

<b><u>MEETING</u></b> <b>AUDIT COMMITTEE</b>
<b><u>DATE AND TIME</u></b> <b>TUESDAY 19TH SEPTEMBER, 2017</b> <b>AT 7.00 PM</b>
<b><u>VENUE</u></b> <b>HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4BG</b>

Dear Councillors,

Please find enclosed additional papers relating to the following items for the above mentioned meeting.

Item No	Title of Report	Pages
5.	PUBLIC QUESTION AND COMMENTS (IF ANY)	3 - 12

Maria Lugnagira 020 8359 2761 [maria.lugangira@barnet.gov.uk](mailto:maria.lugangira@barnet.gov.uk)

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**AUDIT COMMITTEE  
TUESDAY 19 SEPTEMBER  
ITEM 5 – PUBLIC QUESTIONS AND COMMENTS**

**Note**

At the meeting, a time period of up to 30 minutes, is available for public questions and comments in total. If they wish the questioner at the meeting may ask one supplementary question to the original question, which will be answered without discussion. The supplementary question must be relevant to the original question put to the Chairman.

Qn No	Agenda Item No	Raised By	Question Raised	Answer
1.	Item 6 - Statement of Accounts, External Auditor's Audit Completion Report and Annual Governance Statement for the year 2016/17	Mr Roger Tichborne	The revised report details misstatement. Can the committee explain how such misstatements occurred and what efforts will be made to prevent such misstatements in future.	<p>Misstatements occur for several reasons and the types of misstatements that have occurred are:</p> <ul style="list-style-type: none"> <li>• Classification error where, e.g., an asset has been included on the wrong line of the balance sheet.</li> <li>• A net position being included in a line of the accounts rather than the expenditure and income being separately disclosed.</li> <li>• A disclosure note missing a piece of information e.g. the Grant Income note not including all the main grants received.</li> </ul> <p>Crucially no misstatements have been identified that have an impact on the general fund. The misstatements that were identified and the external auditor's recommendations will be incorporated as part of a wider improvement plan that identify root causes. Implementation of this improvement plan will prevent misstatements occurring in the future.</p>

2.		Mr John Dix	<p>At page 20 the report states that “The second (aged debt) 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”. Can’t this debt be offset against the rental payments to Cromer Homer for NLBP Building 2?</p>	<p>The debt cannot be offset against the rental payments as this would put the Council in breach of its lease with the landlord.</p>
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<p>3.</p>	<p><b>Item 6</b> - Statement of Accounts, External Auditor's Audit Completion Report and Annual Governance Statement for the year 2016/17</p>	<p>Ms Mary O'connor</p>	<p>With regard to the sale of The Lodge, Victoria Park, N3, the money (£623,000) belongs to the trust. However, it now appears in the Barnet Accounts (Capital Programme). In item 15 'Business Planning 2017-20' of the Policy and Resources (P&amp;R) meeting of 27 June 2017, in 1.7.3, this amount appears as a Capital Receipt for 'Victoria Park Finchley - Master Planning' with reason, 'Feasibility study and options appraisal for the creation of a master plan for improvements to the park'. It implies that the £623,000 is required for the Master Plan and appraisal.</p> <p><a href="https://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=692&amp;MId=8736">https://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=692&amp;MId=8736</a></p> <p>The P&amp;R meeting of 5 September 2017, in Appendix 2 of the 'Updated Capital Program', 'Park Infrastructure' is a Capital Receipt for £623,000.</p> <p><a href="https://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=692&amp;MId=8737">https://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=692&amp;MId=8737</a></p> <p>I asked questions for this meeting, the replies only being available at 6pm for a 7pm meeting.</p> <p><a href="https://barnet.moderngov.co.uk/documents/b29812/Public%20Questions%20and%20Comments%2005th-Sep2017%2019.00%20Policy%20and%20Resources%20Committee.pdf?T=9">https://barnet.moderngov.co.uk/documents/b29812/Public%20Questions%20and%20Comments%2005th-Sep2017%2019.00%20Policy%20and%20Resources%20Committee.pdf?T=9</a></p>	<p>The funds are held on a separate cost centre to be spent on improvements in Victoria Park.</p> <p>The funds are controlled by full council as corporate trustee and they approved the sale of the lodge and ring fencing of the capital receipt to be used for improvements to Victoria Park. Officers then used constitutional processes e.g. budget being agreed by P&amp;R and spend being agreed by Environment Committee to enact the decision of full council.</p>
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			<p>At this meeting in my supplementary question I expressed concern that the only public documents had the money in Barnet's accounts. I enquired when the Environment Committee became the corporate trustee and which other committees could make trustee decisions? I was told I would have a reply in 7 days but have received nothing.</p> <p>Should these funds be in the Barnet accounts and who controls the funds?</p>	
4.	<p><b>Item 6</b> - Statement of Accounts, External Auditor's Audit Completion Report and Annual Governance Statement for the year 2016/17</p>	<p>Ms Theresa Musgrove</p>	<p><b>Sustainable Finances page 13</b></p> <p>Bearing in mind the number the catalogue of errors identified by the draft report earlier this year, and the serious issues which remain unresolved, how is it possible for the external auditors now to make the following conclusion in the Summary of their finalised report? Is there not an unaddressed risk in the context of the accounts that measure the performance of contracted services being presented by the same contractors?</p> <p><i>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.</i></p>	<p>We have reviewed the appropriate evidence and are content that the MTFS takes into account relevant expenditure, pressures and funding and has adequate plans to bridge the funding gap through to 2020.</p> <p>The council sets out the KPIs and the methods by which they will be reported on by contractors. Adherence to which, is monitored during the monitoring processes in place. Following scrutiny, we are satisfied those arrangements are adequate for contract management and performance management of key contracts</p>

