

**MEETING**

**AUDIT COMMITTEE**

**DATE AND TIME**

**WEDNESDAY 15TH DECEMBER, 2021**

**AT 7.00 PM**

**VENUE**

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

Dear Councillors,

Please find enclosed additional papers relating to the following items for the above mentioned meeting which were not available at the time of collation of the agenda.

Item No	Title of Report	Pages
7	EXTERNAL AUDITOR'S REPORT ON PROGRESS OF THE AUDIT OF THE COUNCIL'S 202021 ACCOUNTS  - Appendix A – BDO Audit progress report 202021	3 - 70

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Report to the Audit Committee

# LONDON BOROUGH OF BARNET COUNCIL

Audit Progress Report: year ended 31 March 2021

AGENDA ITEM 7

IDEAS | PEOPLE | TRUST



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# WELCOME

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We have pleasure in presenting our Audit Progress Report to the Audit Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of the work to date for the year ended 31 March 2021, specific audit findings and areas requiring further discussion and/or the attention of the Audit Committee

We will provide an update on outstanding work at the December Audit Committee and anticipate reporting the final audit results to the February meeting, in our Audit Completion Report.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided thus far during the audit.

Lisa Blake

09 December 2021



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. This report has been prepared solely for the use of the Audit Committee and Those Charged with Governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

# OVERVIEW

## Executive summary

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This summary provides an overview of the audit matters identified from work completed to date that we believe are important to the Audit Committee in considering the results of the audit of the financial statements of the Group for the year ended 31 March 2021.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.



### Overview

Our audit work is on going and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the Group's financial statements and the Council's use of resources for the year ended 31 March in February 2022

We updated our risk assessment after receipt of the draft financial statements. We identified allowance for non collection of receivables as an additional significant risk as per our preliminary analytical review of the draft accounts.

No restrictions were placed on our work.



# THE NUMBERS

## Executive summary

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### Final materiality

Group and Council materiality was determined based on a benchmark of 1.5% of gross expenditure.

We have increased our materiality from £16.1 million to £17.1 million (Group materiality from £17.2 million to £19.7 million) as a result of increase in final outturn of gross expenditure compared to the prior year.

### Misstatements

#### Audit adjustments

Our audit work to date has identified audit differences that have been adjusted by management. This decreased the surplus on the provision of services for the Council by £15.48 million (to £27.092 million) and the Group deficit increased by £15.48 million (to £73.38 million). Net assets for the Council decreased by £15.48 million (to £905.7 million) and the Group by £15.48 million (to £864.6 million). Details of all audit adjustments are shown on pages 37 to 39.

These adjustments did not impact on the Council's General Fund and HRA balances, as they related to capital and other charges that are not proper charges to the General Fund and HRA and reversed to other reserves.

#### Unadjusted audit differences

Other audit differences that have not been corrected by management would decrease the surplus on the provision of services for the Council by a net figure of £6.1 million, the Group by £8.8 million. Net assets for the Council would decrease by £6.1 million (to £904.34 million) and decrease for the Group by £6.3 million (to £844.88 million).

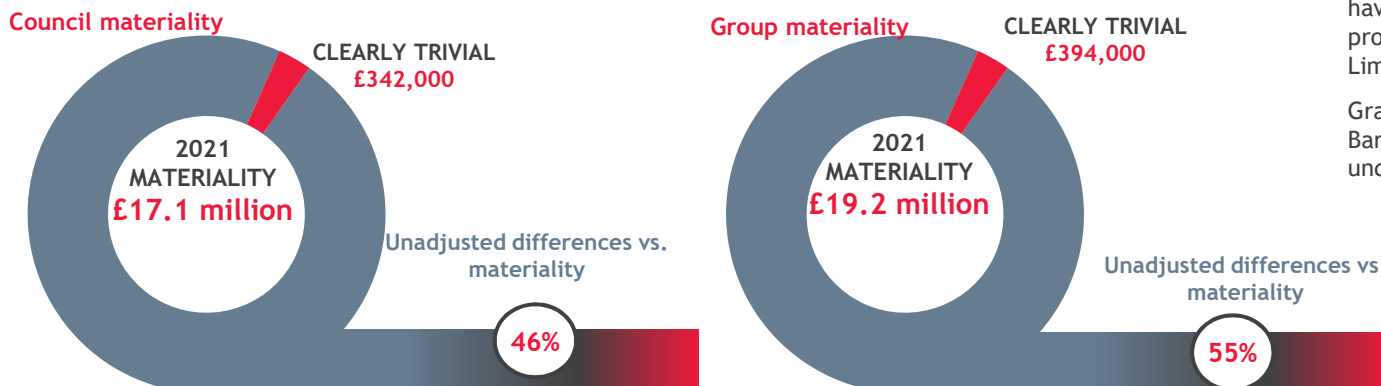
There are 21 audit differences from the prior year corrected in 2020/21 that impact on the Comprehensive Income and Expenditure Statement surplus on the provision of services for 2020/21. The impact of unadjusted differences in the current year and roll forward of prior year differences has resulted in an overstatement of the surplus on the provision of services for 2020/21 of £7.9 million for the Council and £10.5 million for the Group.

### Audit scope

Our approach was designed to ensure we obtained the required level of assurance across the components of the Group in accordance with ISA (UK) 600 (Audits of Group Financial Statements).

We have audited the Council's financial statements under the NAO's Code of Audit Practice. We have undertaken specific procedures for Barnet (Holdings) Limited.

Grant Thornton has audited The Barnet Group and its subsidiaries under the Companies Act.



# OTHER MATTERS

## Executive summary

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### Financial reporting

From the work completed to date and subject to quality review:

- We have not identified any non-compliance with Group accounting policies or the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
- No significant accounting policy changes have been identified impacting the current year
- Going concern disclosures are deemed sufficient
- The Narrative Report and other information included in the Statement of Accounts with the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement complies with relevant guidance and is not inconsistent or misleading with other information we are aware of.

### Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Council and the Group in accordance with the Financial Reporting Council's (FRC's) Ethical Standard.





# AUDIT RISKS OVERVIEW

As identified in our updated Audit Planning Report dated 28 April 2021 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant management estimate or judgement	Use of experts required	Error identified	Significant control findings	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	-	-	Work still in progress
Recognition of grant income before conditions are met	Significant	Yes	No	Yes	-	Work still in progress
Recognition of expenditure in the incorrect accounting period	Significant	No	No	-	-	Work still in progress
Inappropriate assumptions and estimates used in pension assets and liabilities valuation	Significant	Yes	Yes	Yes	No	Yes
Incorrect assumptions and estimates as well as inaccurate/incomplete input data used in the valuation of properties	Significant	Yes	Yes	Yes	Yes	Corrections to valuations including changing the valuation approach for HRA dwellings from desktop to beacon valuations
Over estimation of provision for non-collection of intercompany loans	Significant	Yes	No	-	-	Work still in progress
Incorrect assumptions and estimates as well as inaccurate/incomplete input data used in the valuation of allowance for non-collection of receivables	Significant	Yes	No	No	No	No
Incomplete asset register and non-existent properties included in the carrying balance at year end	Significant	No	No	Yes	Yes	Demolished properties included in the asset register overstating property balance
Errors in the consolidation of group transactions and balances as well as incorrect presentation of group movement in reserve statement	Significant	No	No	Yes	-	Work still in progress
Incorrect classification of land acquired for the Brent Cross development	significant	Yes	No	No	No	Work still in progress

 Areas requiring your attention

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# MANAGEMENT OVERRIDE OF CONTROLS

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**Risk description**

Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.

**Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. We are required to consider this as a significant risk of material misstatement due to fraud**

Significant risk
Normal risk
Significant management estimate or judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant control findings to be reported
Letter of representation point

**Work performed**

We carried out the following planned audit procedures:

- Analysed and verified journal entries made in the year, agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals and used our IT team to assist with the journal extraction;
- Assessed estimates and judgements applied by management in the financial statements to determine their appropriateness and the existence of any systematic bias; and
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

**Results**

Our review of management estimates has not identified the existence of any systemic bias.

We did not identify any evidence to suggest unadjusted audit differences are indicative of bias or deliberate misstatement by management.

**Work outstanding**

Our audit on journals is in progress. Work completed to date has not identified any issues.

**Conclusion**

Work outstanding needs to be completed before we are able to conclude on this risk.

# RECOGNITION OF GRANT INCOME

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## Risk description

Under auditing standards there is a presumption that income recognition presents a fraud risk. We consider there to be a significant risk in respect of the existence (recognition) of grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement(CIES).

**Under auditing standards there is a presumption that income recognition presents a fraud risk.**

Significant risk
Normal risk
Significant management estimate or judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant control findings to be reported
Letter of representation point

## Work performed

We tested a sample of grants included in income to documentation from grant paying bodies and checked whether recognition criteria have been met.

## Results

Our audit work to date on grants confirmed that these were recognised when performance conditions attached to them had been satisfied.

However, we identified that a specific revenue grant of £0.695 million that should have been presented as a service grant (and included in net cost of services) was incorrectly classified as a non specific grant in the Comprehensive Income and Expenditure Statement. Management has agreed to correct this in the final statement of accounts (Adjusted Ref #3).

## Conclusion

Our audit work is still in progress however work to date indicates that grant income has been appropriately recognised when the grant conditions have been met.

# EXPENDITURE CUT-OFF

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## Risk description

For net-spending bodies in the public sector there is a risk of fraud related to recognition of expenditure. We consider the risk of fraud to be in respect of the cut-off of expenditure at year-end.

