidiary that this debt is secure. However, we have not seen evidence of why this amount is considered to be a valid debtor.
				The second relates to Comer Homes at £925,711 that is in excess of two years old. Management believe this is recoverable and relates to energy costs paid on the North London Business Park premises that should have been paid by Comer Homes. We have seen correspondence in 2015 suggesting that this will repaid at £50,000 per month but we have not seen any recovery to date. The case has been passed to HB Public Law.
				Due to the aging of these debts and lack of recovery action to date, we are seeking a specific management representation to confirm that these amounts are recoverable.

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
Allowances for non- collection of receivables (continued)		We reviewed aged debtor accruals that had not been invoiced to assess the risk of non-recovery.	We noted that the Council had accrued for income from Regional Enterprises for under performance of contracted income for the past two years totalling £4.599 million, although neither the previous year or the current year penalties have been invoiced.
			It is unclear whether Regional Enterprises has accrued from the contract penalties as expenditure. It is also unclear whether any deficit or liability arising in Regional Enterprises for contract performance penalties would fall proportionally to each joint venturer (i.e. also the Council) or solely on the joint venture partner.
			Management stated that it believes these amounts are recoverable due to contract under performance on income recovery targets, that this falls entirely on Regional Enterprises and it has sufficient resources to make good on these penalties.
			In the absence of any supporting correspondence from Regional Enterprises that it acknowledges this liability and failure to submit invoices for under-performance penalties for the past two years, we are seeking a specific management representation to confirm that this amount is recoverable.

PRUDENT

AGGRESSIVE

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES Allowances for non-collection of receivables **ESTIMATE** HOW RISK WAS ADDRESSED BY OUR AUDIT **AUDIT CONCLUSION** Estimate of future write-Council tax arrears offs of uncollectable debt The Council has recognised a year-end provision of £17.379 million against gross arrears and related costs (excluding amounts attributable to the Greater London Authority) totalling £27.153 million. The provision has decreased by £1.589 million from the prior year. The provision is estimated using historic collection rate information for debts of varying ages over the past 5 years. We found that the methodology applied only takes into account one year's worth of collections for each debt aging category, and does not consider the fact that in reality debts may be collected over a longer time period. As such, **PRUDENT AGGRESSIVE** this will result in an estimate which is on the prudent side. However, we found a number of errors in the Council's calculations which resulted in the provision being understated (applying the Council's own methodology). As a result, we conducted our own exercise which estimated the provision taking into account cumulative collection rates, and the result was a provision which varied from that recognised by only a trivial amount. As such, we have concluded that the estimate falls within a reasonable range. However, we have raised a recommendation at Appendix II for the Council to review its provisioning methodology and calculation going forward. Other debtors Provisions against other debtors total £14.877 million, which is a decrease of £28,000 from the prior year. The most significant categories of debtor against which provisions are raised include housing rent arrears (£8.143 million), Penalty Charge Notices (£3.503 million), and NDR arrears (£2.375 million). For each of these categories the Council has applied a different methodology, utilising historic collection rates and other data to set expectations for future collection rates. We have reviewed the methodologies used for each significant category of

debtor and we are satisfied that all estimates fall within a reasonable range.

	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.	 We identified no undisclosed relation party transactions within the draft accounts. However, we did identify issues with the Council's processes in respect of related party transactions, as follows: Delays were experienced in receiving annual related party declarations from a number of current Members of the Council, and we reported within our interim progress report on 25 July 2017 that 7 declarations remained outstanding at that time. Whilst all declarations have now been received, we have raised a recommendation that the Council seeks to strengthen this process in the future (see Appendix II). The finance team prepared an analysis of related party transactions as a basis for the draft note to the accounts, but we found that this did not include all declared related parties. An updated working paper has now been provided and no undisclosed related party transactions were found by this additional work, however again we have raised a recommendation that this process be strengthened (see Appendix II). In addition, we identified a number of disclosure errors in the draft accounts as follows: Outstanding balances to and from The Barnet Group Ltd were not consistent with the consolidation schedules used to prepare the group accounts. As such, the creditor balance was understated by £5.989 million, and the debtor balance was understated by £5.989 million, and the debtor balance was understated by £3.231 million.

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
Consideration of related party transactions (continued)			 Income and expenditure with The Barnet Group was disclosed on the basis of amounts invoiced during the year, rather than the amount of income and expenditure recognised in the CIES. While the balances (debtors and creditors) with the Council's subsidiaries/joint ventures were disclosed the total amount of income and expenditure also needs to be disclosed. The balance of investments held with other local authorities has not been updated with the current year figure. All of these errors have been corrected in the final
			accounts.

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	Classification of investments and cash and cash equivalents	 We identified two classification errors within investments and cash and cash equivalents, as follows: One investment amount of £10 million was incorrectly classified as cash equivalent when it did not meet the Code definition, and should have been classified as a short-term investment. One investment amount of £5.053 million was incorrectly classified within long-term investments when its maturity date is less than 12 months from the balance sheet date, and therefore should have been classified as a short-term investment. Management has corrected both of the above errors in the final accounts.
9	The Barnet Group consolidation	Due to the timing of the audit which is set by central government, it is necessary for the Council to consolidate the accounts of the The Barnet Group Ltd (TBG) into its group position on the basis of TBG's draft accounts. It is Council policy that adjustments are only made following completion of the TBG audit where variances from the draft figures are material to the group. This year, there were a number of non-material movements between the consolidation schedules prepared based upon draft accounts, and the final audited TBG accounts. This has had the following impact on the group position: Debtors are overstated by £8.603 million Creditors are overstated by £8.316 million Provisions are overstated by £274,000 Housing needs and resources expenditure is understated by £506,000 Housing needs and resources income is understated by £493,000 The net impact on the group surplus on the provision of services is an overstatement of £13,000. Management has confirmed that these errors will remain unadjusted, therefore these have been included within our schedule of unadjusted misstatements at Appendix I.