5.	Item 6 - Statement of Accounts, External Auditor's Audit Completion Report and Annual Governance Statement for the year 2016/17	Mr John Dix	At page 21 the report states "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". Has this representation been received and does it satisfy the Auditor that the sum is recoverable?	We have included this specific representation in the Letter of Representation we have included in the report at appendix VI. We have asked that the Audit Committee to review these written representations and this letter will be signed by both the Director of Resources and the Chair of the Audit Committee.
6.	Item 6 - Statement of Accounts, External Auditor's Audit Completion Report and Annual Governance Statement for the year 2016/17	Ms Theresa Musgrove	<p><b>Sustainable Finances Page 47</b></p> <p>In regard to this conclusion:</p> <p><i>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.</i></p> <p>I do not understand how this statement is compatible with the concerns raised in the next two sentences:</p> <p><i>However, we have questioned how the 2018/19 outline budget has accounted for a planned reduction in funding covered from earmarked reserves when setting the baseline budget costs to be funded. 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.</i></p>	We have reviewed the Council's financial strategy including a further explanation of the presentation of the MTFs and we are satisfied that the strategy has adequately planned for the use of reserves across the period, including for 2018/19. This was set out in their business planning report to Policy and Resources Committee in February 2017 and Council in March 2017.

			<p>In other words, despite all assurances from councillors about the financial benefits of the Capita contracts, the authority has been dipping into reserves to balance the books, but claims it will be minimising this activity in the next financial year, with no plan as to how it can do this, and even though this report is telling them they are running out of money.</p> <p>In these circumstances, can BDO explain on what basis they can say with such confidence that they are satisfied with the budget arrangements that have been made?</p>	
7.	Item 6 - Statement of Accounts, External Auditor's Audit Completion Report and Annual Governance Statement for the year 2016/17	Mr John Dix	At page 22 the report states that "we have raised a recommendation at Appendix II for the Council to review its provisioning methodology and calculation going forward". Can you clarify how this is reconciled against the Capita contractual guarantee of Council Tax collections?	The two are not directly comparable. One is guaranteed income which is managed and agreed via the contract the other is a calculation based on the level of debt that exists and how much can be assumed to be recoverable. The methodology is reviewed periodically and is due for review in 17/18.
8.	Item 6 - Statement of Accounts, External Auditor's Audit Completion Report and Annual Governance Statement for the year 2016/17	Ms Theresa Musgrove	<p><b>Risk Management, Conflicts of interest:</b></p> <p>3.4 Taking informed and transparent decisions which are subject to effective scrutiny and managing risk</p> <p>Has the external auditor reviewed what appears to be a number of significant risks raised by conflict of interest and/or the perception of conflict of interest posed by the multiplicity of roles played by the councils' contractors in regard to planning and enforcement? Is there in place a satisfactory mitigation of those risks?</p>	The council has satisfied itself it has effective governance processes in place and has provided information to us to be content with the Annual Governance Statement. If you have any specific concerns then you are encouraged to raise them through the escalation routes available to you to either myself or the Council depending on the nature of the concern.