**For public sector bodies the risk of fraud related to expenditure is also relevant.**

## Work performed

We tested a sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end has been.

## Work outstanding

Our audit of expenditure cut off and recognition is in progress. Work completed to date has not identified any issues.

## Conclusion

Work outstanding needs to be completed before we are able to conclude on this risk.

Significant risk
Normal risk
Significant management estimate or judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant control findings to be reported
Letter of representation point

# PENSION ASSET AND LIABILITY VALUATION

## Risk description

The valuation of the defined benefit obligation is a complex calculation involving a number of significant judgements and assumptions. The actuarial estimate of the pension fund liability uses information on current, deferred and retired member data and applies various actuarial assumptions over pension increases, salary increases, mortality, commutation take up and discount rates to calculate the net present value of the liability.

**The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty.**

There is a risk that the membership data submitted in the 2019 triennial valuation and 2018/19 cash flows provided to the actuary at year end may not be accurate, and that the actuary uses inappropriate assumptions to value the liability. Relatively small adjustments to assumptions used can have a material impact on the Council's share of the scheme liability.

### Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary
- Assessed the competence of the management expert (actuary)
- Assessed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data
- Assessed the controls in place for providing accurate membership data to the actuary
- Contacted the pension fund auditor and requested confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data
- Checked that any significant changes in membership data have been communicated to the actuary
- Contacted the pension fund auditor and requested confirmation of assurance obtained over the valuation and ownership of the different asset classes of the scheme.

### Results

We agreed the pension disclosures in the accounts to the IAS 19 disclosure report from the actuary with no issues. Our review of the competence of the actuary did not identify any issues.

The pension fund audit is still in progress however:

- no control issues over the provision of accurate and complete membership data to the actuary have identified by the pension fund auditor
- no issues around valuation or ownership of assets of the scheme have been identified by the pension fund auditor.

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# PENSION ASSET AND LIABILITY VALUATION

The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty

## Results (continued)

Enquiry of the pension fund scheme and other audit work carried out such as review of the IAS 19 report confirmed that bulk transfers in the year has been accounted for by the actuary.

PwC is engaged by the NAO to assess the work of actuaries providing IAS 19 pension liability services to local public services. We have checked that the employer has used the standard assumptions proposed by the actuary that have been concluded as appropriate by PwC and documented our results on the next page.

The following discrimination cases covering GMP gender equality, McCloud age discrimination and Goodwin spousal pensions are currently subject to remedy action that is likely to impact on liability to pay future pensions:

## GMP Equalisation

On 20 November 2020, the High Court handed down a further judgment of the Lloyds GMP equalisation case, concluding that historical transfer values need to have their GMPs equalised from 1990 onwards. The actuary has not made any allowance, which is consistent with all other local government actuaries. Local government actuaries have cited that the announcement in February 2020 which extends to the November 2020 ruling, by the then Ministry of Housing, Communities and Local Government and HM Treasury that they are considering whether GMP equalisation in the context of the LGPS requires any further actions however neither party has yet issued any clear statements on this topic. In addition the actuary for the pension scheme has indicated that any ruling is unlikely to have a significant impact on the pension obligations of a typical Employer. Furthermore, the historic individual member data needed to assess impact at Employer level is not readily available. PwC, as consulting actuary, has indicated that the approach taken by the actuaries is reasonable in the absence of clear statements or evidence to contradict the HM Treasury announcement.

## GMP Indexation

In March 2021 the Government confirmed that public service pension schemes will be expected to pay full indexation for members who reach their SPA after 5 April 2021. The actuary made allowance for full GMP indexation within the closing balance sheet position in the prior year therefore no further update was required for 2021.

## McCloud

In the prior year the actuary made an allowance for the impact of McCloud judgement on pension liability at the balance sheet date. The actuary estimated the additional liability at £3.124 million for the Council and £3.716 million for the group. The actuary confirmed no additional adjustment to current service cost in the current year for extra year of service for those affected noting that they expect the impact of not allowing for the additional accrual to be less than 1% of payroll, or less than 0.1% of liabilities. We have estimated impact of McCloud on current service to be £1.393 million for the Council and £1.533 million for the Group. Management has not corrected this in the accounts on the basis of materiality. (Unadjusted Ref#9)

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# PENSION ASSET AND LIABILITY VALUATION

The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty

## Results (continued)

### Goodwin case

The actuary did not make any adjustment for Goodwin judgement to adjust for the impact of differential in survivor pensions for same sex marriage or civil partnerships. The actuary estimated an additional liability of 0.1% on pension liability however did not make any adjustment as impact was deemed insignificant on the scheme. We have estimated this for the current year to be £1.394 million for the Council and £1.533 million for the Group. (Unadjusted Ref#10)

### O'Brien and Walker Judgement

The Courts found in favour of scheme members who argued that they had been treated unfairly in terms benefits due to them under their employment conditions. The courts have allowed for pension benefits to be backdated or claims to be made retrospectively. The actuary has not made any allowance for the impact of these ruling on pension liability on the basis that the judgements are unlikely to be significant in terms of impact on the pension obligations of a typical Employer. Although this is not expected to be significant we are in discussions to determine whether the impact of this judgement on the pension liability exceeds our reporting threshold.

The results of our review of the reasonableness of the assumptions used in the calculation against other local government actuaries and observable data is reported on the following page.

### Work outstanding

To agree the 2020/21 cash flows for contributions, benefits paid and investment returns used by the actuary to the payroll data and pension fund asset returns.

### Conclusion

The defined benefit obligation has been appropriately calculated and the assumptions used are reasonable.

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# PENSION ASSET AND LIABILITY VALUATION

## Significant estimate - LGPS pension liabilities

### Council pension liabilities £1,366 million funded LGPS and £28 million unfunded promised retirement benefits



The Council's pension liability has increased from £1,099 million to £1,394 million and its share of the scheme assets increased from £586 million to £765 million. The net deficit increased by £116 million to £629 million. The increase in the liability includes £254 million from changes to financial assumptions such as increased annual salary above CPI at 2.8% (previously 2.6%), increased annual pension increases at 2.85% (previously 1.9%) offset by a fall in the rate of discounting scheme liabilities to 2.4% (previously 2.3%); £14 million from demographic assumptions due to increased longevity of members; and £12 million reduction from updates to membership information due to bulk transfers to/from the scheme. The share of scheme assets has increased by £179 million due to rising investment values in the pension fund and reallocation of assets due to bulk transfers in the year.

We have compared the key financial and demographic assumptions used to an acceptable range provided by our a consulting actuary.

	Actual used	Acceptable range	Comments
<b>Financials:</b>			
- RPI increase	2.90%	3.20 - 2.35%	Reasonable
- CPI / pensions	2.85%	2.8 - 2.85%	Reasonable
- Salary increase	2.8%	2.8 - 2.95%	Reasonable - short term assumption of lower rate and increasing long term assumption
- Discount rate	2%	1.95 - 2.05%	Reasonable
Commutation:	50%	50%	Reasonable
<b>Mortality:</b>			
- Male current	23.3 years	21.8 - 24.3	Reasonable
- Female current	26.6 years	25.2 - 26.7	Reasonable
- Male retired	21.9 years	20.4 - 22.7	Reasonable
- Female retired	24.4 years	23.2 - 24.9	Reasonable
Mortality gains	CMI 2018 (+1.25% improvement rate)		Reasonable
	with Club Vita local adjustments		

We consider that the assumptions and methodology used by the Council's actuary are appropriate, and will result in an estimate of the pension liability which falls within a reasonable range.

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# PPE AND INVESTMENT PROPERTY

## Risk description

Local authorities are required to ensure that the carrying value of land, buildings and dwellings is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date. There is a risk over the valuation of these assets due to the high degree of estimation uncertainty and where updated valuations have not been provided for a class of assets at the year-end.

In the prior year we identified errors in the data provided to the valuer, such as incorrect build cost for leisure centres, double counting of assets or misclassified assets in the asset register and the transfer of a school to Academy status not being adjusted for in the asset register.

There is therefore a risk of incomplete and inaccurate information being used in the valuation.

**There is a risk over the valuation of assets due to the high degree of estimation uncertainty. There is also a risk of incomplete and inaccurate information used in the valuation.**

## Work performed

We carried out the following planned audit procedures:

- Assessed the instructions provided to the valuer and the valuer's skills and expertise to determine if we could rely on the management expert
- Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage
- Confirmed accuracy and completeness of information provided to the valuer by agreeing to source documents
- Assessed the assumptions used by the valuer and movements against relevant indices for similar classes of assets
- Made inquiries of the valuer for valuation movements that appear unusual or outside of our expectations
- Checked that assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct.

## Results

Our audit work on PPE and investment property valuations is still in progress. However, our audit work to date has not identified any issues with instructions to the valuer, including the valuer's skills and expertise.

We challenged the valuer on the appropriateness of the valuation approach applied to HRA dwellings which resulted in the valuer changing their approach and applying the beacons valuation approach to HRA dwellings. Details on the following page.

Our work to date on the accuracy and completeness of asset information used as the basis of valuation identified errors that are reported on the following pages.

The results of our review to date, of the assumptions and estimates used by the valuer for classes of assets are also reported on the following pages.

## Conclusion

Management has made corrections to PPE and investment property valuations as noted on the following pages, including changing the valuation approach applied to HRA dwellings.