	AUDIT AREA	AUDIT FINDINGS
10	Direct Debit bank balances	Our testing of cash at bank identified a balance of £2.274 million which was classified as cash at year-end, but related to direct debit receipts scheduled for April 2017. Therefore, cash is overstated by £2.274 million, and debtors are understated by the same amount. This has been included within our schedule of unadjusted errors at Appendix I.
11	Credit balances on receivables ledger	Our review of the Council's receivables ledger has identified credit balances totalling approximately £1.666 million which should be reclassified to payables. Management has informed that it will not adjust the final accounts in respect of this error, therefore we have included this within our schedule of unadjusted errors at Appendix I.
12	Impairment of non- social housing assets in the Housing Revenue Account (HRA)	Up until 2016/17, authorities have been permitted to reverse impairment charges on Council dwellings out of the HRA by posting an adjustment to the Capital Adjustment Account (CAA), which is an unusable reserve. This was permitted for a 5 year transitional period which commenced upon the implementation of the HRA self-financing regime in 2012/13. Our testing of the HRA confirmed that the Council has utilised these transitional arrangements in the current year. However, we found that the Council had also erroneously reversed an amount of £976,000 relating to impairment charges on non-social housing assets in the HRA that is not permitted. We have reviewed the revaluation history of the assets concerned, and have found that over the past 3 years, total net impairment charges of £1.007 million have been incorrectly reversed out of the HRA. As such, the HRA balance is overstated by £1.007 million at year-end, and the CAA understated by the same amount. This error will not be corrected, and therefore we have included this within our schedule of unadjusted misstatements at Appendix I.
13	Receipts in advance	Our testing of a sample of receipts in advance identified three items where a receipt in advance creditor had been raised in respect of income which had been invoiced in advance, but for which cash had not been received at year-end. The impact of this error is to overstate both debtors and creditors, but it has no impact on the surplus on provision of services or General Fund. We have extrapolated the errors found and estimate the total overstatement of debtors and creditors to be £373,000. This has been included within our schedule of unadjusted misstatements at Appendix I.

	AUDIT AREA AUDIT FINDINGS	
14	Collection Fund balances	 We have identified a number of issues in respect of accounting for Collection Fund balances within the Council's Balance Sheet, and work is ongoing in this area. The issues identified to date include: The creditor balance with the Greater London Authority in respect of the Collection Fund appears to be understated by £2.812 million. The Council has a creditor balance of £1.129 million in respect of its own share of the council tax surplus on the Collection Fund where no such balance should exist. Debtor and creditor balances with preceptors are currently shown gross for each element of the Collection Fund balance whereas the Code requires one single net balance to be held in respect of each preceptor for council tax and NDR. Other non-material apparent misclassifications or inconsistencies between working papers and the accounts. The finance team are currently investigating the above issues. While the amounts involved do not appear to be material, we are not yet in a position to quantify these errors.
15	Provision movements	Within the draft provisions note, we note that movements in year on the insurance and NDR appeals provisions have been shown on a net basis, rather than the gross basis which is required by the Code. The impact on the note is not material, and this has been included as an unadjusted disclosure error within our schedule of misstatements at Appendix I.
16	Audit fee disclosure	Within the draft accounts, the audit fee in respect of grant certification work was overstated by £18,000. This has been corrected in the final accounts.

AUDIT AREA AUDIT FINDINGS		AUDIT FINDINGS
17	Exit package disclosures	The Code requires authorities to disclose the number and total value of exit packages agreed during the year. The exit packages note within the draft accounts did not agree to the underlying supporting working papers, and contained a number of errors and omissions. We also identified the following issues within the Council's working papers: There were 6 payments totalling £35,000 which were made in 2017/18 but related to exit packages agreed during 2016/17 that should have been included within the disclosure but were omitted. We found understatements of the exit package amount in respect of 5 individuals as a result of the report used not picking up all relevant pay. The above errors have been corrected in the final accounts.
18	Developer deposits	Our testing of a sample of creditors identified balances totalling £4.725 million in respect of developer deposits which were more than 1 year old at the balance sheet date. These are deposits which are paid to the Council in advance of certain works taking place within the Borough, and can be retained if damage is done. The outstanding balance is high in the context of the movement in year, and indicates a risk that there are some balances which should either be repaid to developers, or recognised as income to the Council. A recommendation has been raised at Appendix II that management take steps to review and clear these balances.
19	Council tax reconciliation	The year-end reconciliation between Civica (the revenues and benefits system) and Integra (the accounting system) in respect of Council tax income included unreconciled differences totalling £560,000. Whilst this is not material, we have raised a recommendation at Appendix II that a process should be put into place to ensure that all differences arising from key control account reconciliations should be cleared on a timely basis.
20	Schools cash balances	The Council's policy is to report all schools cash balances as at 15 March each year, with any transactions between this date and year-end being accounted for as accrued income or expenditure. This is likely to result in some degree of misstatement on the balance sheet, but will not impact upon income and expenditure. From our testing we have identified a net difference between school bank balances at 15 March and 31 March 2017 of £485,000 (with a higher balance at 31 March). We have included this net difference within our schedule of unadjusted misstatements at Appendix I. In reality, the gross impact on creditors and debtors balances may be higher, but we are satisfied this is not material. We have also raised a recommendation at Appendix II that the Council considers reviewing its policy in this area.

	AUDIT AREA AUDIT FINDINGS	
21	Financial instruments disclosures	 We identified a number of issues within the financial instrument notes, as follows: Financial assets in respect of trade debtors were overstated by £42.436 million within the financial instruments note as a result of misclassifications within the financial instrument working papers, and a failure to show the balance net of impairments. There was no impact upon the Council's total assets on the Balance Sheet. Current investments totalling £23.700 million had been incorrectly classified as loans and receivables when they should have been classified as available for sale. There was no impact upon their valuation. In addition, prior year comparative figures were not split between loans and receivables and available for sale assets in accordance with the prior year accounts. Financial liabilities in respect of trade creditors were understated by £9.777 million within the financial instruments note as a result of misclassifications within the financial instrument working papers. There was no impact upon the Council's total liabilities on the Balance Sheet. There was no description of valuation techniques and inputs in respect of available for sale financial assets. Credit risk disclosures did not consider the risk associated with cash and cash equivalent balances, and no analysis was provided of the age of trade debtors which are past due but not impaired, as required by the Code. These errors have been corrected within the final accounts. In addition, the maturity analysis for borrowing has been presented on a nominal basis, rather than on the basis of future contractual cash flows (including interest), as required by the Code. We do not consider this to be a material departure from Code requirements, and this has remained unadjusted.
22	Earmarked reserves note	We noted that within the draft earmarked reserves note the 'Service - Other' line held a material balance at year-end. The Code requires balances to be disclosed individually where material. We are currently liaising with the finance team to agree improvements to this note.

