



# LONDON BOROUGH OF BARNET

## AUDIT COMMITTEE UPDATE

Audit for the year ended 31 March 2018

17 July 2018

# UPDATE

MATTER	UPDATE
Audit status (page 3)	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 Opinion: Financial statements (page 4)	We anticipate issuing an unmodified opinion on the consolidated Group financial statements and the Council financial statements for the year ended 31 March 2018.
Audit Opinion: Use of Resources (page 5)	<p>We anticipate issuing a modified opinion on the arrangements in place to secure economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2018 in relation to the significant failings around delivery of safe and effective services for Children's services.</p> <p>Please see detail below.</p>
Update on outstanding matters (page 6)	<p>Testing</p> <p>Manual journals - completed</p> <p>Valuations of council dwellings, investment properties and other land and buildings - as below</p> <p>Payroll disclosures - substantially complete, remuneration banding note (no issues noted for senior officers banding) to be updated</p> <p>Related party disclosures - as below</p> <p>Queries with management</p> <p>Remaining sample of journals - completed</p> <p>Remaining evidence for debtors and creditors sampling - completed</p> <p>Valuation source data testing - awaiting some source data from valuer</p> <p>Bank confirmations - Co-op and Bank of Scotland</p>

## UPDATE - AUDIT RISKS

MATTER	UPDATE
Management override of controls (page 7)	Testing of journals is now complete with no matters to report.
Presentation of the Comprehensive Income and Expenditure Statement (page 8)	Our testing of the classification and treatment of income and expenditure is complete and there are no matters to report.
Property, plant and equipment and investment property valuations (page 9)	Review accuracy of information provided to the valuer - complete Review of assumptions used by the valuer - we are in dialogue with the valuers and are awaiting some source data and checks on assumptions used.
Pension liability assumptions (page 11)	As the auditors of pension fund, we are in the process of reviewing the controls for providing accurate membership data to the actuary and are checking whether any significant changes in membership data were communicated to the actuary.
Mill Hill Depot (page 13)	The disclosure of the loss on disposal of the Depot of £2.2 million from other operating expenditure to financing and investment income and expenditure has been amended.
Consideration of related party transactions (page 14)	Our work on the related party disclosures is largely complete and we have not identified any additional issues.

## UPDATE - USE OF RESOURCES

MATTER	UPDATE
<p>Significant risk: Financial Sustainability (page 24)</p>	<p>It is evident that there has been a lot of change and improvement at the council in the last 12 months with regards to managing resources and sustainable finances however there is still a long way to go.</p> <p>The MTFS has been refreshed and the recent update shows a balanced budget for 2018/19 including a planned drawdown from reserves of £7.7 million. There is, however, a cumulative overspend of £32m forecast by 2022 for which the Council have identified £16.6m of service related savings and are working to identify further savings. There are regular meetings taking place where savings plans, pressures and mitigations are being discussed with progress tracked, actions planned and budget owners held to account. There are still risks that some of the pressures have been underestimated and some of the mitigations could be too optimistic.</p> <p>There are plans in place to deliver the required savings for 2018/19 and 2019/20 with a few of these already materialising however there are risks that others may not materialise, some of which have been identified and other options being considered.</p> <p>The council is also currently working through a long list of possible savings for the years 2020-2024 with a proposed savings plan being prepared for the committee's consideration in October this year and final approval in December/January.</p> <p>The latest Reserves forecast shows available (non ring-fenced) reserves total £38m up to 2020 with forecast drawdown being £4m for 2018/19 and £3.7m for 19/20.</p> <p>It is paramount that management, members and leaders continue to keep the financial sustainability of the council as a high priority with pressures, mitigations and savings tracked regularly. Reserves need to be protected and not be seen as the fall back.</p>
<p>Other risk: Contract Management (page 26)</p>	<p>Over the last year, the Council has taken forward a strategy to improve the quality of contract management implementing a lot of changes and improvements in this area.</p> <p>Roles and responsibilities have been redefined with accountability flowing from the Strategic Commissioning Board. Alongside this, there have been changes in the personnel managing contracts at the council and increased input from external legal advisors.</p> <p>There is an updated commissioning contract manual, which sets out the contract management principles, structure and governance arrangements.</p> <p>Management information relating to contracts has also been refreshed, helping provide clarity on the performance of contracts enabling the council to identify issues and manage those appropriately.</p> <p>There are clear examples of the impact these improvements have had in formal actions being taken to address performance issues with some contracts and other contracts being realigned or redrafted, which is a step change in the assertiveness demonstrated by the Council.</p> <p>There are however still many areas with performance issues that still require addressing, some of which will take longer than others due to the contracts already in place.</p>