There are some outstanding procedures to be completed before we are able to fully conclude on this risk.

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# PPE AND INVESTMENT PROPERTY

## Significant estimate

### Council dwellings at Open Market Value Social Housing discount value £800 million

< lower Impact of assumptions on the estimate higher >

Council dwellings are valued at open market value and adjusted to 25% of this valuation to reflect the discounted social rents charged to tenants. The adjustment reflects information provided by DLUHC in 2016 for regional (London) differences between market rents and social rents. Council dwellings are generally valued using the beacon valuation method. The beacon valuation is an efficient method of arriving at a representative valuation which enables values to be attributed to larger numbers of dwellings comprising a Council's housing portfolio. However, our review of the valuer's working papers identified that the valuer only did a desktop review by applying housing price indices to the Council's dwelling portfolio. Desktop reviews are not actual valuations therefore we challenged the valuer on the appropriateness of this approach because by only applying local indices to determine the market values of dwellings, specific factors and unique circumstances of individual properties are not taken into account.

Management agreed to arrange the valuation of 20% of the 77 beacons. This valuation work is still in progress and, as a result, we are not able to determine the impact of this change in approach on the Council's dwellings value at year end.

### Buildings at Depreciation Replacement Cost DRC £312 million

< lower Impact of assumptions on the estimate higher >

Our assessment of the Council's valuation of buildings using depreciation replacement cost is still in progress.

Council owned schools are valued on the basis of government guidance on the minimum required floor area per pupil for different types of school, rather than the actual size of the existing school, using estimated rebuild costs. Leisure centres are valued using the existing gross internal area and estimated rebuild costs. These valuations are then reduced to reflect the age of the building.

The school rebuild sizes used have been agreed to 19/20 published pupil numbers by the Department for Education, showing an increase in pupil numbers of 2% from the previous year. The latest school pupil numbers for the 2020/21 academic year were recently released and show a reduction in pupil numbers that would further reduce the required school replacement cost by £2.3million. Valuation was based on latest available pupil numbers at the time of valuation (which was the 2019/20 published pupil numbers). Latest pupils numbers show an immaterial reduction in replacement cost by £2.3 million and this has not been reflected in the valuation (Unadjusted Ref#1).

Our work to date also identified the Council had not removed from the asset register properties of a school that became an independent academy school during the year. Under the terms of the transfer to an academy, the local education authority transfers ownership of the school to the Department for Education for nil consideration. Error was identified in the prior year and client derecognised the properties and recorded a loss in the CIES in the prior year however failed to update the asset register to remove these properties. This resulted in an overstatement of schools' values by £5.209 million (Adjusted Ref#1). This has been corrected by management, however this is the second year that this error type has been identified which indicates controls need to be strengthened to prevent future recurrence.

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# PPE AND INVESTMENT PROPERTY

## Significant estimate

### Other land and buildings at Existing Use Value £197 million

< lower	Impact of assumptions on the estimate	higher >

Our assessment of the valuation of other land and buildings at existing use value is still in progress.

Other land and buildings (such as libraries, out of borough temporary accommodation, garages, depots and cemeteries) are valued using the most appropriate market value or income method. Those assets with large elements of land have been valued using the latest available published land values at £6.9 million per hectare. The valuer has revalued 87 out of the 308 larger asset at December 2020 resulting in an overall increase of £49,000 excluding the new Council office. The new Council office was revalued downwards by £18 million based on existing use.

We compared valuation movements to expectations using MCSI regional capital growth indices (for buildings) that reported a reduction of 9.8% for retail units, a 8.9% decrease for offices and an increase of 10% for industrial buildings for year to December 2020. Where valuations fell outside of these expectations, we queried the approach with the valuer to understand the reasons for the differences. These discussions are still on going and we will update the Committee on the results in our final report.

### Surplus assets at fair value £134 million

< lower	Impact of assumptions on the estimate	higher >

Our assessment of the valuation of surplus assets is ongoing.

Surplus assets are valued at fair value (highest and best use) by reference to similar sales and potentially including an increase where the purchaser may be able to amend the consents for use and increase the value of the asset.

The surplus assets category includes all of the consolidated Brent Cross South development assets valued at £101 million. These assets are mainly land valued with active residual developments. As the development is actively progressing, the land is valued on a residual method basis based on the residual value arising from the individual developments.

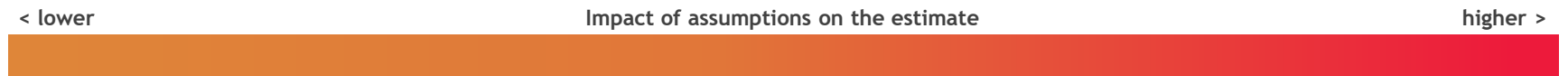
We have requested additional information from the valuers to complete our review of the valuation of surplus assets including the consolidated Brent Cross development assets.

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# PPE AND INVESTMENT PROPERTY

## Significant estimate -

Investment properties at fair value £168 million.



Investment properties are valued at fair value (highest and best use) usually based on the current and future potential rent yields.

Our audit work to agree the rental income used in the valuations to the tenant leases and assessed whether the yields applied are reasonable is in progress.

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# PROVISION FOR NON COLLECTION OF INTERCOMPANY LOANS

## Risk description

In the prior year we identified that the Council advanced £33.9 million to Open Door Homes Ltd (ODHL) to fund the development of new social housing and included an expected credit loss provision of £7.5 million. We considered that the credit loss allowance of £7.5 million was not required based on the refreshed business plan and security held over the development asset.

There is a risk over the estimation of the impairment allowance for non-collection of inter company loans if incorrect assumptions or source data are used

**There is a risk over the estimation of the impairment allowance for non-collection of inter company loans if incorrect assumptions or source data are used.**

Significant risk

Normal risk

Significant management estimate or judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant control findings to be reported

Letter of representation point

## Loan to subsidiary £50.39m and expected credit loss £0.732m

### Work performed

We reviewed and assessed the provision model for inter company loans to ensure it includes appropriate assumptions for expected credit losses.

### Result

The Council has agreed a loan facility of £65 million with ODHL a subsidiary of The Barnet Group which is a subsidiary of the Council. The loan is to be drawn down over a period of a number of years and at year end £50.39 million had been drawn down by ODHL. At year end an expected credit loss for credit risk of £0.732 million had been applied to the loan.

Our audit work to assess the appropriateness of the risk of default applied and assumptions used by management in determining the expected credit loss is still on going.

### conclusion

Work outstanding needs to be completed before we are able to conclude on this risk.

### Impact

< lower

higher >

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# NON-COLLECTION OF RECEIVABLES

## Risk description

The Council recognises an allowance for the non-collection of receivables (arrears and debt), primarily in respect of council tax, NDR, housing benefit overpayments, housing rents and parking charges. The Council assesses each type of receivable separately in determining how much to allow for non-collection. 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 an increased risk of customer default over collection of receivables where the losses are measured using either the Incurred Credit Loss model for statutory debt (eg council tax and NDR) or Expected Credit Loss (contract receivables). For some receivables, the Council may have suspended recovery action or offered deferred payment terms, and some customers that may be taking advantage of these arrangements may be in financial difficulty.

**There is a risk over the valuation of the impairment allowance for the non-collection of arrears and debt.**

Estimating potential losses from defaults on amounts due will be subject to a greater degree of estimation than in previous years, historical collection rates may offer only some indication of potential future losses and assigning key economic metrics that may reflect patterns of historic default rates may be imperfect in the current conditions.

### Work performed

We carried out the following planned audit procedures:

- Reviewed the provision model for significant receivables balances to assess whether it appropriately reflects potential default losses in light of current conditions using historical collection rates, an assessment of potential defaults for customers making use of deferral arrangements and aging of debt, and future losses and assessing the sensitivities to the impairment calculation and assumptions used by management
- Reviewed business plans to support recoverability of amounts due as receivables or loans from group entities.

### Results

Our audit work is still in progress as detailed on the following page, where we also note our review of the appropriateness of the allowance for non-collection for each type of significant receivable. Management has applied historical default rates (incurred losses) using system data to determine the credit losses on both the statutory debt and on trade receivables that fall within the scope of IFRS 9. The Council does not have the data to establish which customers taking advantage of any deferred payment arrangements may be in financial difficulties and historical collection rates may only offer some indication of potential future loss for these customers. However, this is unlikely to result in a material difference in the amount of credit losses recognised as the provision for incurred credit loss for statutory debts such as collection fund and business rate are significantly high.

We identified that the Council has included expected credit loss of £6.186 million in net cost of service instead of the financing and investment income and expenditure line in the statement of comprehensive income. This error has no bottom line impact and management has agreed to correct it in the final financial statements. (Adjusted Ref#2)

### Conclusion

Work outstanding needs to be completed before we are able to conclude on this risk.

Significant risk	
Normal risk	
Significant management estimate or judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

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# NON-COLLECTION OF RECEIVABLES

## Significant estimate - allowance for credit losses

Gross receivables £329 million and total credit loss allowance £92 million

< lower Impact of assumptions on the estimate higher >

### Council tax arrears (Collection fund £48 million the Council's share £38 million)

The Council has recognised an allowance of £24 million for non-collection of its share of the council tax arrears of £38 million. The Council's share of the arrears has increased by £3 million and the credit loss allowance has been increased by £6 million.

The credit loss allowance is estimated using recovery rates achieved for aged arrears in recent years for each year up to 5 years old. For debts over 6 years a flat provision rate of 78% is applied.