9.	<b>Item 6</b> - Statement of Accounts, External Auditor's Audit Completion Report and Annual Governance Statement for the year 2016/17	Mr John Dix	At page 58 the report notes "We recommend that management conducts a review and assessment of the overall internal control system". Can the Auditor who this is addressed to; Capita management or LBB management given that Capita run all of the functions identified.	LBB management
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<p>10.</p>	<p><b>Item 6</b> - Statement of Accounts, External Auditor's Audit Completion Report and Annual Governance Statement for the year 2016/17</p>	<p>Ms Theresa Musgrove</p>	<p><b>Page 43: Objections from members of the public</b></p> <p><i>1 Sale of Victoria Park Lodge An objection was received regarding the lawfulness of the Council's decision to dispose of this asset and the use of the proceeds.</i></p> <p><i>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.</i></p> <p>I note the use of the phrases 'our work to date', and 'we continue to monitor progress' ...which confirms the possibility that there may have been an unlawful decision, or the council may at some further point make an unlawful decision.</p> <p>Since this report was written, moreover, members of the council only last week robustly opposed and refused an application from the owners to develop this site on grounds which included the assertion that the site is still a part of the park.</p> <p>A planning officer representing local residents made the point that the authority had effectively recognised that the covenant did still apply to the park. to have no audit trail, or indeed proof of existence. In the light of this new information, and other questions over the circumstances of the sale, does the external auditor agree there should be further investigations into the matter?</p> <p>For this and other reasons it is now clear the Charity Commission was misinformed regarding</p>	<p>We are content the sale and accounting for the transaction was lawful. The ongoing work referred to was the monitoring of planning applications concerning the restricted covenants for the property. We are looking to formally close the objection save for any new evidence being provided.</p>
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11.	Item 6 - Statement of Accounts, External Auditor's Audit Completion Report and Annual Governance Statement for the year 2016/17	Mr John Dix	At page 59 the report states that 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." Can the Auditor clarify whether "the Finance Team" refers to LBB staff or the Capita staff that operate the council's finance function.	This service is provided by Capita under the CSG contract.
12.	Item 6 - Statement of Accounts, External Auditor's Audit Completion Report and Annual Governance Statement for the year 2016/17	Ms Theresa Musgrove	<p><b>Page 31 Declarations by members</b></p> <p>The external auditors have noted that some members of the council are not making full and timely declarations. I note that no reference has been made to the declaration of Gifts and Hospitality, which appears to be ignored by some members. This raises a risk of conflict of interest, and the risk of perception of conflict of interest. Can the auditor address this failure in transparency and accountability, and what action will be taken by the authority to ensure the Monitoring Officer does monitor the declarations of councillors of all parties?</p>	<p>For the purposes of the accounts and as per the Code of Practice a declaration for gifts and hospitality is not a requirement for the related party note of the accounts.</p> <p>However, all members are required to declare any offers of, or receipt of gifts and / or hospitality valued in excess of £25.</p> <p>We request that any specific evidence of the Gifts and Hospitality Policy being ignored by Members or any specific perceived failure to disclose interests as required by law should be passed to the Monitoring Officer for investigation.</p> <p>A process will be put in place to escalate any non-timely returns to the Monitoring Officer in the first instance.</p>

13.	Item 6 - Statement of Accounts, External Auditor's Audit Completion Report and Annual Governance Statement for the year 2016/17	Mr John Dix	At page 59 there is a recommendation which states "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". What is the auditor's recommended timescale for the implementation of this process?	Prior to year-end 2017/18
14.	Item 6 - Statement of Accounts, External Auditor's Audit Completion Report and Annual Governance Statement for the year 2016/17	Mr John Dix	At page 62 the report recommends "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". Will the audit committee be provided with a copy of that review when it takes place.	The Council's medium term financial strategy forms part of the budget report which is presented annually to Policy and Resources Committee and Council. This includes any proposed use of reserves and balances. It is the role of the Council's Section 151 officer to advise on an appropriate level of reserves and incorporate within the Council's MTFS and for members to approve. This consideration takes into account a wide range of risks including potential non delivery of savings, budget overspends or other cost pressures. As such, this will continue to be reported to Policy and Resources Committee and Council.