	AUDIT AREA	AUDIT FINDINGS	
23	Immaterial disclosures	The Statement of Accounts include a number of immaterial or surplus disclosure notes, as follows: Heritage assets Intangible assets Inventories Construction contracts Assets held for sale Provisions Usable reserves (refers directly to MIRS) Acquired and discontinued operations Impairment losses In addition, the accounting policies note includes policies relating to provisions, inventories, assets held for sale, heritage assets, intangibles, contingent assets, and the Carbon Reduction Scheme which should be removed on materiality grounds. We recommended that these notes are removed to improve clarity for the user of the accounts, but management has declined to do so this year. We have raised a recommendation at Appendix II that a review of the accounts is carried out next year to ensure that immaterial information is not included in line with Code requirements.	

AUDIT AREA AUDIT FINDINGS Other disclosure We identified a number of other disclosure issues within the draft accounts as follows: issues Within the officers' remuneration note, an element of one individual's compensation for loss of office was erroneously included within the salary column due to it being posted to the incorrect element within the payroll system. The individual's total remuneration was correct. We also identified a small number of errors within the officers' remuneration note (for banded remuneration over £50,000), as a result of the reports used to compile the note not picking up all relevant pay elements. There was insufficient analysis provided of movements in year on material unusable reserve balances. Further disclosure was needed in respect of a number of prior period adjustments throughout the Statement of Accounts. Reserves balances attributable to schools were not separately identified as required by the Code. A number of classification errors were identified within the draft debtors and creditors notes. There was no rolling revaluation analysis of property, plant and equipment as required by the Code. The pooled budget note did not specify gross income and expenditure in respect of all arrangements, as required by the Code. Errors were made in the preparation of the Dedicated Schools Grant (DSG) note. The Private Finance Initiatives (PFI) note did not include all of the narrative disclosures required by the Code concerning the significant terms of the arrangement. • Certain disclosures in respect of the Teachers' Pension Scheme were omitted, including the level of expected contributions to the plan for the next annual reporting period. The draft members' allowances note included £6,000 in respect of amounts paid to non-members. Within the notes to the HRA, the value of HRA non-dwelling assets was not split into the relevant asset classes in accordance with the property, plant and equipment note. Within the notes to the Collection Fund Statement, the required disclosure of the calculation of Council tax base was omitted. The introduction to the group accounts, and the accounting policy for interests in companies and other organisations, did not incorporate the new subsidiaries set up in year. We identified a number of minor errors and areas for improvement within the draft accounting policies note. Other minor typographical, rounding, internal consistency and prior year comparative errors within the draft accounts. Management has agreed to correct the above errors in the final accounts. In addition, we noted that within the property, plant and equipment note it is the Council's policy that all additions are posted first to assets under construction, and then transferred to the relevant asset category, regardless of whether or not they are actually constructed by the Council or direct acquisitions. This is not strictly in accordance with Code requirements, but we are satisfied is not materially misleading, as the assets under construction balance at year-end relates only to those assets genuinely in the construction phase.

	AUDIT AREA	AUDIT FINDINGS
25	Use of earmarked reserves	Following publication of the draft account, the Council took the decision to transfer an additional amount of £1.201 million from earmarked reserves to fund 2016/17 expenditure. As such, the earmarked reserves balance at 31 March 2017 has been reduced by £1.201 million, and the General Fund balance increased by the same amount. This is not an error, but we bring it to the attention of the Audit Committee as it is a non-trivial change to the draft accounts which impacts upon the MIRS.
26	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 respect of 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. We identified one non-material error

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 part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit.	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. A number of adjustments have been made to the Statement of Accounts as a result, as detailed within this report and summarised at Appendix I.
2	We are required to review the draft Annual Governance Statement and be satisfied that it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.	We have no significant matters to report. Nothing has come to our attention to suggest that the Annual Governance Statement (AGS) is materially misleading or inconsistent with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council. We identified the following issues and recommendations for improvement which we have communicated to management: The AGS sets out the Council's sources of assurance in respect of the six core principles of the CIPFA/SOLACE 2012 Framework Delivering Good Governance in Local Government. However, the AGS could be improved by providing more information about the outcomes of the various assurance processes in place. Currently, this information only tends to be provided on an exception basis when significant issues are identified. There is little information given concerning the processes adopted, and outcomes, in respect of an overall effectiveness review covering the Council's whole governance framework. A new CIPFA/SOLACE Framework was issued in 2016, and management has informed us that it is its intention to report under this new framework in 2017/18. This will require a restructure of the AGS, and we have recommended that the points above are considered as part of this work.

OTHER REPORTING MATTERS

MATTER

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.

COMMENT

The Accounts and Audit Regulations 2015 require local authorities to provide, within their Narrative Report, information on their financial performance and economy, efficiency and effectiveness in their use of resources over the financial year. The Code requires the Narrative Statement to be fair, balanced and understandable.

It is our view that the Non-Financial Performance section of the draft Narrative Statement focusses very much on the positive aspects of the Council's performance, which will be in contrast to the significant issues identified in the Annual Governance Statement, and our qualified use of resources opinion. In this context, we have raised concerns over the extent to which the Narrative Statement is fair and balanced.

In addition, the Narrative Statement does not currently include any commentary on the Council's group accounts, or the financial performance of the Housing Revenue Account, both of which are Code requirements.

We have identified a number of inconsistencies between the financial information in the Narrative Report and the financial statements, which have mainly arisen as a result of adjustments which have been made to the financial statements and not yet reflected within the Narrative Report. Some of these are material and will need to be corrected.

We are currently awaiting a management response to these issues and we will update the Audit Committee.

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.

We are not aware of any significant deficiencies in the Council's internal controls in 2016/17. 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 For Whole of Government Accounts (WGA) The Council received an extension to submit the unaudited WGA Data Collection Tool (DCT) to HM Treasury after the component bodies that are over the prescribed initial date of 7 July 2017 and we receive this on 1 August 2017. threshold of £350 million in any of: assets We will complete our review of the DCT after we have completed our audit of the Council's financial statements. (excluding property, plant and equipment); We will aim to issue our opinion on the consistency of the DCT return with the audited financial statements before the 29 September 2017 statutory deadline. expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Council for use by the Department of Communities and Local Government for the 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

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.