Our audit work to check that the data used to calculate collection rates for arrears up to 5 years old is correct and the provisioning rates have been correctly applied to aged debt at 31 March 2021 is still in progress. We have also extended our review to cover actual collection rates for debts over 6 years to assess the appropriateness of the flat rate % applied to debts over 6 and that provision falls within an acceptable range.

### NDR arrears (Collection fund £22.5 million the Council's share £7 million)

The Council has recognised an allowance of £5.5 million for non-collection of its share of the NDR business rates arrears of £7 million. The Council's share of the arrears has stayed the same as prior year and the credit loss allowance has been increased by £1 million.

Previously the provision has been estimated using historic collection rate information from last three years however this year the provision has been estimated using information from the last 2 years, which has resulted in an overall increase of £9 million.

Our audit work to ensure that the provision amount is reasonable is still in progress.

### Housing benefits overpayment debt (£28.2 million)

The Council has recognised an allowance of £26.8 million for non-collection of housing benefit overpayment on total debt of £28.2 million. In the prior year an allowance of £24 million was raised against arrears of £25 million. The provision is estimated based on historical benefit overpayment recovery data.

Our review of the methodology to ensure we are satisfied that this falls within reasonable range for non-collection of debt is still in progress.

### Housing rents arrears (£14.6 million)

The Council has recognised an allowance for non-collection of housing rents arrears of £11.4 million on total debt of £14.6 million. In the prior year a provision of £10.3 million was raised against rent arrears of £13.4 million. The provision is estimated using historic collection data.

Our review of the methodology to ensure we are satisfied that this falls within reasonable range for non-collection of debt is still in progress.

(continued next page)

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# NON-COLLECTION OF RECEIVABLES

## Significant estimate - allowance for credit losses

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### Gross receivables £329 million and total credit loss allowance £92 million

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#### Parking arrears (£11 million)

The Council has recognised an allowance for non-collection of parking arrears of £8.3 million on total debt of £11 million. In the prior year a provision of £7 million was raised against rent arrears of £10.7 million. The provision is estimated using historic collection data.

Our review of the methodology to ensure we are satisfied that this falls within reasonable range for non-collection of debt is still in progress

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#### Sundry receivables (£198 million)

Sundry receivables includes £157 million of government debtors that does not need to be included within the expected credit losses model since Government debt is not considered to be at risk.

An expected credit loss allowance of £6 million has been provided for against the remaining £41 million of sundry receivables. The majority of the receivables are still within current payment terms and our preliminary view is that these debts are not considered to be at risk of non-collection and the credit loss allowance could be overstated as a result.

We have requested an analysis of the expected credit loss assessment to ensure that amount raised as the expected shortfall in cash from credit loss is reasonable.

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# COMPLETENESS AND EXISTENCE OF NON CURRENT ASSET

## Risk description

In the prior year we identified that the Council had incorrectly treated 213 properties as disposed of in year and recognised a loss of £13.2 million (159 of these properties being HRA council dwellings) although properties were still owned by the Council at year end. This was due to Barnet Homes providing inadequate information to the Council to account for its major works programme, new property purchases and out of borough property acquisitions. We also noted that the Council had not derecognised a school that became an independent academy school during the year. Under the terms of the transfer to academy status, the local education authority transfers ownership of the school to the Department for Education for nil consideration. In addition we also identified that revenue expenditure funded from capital under statue (REFCUS) was incorrectly capitalised.

**There is a risk that asset register may not be complete. There is also a risk that assets included in the asset register may not be owned or controlled by the Council.**

Based on the errors identified in the prior year, there is a risk that the asset register may be incomplete or that properties included in the asset register may not be owned or controlled by the Council.

### Work performed

We carried out the following planned audit procedures:

- Assessed the controls in place to ensure that accurate and complete information about major works programmes and property acquisitions are provided by Barnet Homes to the Council
- Tested an increased sample of expenditure capitalised in the year to ensure that they are appropriate to be capitalised
- Tested an increased sample of disposals to confirm properties were actually disposed or transferred in the year
- Obtained independent assurance reports over the controls operated at Barnet Homes, particularly controls around the recording of capital expenditure and disposal of properties
- Tested an increased sample of properties at year end to confirm that the Council has legal right the properties.

### Results

Our audit work is still in progress however our work to date has identified that properties demolished before year end were included in the asset register and valued by the valuer at year end. Dwellings demolished should be impaired so that only the land value is included in the valuation. This will reduce the carrying value of dwellings by £3.490 million. This error has been corrected by management (Adjusted Ref#5). Again this situation arose as a result of Barnet Homes providing inadequate information to the Council to account for its properties. We reported in the prior year a significant control deficiency in the accuracy and completeness of management information provided by Barnet Homes to the Council to correctly account for its major works programme, new property purchases and new out of borough properties.

### Conclusion

Management has updated the asset register and PPE value in the statement of accounts to remove the identified properties that do not exist at year end.

Work outstanding needs to be completed before we are able to fully conclude on this risk.

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# ACCURACY OF GROUP CONSOLIDATION

## Risk description

Significant errors were identified in the group financial statements relating to inconsistent accounting policies, elimination of recurring journal adjustments for previous transfer of land at nominal value, reversing the adoption of IFRS 16 accounting for leases in the subsidiary and elimination all of intra-group transactions. Amendments were also required to appropriately allocate reserves and balances of the subsidiary in the group movement in reserves statement and between group usable and unusable reserves in line with CIPFA Code definitions.

With increasing inter-company activities and different accounting frameworks applied by group entities, there is risk of errors in the consolidation of group entities where transactions and balances are not eliminated appropriately. There is also a risk that the Group Movement In Reserves Statement may not be presented in accordance with the CIPFA Code

**Risk of errors in the consolidation of group entities due to increase inter-company activities and the different accounting framework applied by group entities.**

Significant risk

Normal risk

Significant management estimate or judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant control findings to be reported

Letter of representation point

## Work performed

We carried out the following planned audit procedures:

- Checked the consolidation workings to ensure that intercompany transactions and balance have been treated appropriately, with emphasis on checking asset transfers between group entities
- Analysed the principal accounting policies applied by group entities and ensured that they have been consistently applied in the group financial statements
- Checked presentation of the group movement in reserve statement to ensure that it has been presented in accordance with the CIPFA Code,

## Results

Our audit work is still in progress however our work to date identified that the Council did not record the permanent/recurring journal to account for the £10 million acquisition of a land option acquired in 2018/19 to provide the Council with an option to purchase land from Network Rail in the Brent Cross South development zone. The Council acquired the option with a subsidiary by advancing £5 million to the subsidiary. In the Council's single entity accounts this is accounted for as £5 million investment and £5 million long term loan to the subsidiary. The Group financial statements would continue to show that the Group has the benefit of the entire £10 million intangible asset. A consolidation journal in the group accounts should have been processed to eliminate the £5 million investment and £5 million loan to the subsidiary and shown as 'intangibles' in the group accounts. Adjusted Ref#4

## Conclusion

Management has corrected this error in the group financial statements

Outstanding procedures need to be completed before we are able to conclude on this risk.

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# CLASSIFICATION OF BRENT CROSS NON CURRENT ASSET

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## Risk description

The Council has acquired plots of land and buildings at the Brent Cross South site under direct purchase, treaty and compulsory purchase orders. This is part of the land assembly of the regeneration of the area and sits alongside the new Thames railway station. This is a significant project supported by

**There is a risk that parcel of lands acquired for the Brent Cross development in exchange for loan notes in the joint venture may not be classified correctly where the land has been prepared and readied for transfer into the JV.**

Significant risk
Normal risk
Significant management estimate or judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant control findings to be reported
Letter of representation point

Government, Network Rail and the Council that will create a major new ‘village’ with flats, retail units and offices next to the new railway station. In the prior year the asset was transferred from investment property to PPE and classified as surplus assets. The reason given by the Council is that it was no longer appropriate to carry the land as investment property as it was no longer held for future capital appreciation or rental income, but was earmarked for transfer into the development joint venture for regeneration of that part of the borough.

With Management’s intention to transfer the land into the joint venture and recover the carrying amount through sale, there is a risk that the plots of land acquired for the development may not be classified correctly where the land has been prepared and readied for transfer into the joint venture.

## Work performed

- Made inquiries of management regarding the status of the transfer of the land assets into the joint venture
- Requested and reviewed management’s technical working paper providing the justification for classification of assets associated with the Brent Cross project and considered whether classification is appropriate

## Results

Management has confirmed that all cost incurred to date are carried by the Council and nothing has been transferred to the joint venture responsible for the development of Brent Cross. No land has been transferred to the joint venture and management anticipate this would happen in 2023.

Management has currently classified t all the parcel of lands to be readied for transfer into the joint venture as surplus assets in its financial statements. We await management’s technical assessment supporting this classification.

## Conclusion

Review of management’s working papers supporting classification of land to be transferred to Brent Cross development is outstanding.

# GOING CONCERN

**We are required to highlight any judgements about events or conditions that may cast significant doubt over the entity's ability to continue as a going concern**

## Management's assessment of going concern

The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.

Local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.

Accounts drawn up under the Code therefore assume that a local authority's services will continue to operate for the foreseeable future.

The code further highlights that where an authority is facing financial difficulties such difficulties should be disclosed. Management has prepared the financial statement's statement on a going basis based on its assessment and the requirements of the code.

## Discussion and conclusion

Our review of management's assessment is on going however, to date, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue which needs to be disclosed.