## UPDATE - OBJECTIONS

MATTER	UPDATE
Parking accrual income	<p>2017/18 objection</p> <p>We received an objection on 10 July relating to the accounting for PCN income in 2017/18. This follows similar objections in recent years. We have responded to the objector to address his concerns and to explain that the accounting for PCN income and the impact of the allowance for non-recovery of debt has been treated appropriately in the accounts.</p> <p>The objector has since withdrawn the objection for 2017/18 and previous years.</p>
Gainshare Payments	<p>2016/17 objection</p> <p>We have issued a Provisional view on the 2016/17 objection on gainshare payments to Capita covering the payments for the Comensura (agency costs) contract of £1,241,476 and Laser (energy costs) contract of £313,215.</p> <p>We have not upheld the objection to seek a declaration from the courts for the lawfulness of the payments made nor do we intend to issue a Public Interest Report as requested by the objector.</p> <p>However, we intend to report that weaknesses were identified in the arrangements to challenge the basis of calculating gainshare that operated in financial year 2016/17.</p> <p>2017/18 objection</p> <p>We received a further objection on 11 July in respect of 2017/18 relating to gainshare payments for the LoHAC contract, with payments totalling £500,000. The objector alleges that these payments are unlawful and that the payments should not have been made.</p> <p>We have asked the Council for its initial response to the matters raised and await this response before we are able to progress this work. However, it is unlikely that this will have a material impact on the financial statements or use of resources opinions.</p>
Contract Extension award for NSL street scene enforcement	<p>2017/18 objection</p> <p>We received an objection on 12 July relating to an extension to this contract beyond the terms of the original contract award and allowed extension period, and that the value of the extensions exceeded both the Council's delegated levels and the EU procurement limits.</p> <p>The objector asks the auditor to issue a Public Interest Report in failing to achieve best value and (inferred in the objection) unlawfulness of the contract payments. We have asked the Council for its initial response to the matters raised and await this response before we are able to progress this work. However, it is unlikely that this will have a material impact on the financial statements or use of resources opinions.</p>

## UPDATE - OTHER MATTERS

MATTER	UPDATE
Grahame Park - Genesis Housing (page 17)	<p>The Council has been in negotiation with Genesis Housing over a loan of £5 million included in long-term investments. We understand negotiations have now been concluded and the arrangement is for £1.5 million to be repaid by 31 March 2019. £3.5 million has been provided for as at 31 March 2018. The write off has been approved by the P&amp;R Committee.</p> <p>The investment should be reclassified to short-term investments from long-term investments and be impaired to £1.5 million rather than including £3.5 million in provisions. We have requested this be amended in the statement of accounts</p>
Expenditure and funding analysis (page 17)	<p>The Expenditure and Funding Analysis (EFA) reconciles the totals of the Comprehensive Income and Expenditure to the financial performance disclosure in the narrative report. However, in the draft Statement of Accounts the Net Expenditure Chargeable to General Fund and Housing Revenue Account Balances in the EFA did not agree to the financial performance disclosure in the Narrative Report. This has been amended in the statement of accounts by including the additional information in the narrative report.</p>
Group accounts	<p>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 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.</p> <p>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:</p> <ul style="list-style-type: none"> <li>• Debtors are overstated by £1.749 million</li> <li>• Creditors are overstated by £1.660 million</li> <li>• Housing needs and resources expenditure is overstated by £237,000</li> <li>• Housing needs and resources income is overstated by £148,000</li> </ul> <p>The net impact on the group surplus on the provision of services is an understatement of £89,000. Management has confirmed that these errors will remain unadjusted.</p>

# OUTSTANDING MATTERS

The following matters are outstanding at the date of this update:

- 1 We have not fully concluded on our work yet although the detailed procedures are substantially complete in most areas. The outstanding areas include testing of valuations of council dwellings, investment properties and other land and buildings and agreement of IAS19 membership data used by the actuary in the Pension Fund audit, which may impact on the Council's group financial statements.

---

- 2 Clearance of outstanding issues on the audit queries tracker currently with management. The key items on the tracker are:
  - PPE valuations source data testing
  - Remuneration banding relating to schools payroll

---

- 3 Bank Confirmations due from Co-op and Bank of Scotland

---

- 4 Completion of Manager, Partner and Quality Control review, and clearance of review points

---

- 5 Final review and approval by you of the Statement of Accounts

---

- 6 Technical clearance

---

- 7 Subsequent events review

---

- 8 Management letter of representation to be approved and signed

---



FOR MORE INFORMATION:

**LEIGH LLOYD-THOMAS**  
Engagement lead

T: +44 (0)20 7486 2616  
E: leigh.lloyd-thomas@bdo.co.uk

**NICK BERNSTEIN**  
Manager

T: +44 (0)20 7034 5810  
E: nick.bernstein@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.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

Copyright ©2018 BDO LLP. All rights reserved.

[www.bdo.co.uk](http://www.bdo.co.uk)