AUDIT RISKS

We assessed the following matters as audit risks. Since we issued our Audit Plan on 3 April 2017, we have undertaken a more detailed assessment of risk following our completion of the interim review of financial controls, review of the draft annual governance statement and findings of external inspectors, and we have included two additional significant risks relating to contract management and monitoring and the Council's recent Ofsted inspection.

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

Key: ■ Significant risk

RISK AREA RISK DESCRIPTION AND WORK PERFORMED AUDIT FINDINGS AND CONCLUSION Sustainable finances The Medium Term Financial Strategy (MTFS) was updated in March 2017 and We are satisfied that the Council has adequate arrangements forecasts a budget gap of £54 million over the 3 year period from 2017/18 to for setting and monitoring financial budgets, and that it has 2019/20. While the Council has developed fully identified savings plans the savings clearly identified its funding gap and savings requirements targets remain significant and achievement of these will be challenging. The Council through to 2020. has also overspent budgets on adult social care in recent years. However, we have questioned how the 2018/19 outline budget Financial performance 2016/17 has accounted for a planned reduction in funding covered from earmarked reserves when setting the baseline budget costs to The Council's revised budgeted net expenditure for 2016/17 was £274.968 million be funded. and included a planned £8.483 contribution to earmarked reserves. Net expenditure was overspent by £8.330 million mainly on Adults and communities (£5.353 million) We acknowledge that management intend to undertake a and Housing needs (£1.806 million). fundamental review of its corporate and financial plans ahead of the 2020 refresh and note that continued support of revenue Adults overspends were driven by increased demand for adult social are services expenditure from reserves is unlikely to be available from this with increases in client numbers and the complexity of cases. Housings needs date. overspends followed greater demand for temporary accommodation and higher rents. These overspends were funded from draw down of earmarked reserves and from the General Fund balance. Management has confirmed that it achieved £19.067 million of the planned £19.554 million savings plans. Medium Term Financial Strategy assumptions The refreshed MTFS and budget for 2017/18 has included additional cost pressures and inflation of £17.443 million, with £7.4 million additional funding allocated to Adult social care budgets. This budget is supported by £9.501 million use of earmarked reserves. Reductions in Government grant funding, net of the additional adults social care precept, requires budgeted savings of £19.825 million to be found. Management has confirmed that the savings are fully developed and we have reviewed three schemes to confirm that departments have plans in place to deliver The MTFS requires further savings of £16.677 million in 2018/19 and £17.362 million in 2019/20. Ahead of 2020, the MTFS and Council Plan will be subject to fundamental review as continued support from reserves will not be viable.

RISK	AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
	(continued)	We have noted that it is unclear in the MTFS how the reduced use of earmarked reserves in 2018/19, down from £9.501 million to £2.746 million, will be covered since inflationary and other growth pressures are included at £7.672 million but do not appear to take account of the reduction of funding available through the reserves draw down. We have asked management for further information.	
		We further noted that the budget and other cost pressures are held in a contingency budget held in Central Expenses and these are released to departmental budgets during the year as costs pressures arise. In our view this is unusual and we would ordinarily expect fully costed budgets to be allocated to departments ahead of the year.	
		Financial performance 2017/18	
		Quarter 1 financial performance indicates that cost pressures in Adult services are largely being managed with a small overspend of £0.129 million through safeguarding services, but Housing continues to face pressures through demand for temporary housing resulting in an overspend of £1.615 million.	
		Smaller overspends are being reported in Assurance £0.2 million, Commissioning Group £0.603 million, Commissioning Support Group £0.2 million and Street Scene £0.590 million.	
		Reserves and balances	
		The Council continues to hold healthy levels of earmarked revenue reserves at £96.799 million and a General Fund balance of £20.866 million. The HRA balance is also £12.489 million.	
		The budget assumes a planned draw from reserves of £9.501 million to support revenue expenditure and a further net draw of £20.279 million to support capital and other regeneration schemes. Further draw down from reserves is required in the coming years to support the capital and regeneration programme.	
		However, there is little margin available in reserves and balances to support any further revenue budget overspends or slippage on savings plans and management will need to revisit how these reserves are being utilised in the event of continued pressures on budgets.	

RISH	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. During the course of 2016/17 we have noted a number of internal audit reports which have raised concerns around performance of the Customer & Support Group and arrangements for managing performance of other contractors. Strategic contract management The Council has a comprehensive Contract Handbook (2014) for the Customer & Support Group that includes Key Performance Indicators (KPI's) and Performance Indicators (PI's) to monitor performance. The CSG Strategic Partnership Board sets the key requirements of the contact and performance is monitored by the CSG Operations Board. The May 2017 report highlighted that all KPIs had been met in May and that there were minor contract performance issues on payroll accuracy for two months. The majority of the PIs had been achieved on a rolling basis. Recommendations and actions to improve performance or address issues are regularly monitored. The oversight of contract performance on the Customer & Support Group at KPI and PI level is appropriate. Internal audit has reported on instances with other contracts where it found that the PIs for managing performance were not the most appropriate to deliver planned performance and made recommendations where contract arrangements could be improved. Recent examples include highways contractors and the parking permit administration.	for contact management and performance management of key contracts. We also recognise and welcome the work identified in the AGS to improve the oversight, accountabilities, and roles and responsibilities across commissioning, finance and contract management and will continue to keep this area under review in the coming year to ensure a robust framework is in place to deliver value for money.

RISK	AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
2	Contract management and monitoring	Performance assurance Contractors are required to report on performance accurately and timely. This will require good processes and control to assure the accuracy of information produced and to ensure that all contract obligations are achieved. The Council is required to obtain assurances over the performance information provided by the contractor and uses its internal audit function to periodically review operations and controls in place for services delivered by the contractor. However, this review is not specifically targeted at performance reporting assurance but, due to failures in some controls or issues raised by service users, does identify instances where contract performance has not been met. Recent examples reported by internal audit include highways contractor performance, health and safety compliance checks, and IT data recovery arrangements.	