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# OTHER MATTERS

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
<p><b>Debtors / creditors analysis presentation</b></p> <p>The Code was amended to change the presentation requirements for the analysis of debtors and creditors from the type of counter party (eg Government or NHS) to the nature of the receivables or payables (eg for receivables by trade customers, receivables from related parties, prepayments and other amounts).</p> <p>The presentation of the debtors and creditors analysis has not been updated to reflect the changes to the Code last year.</p>	<p>The debtors and creditors notes should be analysed by the nature of the type of debtor and creditor rather than by the counter party.</p> <p>We have reported this as a presentation misstatement.</p>
<p><b>PFI scheme disclosures</b></p> <p>We identified that the Council's purchase of new street lighting equipment of £0.473 million was incorrectly disclosed as part of the PFI asset in the notes to the accounts.</p>	<p>Management has not corrected this disclosure error on the basis of materiality and we have reported it as a disclosure misstatement.</p>
<p><b>Cash flow reconciliation to liabilities</b></p> <p>We identified that management did not include a note to the cash flow statement reconciling movement in liabilities arising from financing activities as required by the code.</p>	<p>We have reported this as a disclosure misstatement.</p>
<p><b>Schools cash differences</b></p> <p>We noted that there was £0.580 million of unexplained differences or errors between school bank statement balances and general ledger / cash balances due to factors such as schools not accounting for expenditure. In the prior year this unexplained difference or potential error was £0.18 million. The reported bank balances of schools could be overstated by £0.580 million.</p> <p>We also identified that a cash balance of £0.216 million for a school that was converted to academy in the year was included in the Council's bank and cash balance in the accounts at year end instead of accounts payable.</p>	<p>Providing a complete and accurate bank reconciliations is a key management control to identify any irregularities and to confirm that all income and expenditure has been properly accounted for. This remains a deficiency in control to be addressed.</p> <p>Management has not corrected these errors on the basis of materiality. (Unadjusted Ref#2 and Ref#3).</p>

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# OTHER MATTERS 1

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
<b>Misclassification between short and long term investment</b> We identified that an investment of £10 million which matures over 12 months from year end was incorrectly classified as short term instead of long term.	Management has agreed to update the financial statements to correct this error. (Adjusted Ref#6)
<b>Council tax relief recorded in the incorrect period</b> We identified that a council tax relief granted to a rate payer in the prior year was incorrectly accounted for as a relief granted in the current year overstating the total reliefs granted in the current year and understating collection fund income. The relief recorded in the wrong period when extrapolated over the total reliefs balance is £0.474 million . The Council's share of the council tax collection fund in 2020/21 is 79.32% and therefore the Council's accrued share of the surplus to recognise in the CIES is understated by £0.376 million. The remaining 20.68% of the Council income relates to other parties.	Management has not updated the accounts to adjust for this error on the basis of materiality. We have reported it as an unadjusted error. (Unadjusted Ref#4).
<b>Incorrect HRA depreciation calculated</b> We identified that incorrect useful economic lives were used in depreciating infrastructure assets resulting in understatement of depreciation for the year by £7.246 million	Management has agreed to update the financial statements to correct this error. (Adjusted Ref#7)

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## OTHER MATTERS 2

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
<p><b>Collection fund income understatement</b></p> <p>We identified that business rate income taken to the CIES was understated by £1.5 million due to an error in the calculation.</p>	<p>Management has not updated the accounts to adjust for this error on the basis of materiality. We have reported as unadjusted error. (Unadjusted Ref#).</p>
<p><b>Provision for business rate appeals for COVID-19 related property value changes</b></p> <p>The Council has raised an appeals provision of £14 million for a major change in circumstance due to the COVID-19 pandemic however the government has made it clear that market-wide economic changes to property values, such as from COVID-19, can only be properly considered at general rates revaluations, and will therefore be legislating to rule out COVID-19 related major change in circumstance appeals. Based on the statement issued by the government we consider that it is not probable that COVID-19 related appeals by rate payers would be successful and the provision may not be in line with Code.</p>	<p>Management contends that the provision is appropriate because legislation to this effect has not yet been passed. We have asked for their analysis or rationale justifying the provision, with reference to their interpretation of the Code and supporting financial accounting and reporting standards.</p> <p>We will conclude on whether the provision is justifiable in our final completion report.</p>
<p><b>Long outstanding debts</b></p> <p>We identified a long outstanding debt of £0.487 million with no evidence to support that the debt is recoverable and no provision for credit impairment had been made. We believe an impairment provision should be raised as credit risk has increased based on the age of the debt.</p>	<p>Management has not updated the accounts to adjust for this error on the basis of materiality. We have reported as unadjusted error. (Unadjusted Ref#5).</p>
<p><b>Over accrual of debtors</b></p> <p>We identified that income was over-accrued by £0.350 million based on evidence provided by management. We have extrapolated this error over the accrual balance and determined a potential error of £2.369 million.</p>	<p>Management has not updated the accounts to adjust for this error on the basis of materiality. We have reported as unadjusted error. (Unadjusted Ref#6).</p>

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# OTHER MATTERS 3

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
<p><b>Grossing of schools grants</b></p> <p>The Council uses the school transfer general ledger code to record all grants paid out to schools and the same grants reported by the schools through the returns. Transfers to the schools are debited against the transfer code and the grants reported back from the school credited against the same transfer code therefore netting to £nil and having no impact on the CIES. We identified that grants of £8.190 million paid out to schools were recorded as gross expenditure and the same grant reported back to the Council by the schools was recorded as gross income instead netting off in the transfer code. Income and expenditure have both been overstated by £8.190 million with a £nil impact on the bottom line.</p>	<p>Management has agreed to update the financial statements to correct this error. (Adjusted Ref#8).</p>
<p><b>School income recorded in expenditure.</b></p> <p>We identified that school income of £2.5 million was recorded in the general ledger against an expenditure code resulting in understatement of both income and expenditure with no a £nil impact on the bottom line.</p>	<p>Management has not updated the accounts to adjust for this error on the basis of materiality. We have reported as unadjusted error. (Unadjusted Ref#7).</p>
<p><b>Statement of accounts amendments</b></p> <p>Our review of the draft accounts identified a number of presentational misstatements, including:</p> <ul style="list-style-type: none"> <li>• Group Surplus or deficit on provision of services per the CIES didn't agree with the Group MiRS. Surplus or deficit on the provision of services Per CIES is £57.9 million and Surplus or deficit on the provision of service per MiRs is £3.1 million</li> <li>• Other comprehensive income and expenditure per Group CIEs didn't agree with MiRs. OCI per group CIES is £80.9 million and OCI in the group MiRs is £0</li> <li>• Total comprehensive income per group CIES is £138.9 million and that is different to the total OCI in the group MiRs which is £84.1 million.</li> </ul>	<p>Management has agreed to update the final accounts to correct all of these issues.</p>

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# OTHER MATTERS 4

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
<p><b>Statement of accounts amendments (cont'd)</b></p> <ul style="list-style-type: none"> <li>• Material balances in the group cash flow statement with no additional notes or explanation</li> <li>• Net expenditure for Adults and Health, Public Health in the revised 2019/20 column in the CIES restated note did not agree to the CIES</li> <li>• Capital grants and contributions unapplied in the CIES mapped to expenditure in the EFA note</li> <li>• Loss on disposal per EFA note did not agree to PPE note</li> <li>• Differences noted between the rolling valuation table and the main PPE note for other land &amp; buildings, schools, infrastructure and surplus asset</li> <li>• Cash and Cash equivalent per financial instrument note did not agree to the cash balance per CIES</li> <li>• In the financial instrument note, fair value has been assigned to both short and long term investments even though the same note suggest that for short term instruments the carrying value is deemed to be a reasonable approximation of the fair value</li> <li>• Money market balance per the cash and cash equivalent note did not agree to balance per the financial instrument note</li> <li>• Cash flow from operating activities included a significant non cash item charged to surplus or deficit on the provision of service without any explanation, notes or disclosures to explain key items included in the balance</li> <li>• Proceeds from short and long term investments under adjustments for items included in the net surplus or deficit on the provision of service that or not investing or financing was incorrect and did not agree to net gain or loss from disposal of investments</li> </ul>	<p>Management has agreed to update the final accounts to correct all of these issues</p>

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# OTHER MATTERS 5

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
<p><b>Statement of accounts amendments(cont'd)</b></p> <ul style="list-style-type: none"> <li>Any other item of which the cash effects are investing or financing cash flow did not agree to capital grants included in the surplus or deficit on the provision of services</li> <li>Proceeds from the sale of property, plant and equipment, investment and intangible assets in the cash flow adjustment note for items included in the surplus or deficit on the provision of services that are not financing and investing did not agree to the statutory adjustment note</li> <li>Other payment for financing activities, other receipts from investing, other payments from investing included in the financing and investing actives note to the cash flow statement are significant yet explanation or disclosure of the key items included is missing</li> <li>The significant estimates note did not include specific key assumptions about the Brent Cross asset valued on fair value basis</li> <li>Assumptions made about the future and other major sources of estimation uncertainty did not cover some of the other fair value disclosures required such as:               <ul style="list-style-type: none"> <li>reconciliation of items held at level 3 in the year including details of any transfers into level 3 and also details of the impact on the CIES.</li> <li>details regarding sensitivities linked to the key assumptions.</li> </ul> </li> </ul>	<p>Management has agreed to update the final accounts to correct all of these issues</p>

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# MATTERS REQUIRING ADDITIONAL CONSIDERATION

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## Fraud

Whilst the Council's officers have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Planning Report on 28 April 2021.