RISK	AREA	RISK DESCRIPTION AND WORK PERFORMED		AUDIT FINDINGS AND CONCLUSION
RISK 3	Ofsted inspection	In April and May 2017, the Council was subject to an Ofsted in for children in need of help and protection, children looked at The report assessed these services as follows: Service Children who need help and protection Children looked after and achieving permanence Leadership, management and governance		AUDIT FINDINGS AND CONCLUSION Due to these significant failings we are unable to conclude that the Council has adequate arrangements for the delivery of safe and effective services for Children's services. Our use of resources conclusion will be modified to reflect this.
		The inspection was critical of the Council and found widespre failures in arrangements to ensure the safety of children and Ineffective risk assessments resulted in poor care planning an There was also inadequate information sharing across the muhub. We recognise that management were aware of some deterior for the service and the Children's Services director had commithe service in January 2016. As a result of this initial diagnostic review, the Council has profunding and is committed to improving the service. A Family action plan has been developed to drive improvements required. However, improving services will take time.	young people. d case notes were poor. lti-agency safeguarding ation in performance hissioned a review of rovided additional Services Improvement	

OBJECTIONS AND INFORMATION FROM MEMBERS OF THE PUBLIC

A local elector may inspect, ask questions and object to the accounts on the basis that an item in them is unlawful or there are matters of wider concern arising from the Council's finances. The elector can ask the auditor to apply to the High Court for a declaration that an item of account is unlawful or to issue a report on matters which are in the public interest.

We decide if the matter raised needs investigation and whether a High Court declaration should be sought or a public interest report be issued. If the matter does not warrant either of these outcomes, it may still be a matter that we may wish to raise with the Council.

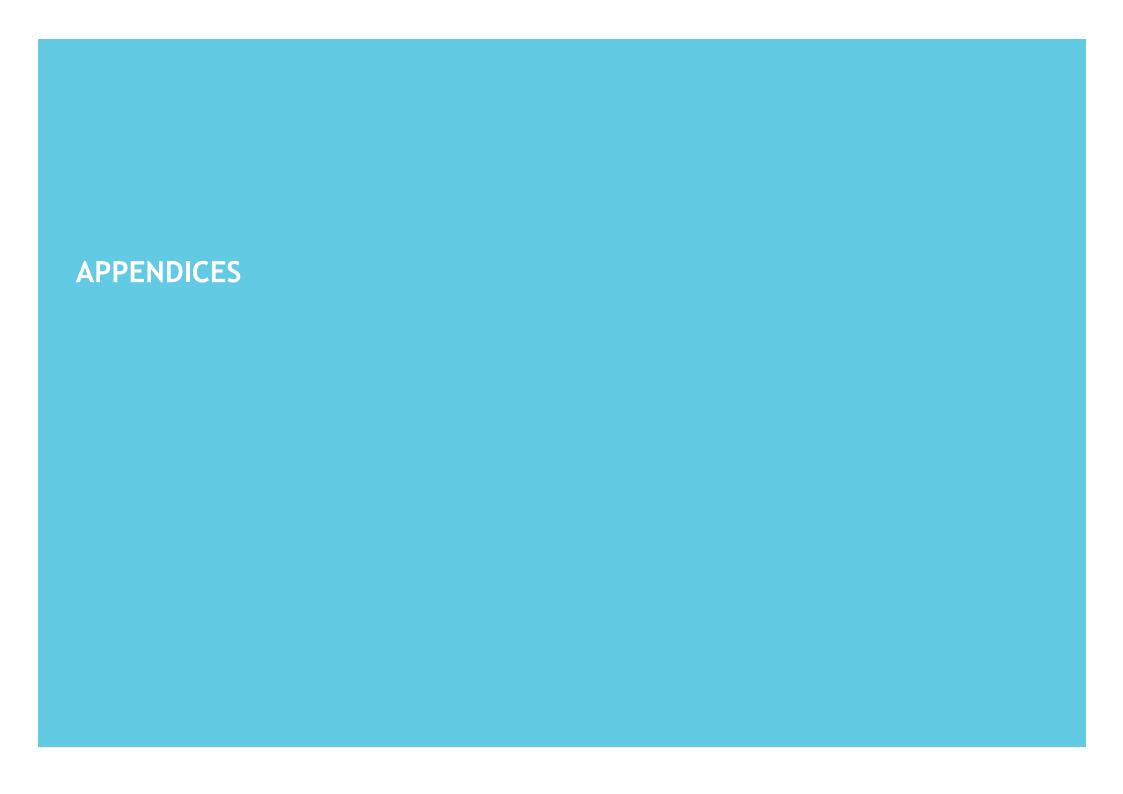
We issue our audit certificate to close the audit only following the completion of this work.

We can issue an opinion on the statement of accounts before the audit is completed if we believe that if the objection were resolved in the objector's favour, this would not affect the material accuracy of the statement of accounts. For each of the objections still subject to review and investigation, we consider that these will not result in any material impact on the financial statements or arrangements for the use of resources and these should not delay the issue of our audit opinions.

	OBJECTIO	N	NATURE OF OBJECTION AND WORK PERFORMED	FINDINGS AND CONCLUSION
C	BJECTIONS BR	ROUGHT F	ORWARD FROM 2015/16	
1	Sale of Vio		An objection was received regarding the lawfulness of the Council's decision to dispose of this asset and the use of the proceeds.	Our work to date has not identified any unlawful decision regarding the disposal of this property and the Council took appropriate advice from the Charity Commission regarding the disposal and the use of the proceeds to be earmarked for the benefit of the park. We continue to monitor progress regarding the planning consents and planning applications submitted by the owner.
2	Parking ch housing la		An objection was received regarding the lawfulness of the Council's use of PCNs on housing land.	Initial work to date has noted some concerns over the use of PCNs on housing land that was not subject to a Traffic Management Order (TMO). The Council has since ceased issuing PCNs on housing land and intend to adopt this land under a TMO subject to further consultation.