## Laws and regulations

The most significant considerations for your organisation are the:

- Local Government Acts of 1972 and 2003
- Local Government Finance Acts of 1988, 1992 and 2012
- Local Government and Housing Act 1989
- International accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
- Local Audit and Accountability Act 2014
- Accounts and Audit Regulations 2015
- VAT legislation
- PAYE legislation.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

## Internal audit

We reviewed the audit work of the Council's internal audit function to support our use of resources assessment.

## Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We did not identify any significant matters in connection with related parties.

## Group matters

We have not yet completed our review of the group working papers and we will report any matters from our audit work to the committee in our final completion report.

# AUDIT DIFFERENCES

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### Audit adjustments

Our audit work to date has identified audit differences that have been adjusted by management. This decreased the surplus on the provision of services for the Council by a net figure of £10.24 million (to 32.300 million) and the Group deficit increased by the same £10.239 million (to £68.17 million).

Net assets for the Council decreased by £10.24 million (to £910.89 million) and the Group by £10.239 million (to £851.72 million).

Details of all audit adjustments are shown on pages 36 to 37.

These adjustments did not impact on the Council’s General Fund and HRA balances, as they related to capital and other charges that are not proper charges to the General Fund and HRA and, consequently, are reversed to other reserves.

### We are required to bring to your attention unadjusted differences and we request that you correct them

Other audit differences that have not been corrected by management would decrease the surplus on the provision of services for the Council by a net figure of £6.1 million, the Group by £8.8 million.

Net assets for the Council would decreased by £6.1 million (to £904.34 million) and decrease for the Group by £6.3 million (to £844.88 million).

Details of all audit adjustments are shown on pages 38 and 39.

These adjustments would also increase the Council’s General Fund and HRA balances by £2.4 million (up from £26.2 million to £28.6 million) where these relate to revenue items not subject to statutory adjustments.

There are 21 audit differences from the prior year corrected in 2020/21 that impact on the Comprehensive Income and Expenditure Statement surplus on the provision of services for 2020/21. These are no longer audit differences at 31 March 2021 and we do not ask that you correct these as a prior period adjustment as the impact is not material.

The impact of unadjusted differences in the current year and roll forward of prior year differences has resulted in an overstatement of the surplus on the provision of services for 2020/21 of £7.9 million for the Council and £10.5 million for the Group.

# ADJUSTED AUDIT DIFFERENCES

	Council					Group				
	Income and expenditure			Balance Sheet		Income and expenditure			Balance sheet	
	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000	DR £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
<b>Adjusted audit differences</b>										
<b>(Surplus) on the provision of services / net assets for the year before adjustments</b>	<b>(42,539)</b>			<b>921,137</b>		<b>57,930</b>			<b>861,963</b>	
<b>Adjustment 1: School land and building that changed to academy status in year to be recorded as disposal at £0 proceeds</b>										
Dr Revaluation reserve*				5,208					5,208	
Cr Schools asset					(5,208)					(5,208)
<b>Adjustment 2: Incorrect classification of ECL impairment in the CIES</b>										
Dr Net cost of service		6,186					6,186			
Cr Financing and investment income and expenditure			(6,186)					(6,186)		
<b>Adjustment 3: Reclassification of grants as taxation and non-specific to specific service grant</b>										
Dr Taxation and non specific grant income		695					695			
Cr Net of cost of service			(695)					(695)		
<b>Adjustment 4: Elimination of investment and loan to record intangible asset in the group</b>										
Dr Intangible asset									10,000	
Cr Investment										(5,000)
Cr Long term loan										(5,000)
<b>Adjustment 5: Elimination of properties demolished from PPE balance</b>										
Dr Revaluation loss CIES **	<b>2,993</b>	2993				<b>2,993</b>	2993			
Dr Revaluation reserve *				497					497	
Cr Council dwellings					(3,490)					(3,490)

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# ADJUSTED AUDIT DIFFERENCES

	Council					Group				
	Income and expenditure			Balance Sheet		Income and expenditure			Balance sheet	
	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
<b>Adjusted audit differences</b>										
<b>Adjustment 6: Misclassification between short and long term investment</b>										
Dr Long term investment				10,000					10,000	
Cr Short term investment					(10,000)					(10,000)
<b>Adjustment 7: Understatement of depreciation(infrastructure asset)</b>										
Dr Depreciation in CIES**	7,246	7,246				7,246	7,246			
Cr Accumulated depreciation					(7,246)					(7,246)
<b>Adjustment 8: Grossing up of schools grants transferred</b>										
Dr Schools income		8,190					8,190			
Cr Schools expenditure			(8,190)					(8,190)		
<b>Adjustment 9:</b>										
Dr										
Cr										
<b>Adjustment 10:</b>										
Dr										
Cr										

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# ADJUSTED AUDIT DIFFERENCES

	Council					Group				
	Income and expenditure			Balance Sheet		Income and expenditure			Balance sheet	
Adjusted audit differences	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
<b>Total adjusted CIES / net assets audit differences</b>	<b>10,239</b>				<b>(10,239)</b>	<b>10,239</b>				<b>(10,239)</b>
<b>(Surplus) on the provision of services / net assets for the year after adjustments</b>	<b>(32,300)</b>			<b>910,401</b>		<b>68,169</b>			<b>851,227</b>	
Items marked as * above in the balance sheet are reserve adjustments				5,704					5,704	

## Impact on General Fund and HRA balances

Balance before adjustments	19,084	
CIES adjustments above	10,239	
Statutory adjustments through MIRS **	(10,239)	Adjustment ref 5,7
Balance after adjustments	19,084	

Items marked as \*\* above in the CIES are subject to statutory override for capital adjustments that are reversed through the Movement in Reserves Statement (MIRS) and therefore do not impact on the General Fund balance or HRA balance.

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# UNADJUSTED AUDIT DIFFERENCES

	Council					Group				
	Income and expenditure			Balance Sheet		Income and expenditure			Balance sheet	
Unadjusted audit differences	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
<b>(Surplus) on the provision of services / net assets for the year</b>	<b>(27,092)</b>			<b>905,690</b>		<b>73,377</b>			<b>846,516</b>	
<b>Unadjusted 1: Valuation of schools using service provision rebuild basis for updated pupil numbers</b>										
Dr Revaluation reserve *				2,300					2,300	
Cr School assets					(2,300)					(2,300)
<b>Unadjusted 2: Schools bank reconciliation differences</b>										
Dr Expenditure **	580	580				580	580			
Cr Bank					(580)					(580)
<b>Unadjusted 3: Cash balance of an academy school included in Councils bank and cash balance</b>										
Dr Schools expenditure **	216	216				216	216			
Cr Creditors					(216)					(216)
<b>Unadjusted 4: Understatement of collection fund income in CIES</b>										
Dr Collection debtor				376					376	
Cr Collection fund income in CIES**	(376)	(376)				(376)	(376)			
<b>Unadjusted 5: Impairment of over due debt</b>										
Dr Allowance for doubtful debt(CIES)**	487	487				487	487			
Cr Debtors					(487)					(487)
<b>Unadjusted 6: Over accrual of income</b>										
Dr Income	2,369	2,369				2,369	2,369			
Cr Debtors					(2,369)					(2,369)

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# UNADJUSTED AUDIT DIFFERENCES

	Council					Group				
	Income and expenditure			Balance Sheet		Income and expenditure			Balance sheet	
	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
<b>Unadjusted audit differences</b>										
<b>Total unadjusted audit differences</b>	<b>6,064</b>				<b>(6,064)</b>	<b>8,844</b>				<b>(6 344)</b>
<b>(Surplus) on the provision of services / net assets for the year if adjusted</b>	<b>(26,236)</b>			<b>904,337</b>		<b>77,013</b>			<b>844,883</b>	
Items marked as * above in the balance sheet are reserve adjustments				2,300					2,300	

## Impact on General Fund and HRA balances

Balance before adjustments	26,236	
CIES adjustments above	6,064	
Statutory adjustments through MIRS **	(3,695)	Adjustments 2,3,4,5,9,10
<b>Balance after adjustments</b>	<b>28,605</b>	

Items marked as \*\* above in the CIES are subject to statutory override for capital / pensions / earmarked reserve adjustments that are reversed through the Movement in Reserves Statement (MIRS) and therefore do not impact on the General Fund balance or HRA balance.

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# PRIOR YEAR UNADJUSTED AUDIT DIFFERENCES

The following items are audit differences corrected in 2020/21 that impact on the Comprehensive Income and Expenditure Statement surplus on the provision of services for 2020/21, but relate to prior year unadjusted audit differences. These therefore result in a misstatement of the underlying reported outturn for the current year. These are no longer audit differences at 31 March 2021 and we do not ask that you correct these as a prior period adjustment as the impact is not material.

However, we report these to show the impact on the underlying surplus on the provision of services for 2020/21.

	Council	Group
Unadjusted audit differences	CIES £'000	CIES £'000
<b>Roll over prior year audit differences</b>		
Input VAT double counted	(808)	(808)
Doubtful debt provision	(949)	(949)
Schools bank reconciliation	180	180
Understatement of out of borough properties	500	500
Cash balance of an academy	(187)	(187)
Refcus invoice cut off error	(2,971)	(2,971)
Overstatement of pension liability	1,500	1,900
Increase in pension liability	(1,099)	(1,207)
Capital portion of finance lease debtor	(349)	(349)
Refcus recorded in the wrong period	4,200	4,200
Understatement of deficit recovery	(761)	(761)
Understatement of income accrual	500	500
Provision of refunds due to Thames water not recorded in the prior year	(4,971)	(4,971)
London on disposal of land	(412)	(412)
Capital grant to VA school reported by school as income	(362)	(362)

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# PRIOR YEAR UNADJUSTED AUDIT DIFFERENCES

	Council	Group
	CIES £'000	CIES £'000
<b>Unadjusted audit differences</b>		
Overestimation of adult social care	697	697
Overstatement of new office building	(2,034)	(2,034)
Overstatement of Milspit Hill cemetery valuation	(1,600)	(1,600)
Unrecorded HB in the ledger	(404)	(404)
Overstatement of credit allowance on Open Door Ltd loans	7,500	7,500
Overstatement of self insurance provision	940	940
<b>Impact of current year and roll over unadjusted audit differences</b>	<b>(1,845)</b>	<b>(1,737)</b>

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# REPORTING ON OTHER INFORMATION

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

Matter	Comment
We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are satisfied that the other information in the Narrative Report is consistent with the financial statements and our knowledge.
We are required to report by exception if the Annual Governance Statement is inconsistent or misleading 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 matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.

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# WHOLE OF GOVERNMENT ACCOUNTS

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The Council is required to prepare a Data Collection Tool (DCT) return for use by the Department for Levelling Up, Housing and Communities (DLUHC) for the consolidation of local government accounts, and by HM Treasury at Whole of Government Accounts level.

Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over a prescribed threshold in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure.

The OSCAR II system for submission of the 2020/21 WGA DCT is not yet available and HM Treasury has not yet confirmed the thresholds or timetable for audit review. The Group Audit Instructions, which include the required programme of work for auditors, have therefore not yet been issued.

In the prior year, the threshold was £500 million and we were therefore required to perform tests on the DCT. This work included checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.

We will update the Audit Committee on this issue when further information is available.



# USE OF RESOURCES OVERVIEW

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## New Code of Audit Practice (“Code”)

The Comptroller & Auditor General has determined through a new Code and guidance that the key output from local audit work in respect of value for money (VFM) arrangements is a commentary as reported in the Auditor’s Annual Report, not a VFM arrangements ‘conclusion’ or ‘opinion’. There may be matters referred to in the auditor’s commentary that do not represent significant weaknesses in arrangements and where significant weaknesses are reported we are required to also report recommendations.

As auditors we need to gather sufficient evidence and document our evaluation of arrangements to enable us to draft our commentary under three reporting criteria. These criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** (‘Improving 3Es’) - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

## Risk of Significant Weakness

As identified in our Audit Planning Report we assessed the following matters as being the most significant risks regarding use of resources

Our audit work on use of resource is still in progress.

Audit Risk	Criterion	Risk Rating	Findings
Inadequate arrangements to monitor progress of the Brent Cross development.	Governance	Significant	Work in progress
Inadequate arrangements in place to plan and manage resources to ensure continuous service delivery	Financial sustainability	Significant	Work in progress

# SIGNIFICANT DEFICIENCIES

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 the Audit Committee.

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.

Area	Observation & implication	Recommendation	Management response
Asset data	<p>We identified errors in the data provided to the valuer such as properties demolished before year end and the transfer of a school to an academy not updated.</p> <p>In the prior year we reported similar issues around the accuracy and completeness of data transferred to the valuers.</p>	To improve controls over annual checking and verification of the accuracy of asset data in the asset register and information provide to the valuer.	Management agrees with the recommendation. During 21/22, the council initiated an internal audit of the system that The Barnet Group (TBG) use to record the council's housing stock. The recommendations of the audit have been agreed by TBG and further work is on-going to improve the flow of information between Regeneration Teams and TBG.
Schools bank reconciliation	<p>We identified that the Council could not reconcile the schools bank account balance in the general ledger to year end balance per the bank statement resulting in unreconciled and unexplained balance of £0.580 million.</p> <p>Providing a complete and accurate bank reconciliations is a key management control to identify any irregularities and to confirm that all income and expenditure has been properly accounted for.</p>	Properly perform a bank reconciliation of school bank balances and investigate any reconciliation differences. Satisfy yourselves that reconciliation differences are valid and properly explained.	Management agrees with the recommendation. For 2021-22 officer will build in a process to get data from schools on a monthly basis to ensure differences are identified and reconciled much earlier in the year.

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# OTHER DEFICIENCIES

We also bring to your attention other deficiencies noted during the audit.

Area	Observation & implication	Recommendation	Management response
RBS: formal leaver process  Core HR: formal leaver starter process	RBS: Lack of formal leaver process  Core HR: Lack of formal process on starter, mover, and leaver. No email, form, or ticket raised and approved in the process, all done manually  Due to the absence of adequately designed and implemented preventative controls, there is an increased likelihood of the risk that starters could be granted inappropriate access, users may accumulate permissions and leavers' accounts may not be suspended in a timely manner.	Implement a process that requires that a formal starter/ Mover/Leaver is issued which must: <ul style="list-style-type: none"> <li>• be submitted by authorised members of staff only (e.g. Line Managers, HR) to the relevant system administrator</li> <li>• outline the systems that the user requires access to and the level of menu permissions</li> <li>• be formally signed off by the systems administrator once the user has been successfully added</li> <li>• remain archived for at least one full year.</li> </ul>	Management accepts the finding We have already implemented improvements and are continuing to review and improve these controls and processes. The Council is part way through implementing a more efficient Starters, Leavers and Movers (SLAM) process which further improves access controls across all core systems. Full launch of SLAM is scheduled in January 2022 subject to December User acceptance testing.

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## OTHER DEFICIENCIES

We also bring to your attention other deficiencies noted during the audit.

Area	Observation & implication	Recommendation	Management response
QL IT system: Large Number of Generic Accounts	<p>We found 528 active user accounts, with 102 generic accounts and 426 individual accounts identified in the QL user list. Given the size of user group, the number of generic accounts was seemed to be too large. In addition, many of these accounts were actually deactivated or rarely in use.</p> <p>Those users using the generic account are unaccountable for activity associated with the account. Therefore, the segregation of duties in place is not appropriate.</p>	Reduce the number of generic accounts to the appropriate level. Besides, those deactivated and rarely in use generic accounts should be deleted from the user list.	The QL system is managed by TBG and is outside the council's remit of control. The recommendations for improvement from internal and external audit are being reviewed by TBG for implementation.
Logotech, Mosaic, UPM: Weak Password Parameters	<p>Logotech: As password parameters were deemed insufficient and increases the risk of unauthorised access</p> <p>Mosaic: An exception was raised as there was no password history enabled and the password is never set to expire, this may make it easier for an unauthorised user to obtain access.</p> <p>UPM: No password parameters requirements set in place. which increases the risk of unauthorised access.</p> <p>Risk that user passwords can be guessed or become known over time to other users. As a result, user accounts are at an increased risk of being used by persons other than the legitimate account owner.</p> <p>Crystallisation of this risk may have resulted in a material misstatement or fraud because user accounts may have been used to:</p> <ol style="list-style-type: none"> <li>1) process unauthorised, fraudulent or inaccurate transactions, and</li> <li>2) bypass controls designed or required to segregate duties.</li> </ol>	Implement mandatory password strength to the systems such as new passwords every 30/60/90 days, the 6 previous passwords cannot be re-used, minimum 6 characters and at least 1 special character and at least 1 number	Management agrees with the recommendation and will investigate the changes required with the software providers.

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# OTHER DEFICIENCIES

We also bring to your attention other deficiencies noted during the audit.

Area	Observation & implication	Recommendation	Management response
QL, CoreHR, UPM: Segregation of Duties	<p>QL and UPM: We identified that the privileged access was assigned to the generic accounts, which would increase the audit risk. Those users using the generic account are unaccountable for activity associated with the account. Therefore, the segregation of duties in place is not appropriate.</p> <p>CoreHR: We identified that the privileged access was assigned to the employees from the business team members, which increase the risk of segregation of duties. It increases the risk that senior finance or business personnel have used administration privileges to override the normal processing of financial transactions or modify standing data.</p>	<p>Restrict privileged access such as creating, modifying, and deleting user access and other permissions (change standing date and sensitive information, etc-to internal IT employees only.</p>	<p>QL is managed by TBG and CoreHR and UPM are managed by Capita so all these systems are outside the council's remit of control. However, these recommendations will be passed on to the relevant organisations for consideration.</p>
Civica, CoreHR, iTrent, UPM: Lack of Audit Log	<p>We identified that there was no audit trail in place to monitor the privileged users' activities in Civica, CoreHR, iTrent, UPM.</p> <p>Lack of audit trail and absence of a periodic process to monitor the super users' activities in the application would raise the risk of fraud due to the misuse of admin accounts. The audit trail should be enabled and regularly reviewed by the management to mitigate the high level of risk associated with the data..</p>	<p>Enable the functionality of audit log, to track and monitor the privileged users' activities, such as login date, login ID, change actions, etc.</p> <p>Review the audit log report for anomalies on a period basis and evidence this review with management sign off.</p>	<p>Civica, CoreHR, iTrent and UPM are not managed by the council so all these systems are outside the council's remit of control. However, these recommendations will be passed on to the relevant organisations for consideration.</p>

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# OTHER DEFICIENCIES

We also bring to your attention other deficiencies noted during the audit.