OBJECTIONS AND INFORMATION FROM MEMBERS OF THE PUBLIC

	OBJECTION	NATURE OF OBJECTION AND WORK PERFORMED	FINDINGS AND CONCLUSION
OBJ	ECTIONS RAISED IN 20	016/17	
3	Parking income accrual	An objection was received regarding the lawfulness of the Council's basis of accruing for PCN income ahead of the cash being collected.	This is a similar objection as received in the previous year and we found no evidence of unlawful accounting for PCN income.
4	Capita gain share agreement	An objection was received regarding the lawfulness of the Council's payments to Capita of £313,215 for savings on energy costs contracts and £1,241,476 for savings on agency spend under a 'gain share' agreement.	Information has recently been provided by management to support these payments that we will review as part of this investigation.
5	Lender Option Borrower Option (LOBO) Loans	An objection was received regarding the lawfulness of the Council's decision to take borrow in the form of Lender Option Borrower Option loans in previous years.	We have completed our initial review of these loans although have requested some additional information to support the decision to take borrowing in the form of LOBOs rather than other borrowing options that were available at that time.
ОТН	ER INFORMATION BRO	DUGHT TO OUR ATTENTION BY MEMBERS OF THE PU	BLIC
6	Weight Management Centre Ltd	We received information that stated that the Council should not be contracting with this organisation following the qualification of its financial statements by its auditor.	We have discussed with management the performance by the contractor and management are content that services are being delivered as appropriate. We have not undertaken any further work in this matter.



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.

These are set out on the following pages.

ADJUSTED AUDIT DIFFERENCES

We identified a number of material and other misstatements in the draft financial statements, which management has amended.

These corrections did not impact on the Council or group surplus on the provision of services for the year but has reduced net assets and reserves of the Council by £82.348 million and the Group by £89.295 million.

UNADJUSTED AUDIT DIFFERENCES

There are 9 unadjusted non-trivial misstatements identified by our audit work. If corrected, these would increase the Council's surplus on the provision of services and net assets by £2.894 million and increase the group surplus and net assets by £2.881 million.

There are also three misstatements carried forward from the previous year, where income included in 2016/17 should have been accrued in 2015/16 or where excess expenditure in 2015/16 has been reversed as a gain in 2016/17. The net difference suggests that £7.186 million of income included in 2016/17 should be recorded as 2015/16 income. We consider that the group's corrected underlying CIES position is a deficit for the year of £4.305 million.

You consider these identified misstatements 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 them where you are able, even though not material.

		INCOME AND EXPENDITURE		STATEMENT OF FI	NANCIAL POSITION
		DR	CR	DR	CR
ADJUSTED AUDIT DIFFERENCES	£'000	£'000	£'000	£'000	£'000
Group surplus on provision of services before adjustments	2,508				
DR Income - Central expenses		170,558			
DR Expenditure - Education and skills		17,812			
DR Income - Regional Enterprise		16,030			
DR Income - Commissioning Group		3,220			
DR Income - Parking and infrastructure		997			
DR Income - Street scene		264			
DR Income - Family services		239			
CR Expenditure - Central expenses			(170,558)		
CR Income - Education and skills			(17,812)		
CR Expenditure - Regional Enterprise			(16,030)		
CR Expenditure - Commissioning Group			(3,220)		
CR Expenditure - Parking and infrastructure			(997)		
CR Expenditure - Street scene			(264)		
CR Expenditure - Family services			(239)		
(1) Various grossing up and netting down errors in the CIES	-				
CARRIED FORWARD		209,120	(209,120)		

		INCOME AND	INCOME AND EXPENDITURE		INANCIAL POSITION
		DR	CR	DR	CR
ADJUSTED AUDIT DIFFERENCES (CONTINUED)	£'000	£'000	£'000	£'000	£'000
BROUGHT FORWARD		209,120	(209,120)		
DR Other comprehensive income - Change in DB liability Council		82,348			
DR Other comprehensive income - Change in DB liability The Barnet Group		6,947			
CR Pension scheme liability - Council					(82,348)
CR Pension scheme liability - The Barnet Group					(6,947)
(2) Impact of updated actuarial valuation of net pension liability (N.B. this adjustment passes through other comprehensive income in the CIES and therefore does not impact upon the surplus on the provision of services)	-				
DR Taxation and non-specific grant income		18,054			
CR Income - Public health			(18,054)		
(3) Misclassification of public health grant income	-				
DR Short term investments				15,053	
CR Cash and cash equivalents					(10,000)
CR Long term investments					(5,053)
(4) Misclassification of two investment balances	-				
CARRIED FORWARD		316,469	(227,174)	15,053	(104,348)

		INCOME AND EXPENDITURE		STATEMENT OF F	INANCIAL POSITION
		DR	CR	DR	CR
ADJUSTED AUDIT DIFFERENCES (CONTINUED)	£'000	£'000	£'000	£'000	£'000
BROUGHT FORWARD		316,469	(227,174)	15,053	(104,348)
DR Earmarked reserves				1,201	
CR General Fund					(1,201)
(5) Council decision to transfer an additional amount out of earmarked reserves to finance in-year expenditure	-				
	_				
TOTAL ADJUSTED AUDIT DIFFERENCES	-	316,469	(227,174)	16,254	(105,549)
Group surplus on provision of services after adjustments	2,508				

These corrections did not impact on the Council or group surplus on the provision of services for the year but has reduced net assets and reserves of the Council by £82.348 million and the Group by £89.295 million.

IMPACT ON COUNCIL (SINGLE ENTITY) GENERAL FUND AND HRA BALANCES	GENERAL FUND £'000	EARMARKED RESERVES £'000	HOUSING REVENUE ACCOUNT £'000
Balances before adjustments	19,665	98,000	12,489
Adjustments to CIES above	-	-	-
Adjustments via movement in Reserves Statement:			
DR Earmarked reserves (Adjustment 5)		(1,201)	
CR General Fund (Adjustment 5)	1,201		
BALANCES AFTER ADJUSTMENTS	20,866	96,799	12,489

ADJUSTED DISCLOSURE MATTERS

The following material disclosure matters were noted and adjusted:

- The draft Expenditure and Funding Analysis note contained material errors, did not reconcile to the MIRS, and was not prepared in the format required by the Code.
- The draft Statement of Accounts did not include an analysis of expenditure by nature, or a segmental analysis of revenue from external customers.
- There were material omissions within the grant income note, and material reclassifications required to the taxation and non-specific grant income note.
- Within the draft related party transactions note, creditors with The Barnet Group Ltd were understated by £5.989 million, debtors with The Barnet Group Ltd were understated by £3.231 million, the balance of investments held with other local authorities had not been updated with the current year figure and was therefore overstated by £25.2 million, and there was no disclosure of the total level of transactions or balances between the Council and some of its subsidiaries/joint ventures.
- Within the draft property, plant and equipment note, both upwards and downwards revaluations of council dwellings recognised in the surplus on provision of service were overstated by £21.643m.
- Within the draft pensions note, the presentation of changes in actuarial assumptions was incorrect as movements were not split between changes in demographic assumptions, changes in financial assumptions, and other experience gains. Also, sensitivity analysis figures were materially incorrect and did not agree to the actuary's report.
- Within the draft financial instruments note, current investments totalling £23.700 million had been incorrectly classified as loans and receivables when they should have been classified as available for sale.
- Within the draft financial instruments note, financial assets in respect of trade debtors were overstated by £42.436 million.
- There was insufficient analysis of movements in year on material unusable reserve balances.
- The audit fee for grant certification work was overstated by £18,000.
- Within the officers' remuneration note, an element of one individual's compensation for loss of office was erroneously included within the salary column due to it being posted to the incorrect element within the payroll system.

In addition, a number of non-material disclosure adjustments were made as set out within this report.

		INCOME AND EXPENDITURE		STATEMENT OF FINANCIAL POSITION	
		DR	CR	DR	CR
UNADJUSTED AUDIT DIFFERENCES	£'000	£'000	£'000	£'000	£'000
Group surplus on provision of services before adjustments	2,508				
DR Creditors - Other bodies				8,316	
DR Expenditure - Housing needs and resources		506			
DR Provisions - Long term				274	
CR Debtors - Other bodies					(8,603)
CR Income - Housing needs and resources			(493)		
(1) Differences between the consolidation schedules used for The Barnet Group Ltd and the final audited accounts (factual misstatement)	(13)				
DR Debtors - Other bodies				2,274	
CR Cash and cash equivalents					(2,274)
(2) Incorrect classification of direct debit income due to be received in April 2017 as cash at year-end (factual misstatement)					
CARRIED FORWARD	(13)	506	(493)	10,864	(10,877)

		INCOME AND	EXPENDITURE	STATEMENT OF FINANCIAL POSITION	
UNADJUSTED AUDIT DIFFERENCES		DR	CR	DR	CR
(CONTINUED)	£'000	£'000	£'000	£'000	£'000
BROUGHT FORWARD	(13)	506	(493)	10,864	(10,877)
DR Debtors - Other bodies				1,958	
CR Income - Regional Enterprise			(1,958)		
(3) Incorrect accounting for Community Infrastructure Levy (CIL) income on a cash basis (factual misstatement)	1,958				
DR Debtors				1,666	
CR Creditors					(1,666)
(4) Credit balances on receivables ledger (factual misstatement)	-				
DR Creditors				1,446	
CR Expenditure			(936)		
CR Debtors - Other bodies					(510)
(5) Estimated impact of old goods received not invoiced accrual balances which should have been cleared (projected misstatement)	936				
CARRIED FORWARD	2,881	506	(3,387)	15,934	(13,053)

		INCOME AND	EXPENDITURE	STATEMENT OF F	INANCIAL POSITION
UNADJUSTED AUDIT DIFFERENCES		DR	CR	DR	CR
(CONTINUED)	£'000	£'000	£'000	£'000	£'000
BROUGHT FORWARD	2,881	506	(3,387)	15,934	(13,053)
DR Housing Revenue Account				1,007	
CR Capital Adjustment Account					(1,007)
(6) Erroneous reversal of net impairment charges on non-social housing assets in the HRA over the past 3 years (factual misstatement)	-				
DR Cash and cash equivalents				485	
CR Debtors					(485)
(7) Net impact on cash balance of closing school bank accounts at 15 March 2017 (projected misstatement)	-				
CARRIED FORWARD	2,881	506	(3,387)	17,426	(14,545)

		INCOME AND) EXPENDITURE	STATEMENT OF FI	NANCIAL POSITION
UNADJUSTED AUDIT DIFFERENCES		DR	CR	DR	CR
(CONTINUED)	£'000	£'000	£'000	£'000	£'000
BROUGHT FORWARD	2,881	506	(3,387)	17,426	(14,545)
DR Creditors - Other bodies				471	
CR Debtors - Other bodies					(471)
(8) Incorrect grossing up of debtors and creditors in relation to a CSG prepayment discount (factual misstatement)	-				
DR Creditors				373	
CR Debtors					(373)
(9) Estimated impact of receipts in advance creditors raised where cash had not been received at year-end (projected misstatement)	-				
TOTAL UNADJUSTED AUDIT DIFFERENCES	2,881	506	(3,387)	18,270	(15,389)
IMPACT OF PREVIOUS YEAR ERRORS ON CURRENT YEAR (SEE TABLE BELOW)	(7,186)				
Group (deficit) on provision of services if adjustments accounted for	(4,305)				

There are 9 unadjusted non-trivial misstatements identified by our audit work. One of these misstatements relates to The Barnet Group (ref 1) and all other misstatements originate in the Council's (single entity) accounts. If corrected, these would increase the Council's surplus on the provision of services and net assets by £2.894 million and increase the group surplus and net assets by £2.881 million.

There are also three misstatements carried forward from the previous year, where income included in 2016/17 should have been accrued in 2015/16 or where excess expenditure in 2015/16 has been reversed as a gain in 2016/17. The net difference suggests that £7.186 million of income included in 2016/17 should be recorded as 2015/16 income. We consider that the group's corrected underlying CIES position is a deficit for the year of £4.305 million.

IMPACT ON COUNCIL (SINGLE ENTITY) GENERAL FUND AND HRA BALANCES	GENERAL FUND £'000	EARMARKED RESERVES £'000	HOUSING REVENUE ACCOUNT £'000
Balances before adjustments	20,866	96,799	12,489
Adjustments to CIES (Council only)	2,894	-	-
Adjustments via movement in Reserves Statement:			
DR General Fund (Unadjusted misstatement 3)	(1,958)		
CR Earmarked Reserves (Unadjusted misstatement 3)		1,958	
DR Housing Revenue Account (Unadjusted misstatement 6 - corresponding credit to unusable reserves)			(1,007)
BALANCES AFTER ADJUSTMENTS	21,802	98,757	11,482

UNADJUSTED DISCLOSURE MATTERS

The following unadjusted disclosure matters were noted:

- Within the property, plant and equipment note, it is the Council's policy that all additions are posted first to assets under construction, then transferred to the relevant asset category. This is not in accordance with Code requirements as direct acquisitions of assets which are not constructed by the Council should be placed directly into the relevant asset category.
- Within the financial instruments note, the maturity analysis for borrowings has been presented on a nominal basis, rather than on the basis of future contractual cash flows as required by the Code.
- Within the provisions note, movements on the insurance and NDR appeals provisions are shown net, rather than gross as required by the Code.
- The Statement of Accounts contains a number of immaterial notes, which should be removed in accordance with Code requirements.

		INCOME AND	EXPENDITURE	STATEMENT OF FI	NANCIAL POSITION
IMPACT OF PREVIOUS YEAR ERRORS ON CURRENT		DR	CR	DR	CR
YEAR FINANCIAL STATEMENTS	£'000	£'000	£'000	£'000	£'000
DR Income - Regional Enterprise		3,693			
CR Opening reserves					(3,693)
(1) Incorrect accounting for Community Infrastructure Levy (CIL) income on a cash basis in previous years (factual misstatement)	(3,693)				
DR Other operating expenditure		793			
CR Opening reserves					(793)
(2) Overpayment made to DCLG in respect of contributions to the housing capital receipts pool in the prior year (factual misstatement)	(793)				
DR Taxation and non-specific grant income		2,700			
CR Opening reserves					(2,700)
(3) Understatement of Council tax income in the prior year due to overly prudent impairment of arrears (estimated misstatement)	(2,700)				
TOTAL IMPACT OF PREVIOUS YEAR ERRORS ON CURRENT YEAR	(7,186)	7,186		-	(7,186)

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

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
ANNUAL REPO	RT AND 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 £40.9 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.	•			

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.				

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Bank and other control account 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. In addition, we identified issues in respect of other control account reconciliations including lack of documentary evidence of review, and a failure to investigate and clear unreconciled differences in a timely manner.	account reconciliations (including bank reconciliations) are prepared and reviewed at an appropriate level on a timely basis throughout the year, and that any differences arising are appropriately explained and cleared in a timely manner. Evidence of this process should be documented and retained.			
Related party declaration process	Delays were experienced in receiving annual related party declarations from a number of current Members of the Council.	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 the timeliness of returns.	:		
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.			

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Developer deposits	Our testing of a sample of creditors identified balances totalling £4.725 million in respect of developer deposits which were more than 1 year old at the balance sheet date. The outstanding balance is high in the context of the movement in year, and indicates a risk that there are some balances which should either be repaid to developers, or recognised as income to the Council.	We recommend that a control is put into place to ensure periodic and regular review of old deposit balance, to ensure that these are repaid or recognised as income on a timely basis.			
Schools bank accounts	The Council's policy is to reconcile all schools bank accounts as at 15 March each year, with any transactions between this date and year-end being accounted for as accrued income or expenditure. This will cause a misstatement within the Balance Sheet each year.	We recommend that the Council reviews its processes going forwards to ensure that schools transactions can be correctly accounted for up until 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.	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.	;		

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

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
OTHER REPORT	TING MATTERS				
Immaterial disclosures	The Statement of Accounts contain a number of disclosure notes which are immaterial, and should be removed in accordance with Code requirements that a local authority shall not reduce the understandability of its financial statements by obscuring material information with immaterial information.	We recommend that a review is carried out prior to the accounts preparation exercise next year to ensure that immaterial information which has historically been included within the Statement of Accounts is removed.			
Annual Governance Statement	The Annual Governance Statement (AGS) sets out the Council's sources of assurance in respect of the six core principles of the CIPFA/SOLACE 2012 Framework Delivering Good Governance in Local Government. However, the AGS could be improved by providing more information about the outcomes of the various assurance processes in place. In addition, there is little information given concerning the processes adopted, and outcomes, in respect of an overall effectiveness review covering the Council's whole governance framework.	We note management's intention to review the structure of the AGS in 2017/18 in response to the updated CIPFA/SOLACE Framework which was published in 2016. As part of this review, we recommend that management consider our suggestions as to how the AGS can be further improved.			
Narrative Statement	Our review of the draft Narrative Statement found that it did not contain any commentary on the group accounts or the financial performance of the Housing Revenue Account, as required by the Code, and also that a number of other recommended disclosure areas were omitted.	We recommend that management reviews CIPFA guidance in advance of preparing the 2017/18 Narrative Statement, to identify areas for improvement going forward.			

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
USE OF RESOUR	CES				
Financial planning	We have noted that it is unclear in the MTFS how the reduced use of earmarked reserves in 2018/19, down from £9.501 million to £2.746 million, will be covered since inflationary and other growth pressures are included at £7.672 million but do not appear to take account of the reduction of funding available through the reserves draw down.	We recommend that the MTFS baseline net expenditure for each year clearly adjusts for the impact of changes to support provided from earmarked reserves.			
Financial planning	We acknowledge that management intend to undertake a fundamental review of its corporate and financial plans ahead of the 2020 refresh and note that continued support of revenue expenditure from reserves is unlikely to be available from this date.	We recommend that management review the remaining headroom available from reserves to support any further budget overspends or slippage on savings through to 2020 and put in place contingencies in the event of further draw down required.			
	However, there is little margin available in reserves and balances to support any further revenue budget overspends or slippage on savings plans and management will need to revisit how these reserves are being utilised in the event of continued pressures on budgets.				

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)	As per PSAA scale fee
Housing benefits subsidy claim	20,310	20,310	21,617 ⁽²⁾	As per PSAA scale fee
TOTAL AUDIT AND CERTIFICATION FEES	190,335	190,335	191,642	
Reporting on government grants:				
 Pooling of Housing Capital Receipts return 	2,750	2,750	2,750	N/A
Teachers' Pension return	5,000	5,000	5,000	N/A
Fees for other non-audit services	-	-	-	N/A
NON-AUDIT 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 requires 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 VI: 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 attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

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.

We confirm that the following debtors and accrued income are recoverable and should not be impaired:

- The Barnet Group £296,000 (over one year old)
- Comer Homes at £925,711 (over two years old) in relation to energy costs that should be refunded by the landlord for the North London Business Park
- Regional Enterprises £4,599 million recoverable for under performance of contracted income for the past two years totalling.

We confirm the following significant assumptions made in relation to accounting estimates (including fair value measurements) used in the preparation of 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.

APPENDIX VI: DRAFT REPRESENTATION LETTER

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.

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 and member 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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T: +44 (0)1473 320790 E: jody.etherington@bdo.co.uk The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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