Area	Observation & implication	Recommendation	Management response
Mosaic, RBS, Logotech Pay360:No Periodical Review on Audit Log	<p>We confirmed that audit logging is enabled on these applications however the logs were not regularly reviewed and confirmed for appropriateness for administrator accounts.</p> <p>Absence of a periodic process to monitor changes made to standing data and other super users' activities in the application. This raises a risk of fraud due to the misuse of admin accounts. The audit trail should be enabled and regularly reviewed by the management to mitigate the high level of risk associated with the data.</p>	<p>The privileged access such as creating, modifying, and deleting user access and other permissions (change standing date and sensitive information, etc.) must be restricted to internal IT employees only.</p> <p>Review the audit log report on a period basis.</p>	<p>Management agrees with the recommendation and will investigate the changes required with the software providers.</p>

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# PRIOR YEAR DEFICIENCIES

We have followed up progress on addressing control deficiencies we have reported in the previous year

Area	Issue and impact	Original recommendation	Progress	Management response
Asset data	<p>We identified errors in the data provided to the valuer, such as incorrect build cost for leisure centres, double counting of assets or misclassified assets in the asset register, and the transfer of a school to an academy not updated.</p> <p>The majority of the audit differences that have been corrected relate to errors in asset data or the asset register.</p>	<p>Improve controls over annual checking and verification of the accuracy of asset data in the asset register and information provide to the valuer.</p>	<p>We continue to identify issues with information provided to the valuer in the current year. Refer to significant deficiencies slide.</p> <p>We will discuss this in more detail with members at the December meeting and updated or recommendation in our final completion report.</p>	<p>See current year significant deficiencies response.</p>
Group consolidation	<p>Significant errors were identified in the group financial statement relating to inconsistent accounting policies, elimination of recurring journal adjustments for previous transfer of land at nominal value and elimination all of intra-group transactions.</p>	<p>Improve the controls and processes for preparing the group financial statements including:</p> <ul style="list-style-type: none"> <li>Review and adjust for inconsistent accounting policies of component entities; and</li> <li>Develop a system for recording permanent / recurring consolidation adjustments.</li> </ul>	<p>Our audit work is still in progress . We will update members on progress made by management in addressing the issues reported on group consolidation in our final completion report.</p> <p>We will discuss this in more detail with members at the December meeting and updated or recommendation in our final completion report.</p>	<p>XX</p>

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# PRIOR YEAR DEFICIENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
Dwellings acquisitions and disposals	<p>We identified 213 properties that had been incorrectly treated as disposals during the year due to Barnet Homes Limited not providing adequate management information to the Council to correctly account for its major works programme, new property purchases and new out of borough properties.</p> <p>There is a risk that Council's record of properties owned and valuation of asserts in the financial statements may be materially incorrect if this data is not corrected.</p>	Council departments involved in regeneration / redevelopment provide the Finance team and Barnet Homes Limited with plans, agreements and transfer documents so that assets disposals and acquisitions can be managed and accounted for correctly.	Our audit work is still in progress however we identified dwellings valued at £3.489 million included in dwellings balance at year end even though assets were demolished before year end.	XX
Annual review of dwellings valuations	The valuers undertake valuations of PPE and investment property as at December during the financial year but do not provide an update for material changes in values to year end (31 March). In the past two years we have identified material corrections to dwelling valuations as a result of movements in house prices in the last quarter.	Undertake a review of local house price indices between January and March and apply this to dwelling valuations at December where this indicates a material change in value.	The valuer is still completing their valuation work on dwellings. We will report progress in our Audit Completion Report.	XX

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Area	Issue and impact	Original recommendation	Progress	Management response
Termination of leavers access to IT systems- Integra	Nine staff members had left the employment of the Council during the year but their access to the system was not terminated after the Council's 30 day access termination policy. There is a risk that a leaver's profile can be accessed by a different staff member after they have left which could result in gaps in the audit trail or accountability and potential breach of IT segregation of duties and other related access controls.  We have reviewed login reports from the system and have confirmed that none of these staff members logged into the system post their leave date.	Review the leavers report from Human Resources and check that access to all critical systems has been terminated on time.	Our review of IT systems and the general control environment in which they operate did not identify issues regarding termination of leavers access to the Integra system however we have reported similar issues around other systems such as RBS and CoreHR systems. See other deficiencies page 46.	See current year significant deficiencies response.
No regular user access right review of Integra, Logotech and Civica IT systems	There are no periodic or regular user access and access rights reviews for Integra, Logotech or Civica. There is a risk that user access rights may not be appropriate for their roles resulting in authorised access to data.	Conduct periodic access rights reviews to ensure that access rights are appropriate for users roles.	We did not identify any issues with access right reviews on any of the IT systems.	[Closed]

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Area	Issue and impact	Original recommendation	Progress	Management response
Weak IT password policy for Logotech	The password control is of minimum strength, which may result in exposure of unauthorised access to Logotech.	Improve mandatory password strength to the Logotech system such as new passwords every 30/60/90 days, the 6 previous passwords cannot be re-used, minimum 6 characters and at least 1 special character and at least 1 number.	We continue to identify weak IT password policy for Logotech, Mosaic and UPM systems	See current year significant deficiencies response.
School reserves working papers	We identified that there was no working paper that reconciles the schools reserve position to the schools assets, liabilities, income and expenditure per the general ledger. Errors in Outturn report from the schools used by the Council to determine the schools reserve position at year end is likely to be missed if report is not reconciled to the general ledger.	Prepare working papers that reconcile the school reserve position per the ledger to the school outturn report from the schools.	TBC	

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Area	Issue and impact	Original recommendation	Progress	Management response
HRA depreciation	For HRA dwellings, the valuer provides an overall valuation based on an existing use value as social housing. For accounting purposes, the valuer also provides an estimate of the asset value split between the land and the building, as this is required in order to calculate the depreciation charge only on the buildings. However, this has not been adjusted to reflect the value in use rather than gross value and the Council carries social housing at significantly discounted value. This has resulted in an annual depreciation charge that appears excessive.	Review the basis of allocating the HRA dwellings valuation between land and buildings that reflects the value in use to the Council.	The Council appointed Savilles to look at the HRA depreciation policy and in line with our recommendation have now componentised the different elements of the dwellings and applied different UELs for each component, apply the discount factor before depreciating resulting in a decrease in depreciation in the year compared to prior year.	[Closed]

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Area	Issue and impact	Original recommendation	Progress	Management response
Ownership of properties	<p>Our review of title deeds to confirm ownership of Council properties identified the following:</p> <p>a) Brunswick School -There is a hard copy title deed dated 9/9/1894 with a map and reference to a 2/2/1892 title deed which mentions the District of East Barnet Valley, the latter deed has not been located and the map in the 1st deed is too vague to confirm if it is the freehold land for the current Brunswick School.</p> <p>b) Deansbrook Road (13 Flats No's 160-194). The Council noted that the deeds are recorded in a 1928 Conveyance but have been unable to locate it however many of the Deansbrook properties have been sold by the Council under RTB over the years and registered in the new owners names which would suggest the 1928 Conveyance is held by the Council somewhere to have allowed these RTB sales to have been made in the past.</p> <p>It is vital that the Council keeps proper record of its properties and be able to provide evidence to support ownership of all its properties recorded in the asset register.</p>	Records of ownership of properties should be kept up to date and be made readily available to support or back up the Council's claim that they have legal right to all the properties in the asset register.	Our audit work in this area is still in progress and we will update the members on progress made by management in address this issue in our Audit Completion Report.	See current year significant deficiencies response.

# INDEPENDENCE

## Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our independence.

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2021.

Details of services, other than audit, provided by us to the Council during the period and up to the date of this report are set out on the following page and were provided in our Audit Planning Report. We understand that the provision of these services was approved by the Audit Committee in advance in accordance with the Council's policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Planning Report.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Council and the Group.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council and the Group.

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

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# FEES

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Fees summary	2020/21	2020/21	2019/20
	Actual	Planned	Actual
	£	£	£
<b>Audit fee</b>			
• Code audit fee: consolidated Group and single-entity financial statements and use of resources	£130,919	<sup>(1)</sup> £280,919	£250,919
<b>Non-audit assurance services</b>	<b>130,919</b>	<b>280,919</b>	<b>250,919</b>
<b>Fees for reporting on government grants:</b>			
• Pooling of housing capital receipts return	2,750	2,750	2,750
• Teachers' pensions return	5,000	5,000	5,000
<b>Fees for other non-audit services</b>	<b>7,750</b>	<b>7,750</b>	<b>7,750</b>
<b>Total fees</b>	<b>138,669</b>	<b>288,669</b>	<b>258,669</b>

<sup>1</sup> Planned fee includes 10% additional fees for the increased work on reporting on the Council's use of resource as per new Code. A new Code is effective for periods commencing 1 April 2020, which significantly increases the work of auditors for reporting on a body's use of resources. The remainder of the fee variation to the scale fee for 2020/21 reflects the additional audit work required in response to the high level of audit risk present as a result of the level and complexity of issues encountered in recent years, the increased complexity of the Group structure and component entities controlled by the Council, changes in auditing standards and significantly greater pressure on auditors to deliver higher quality audits and to demonstrate greater professional scepticism when carrying out their work. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the expectations of audit regulators. Additional fees for overrun are only an estimate at this stage. We will review the actual cost after completion of the audit.



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# RESTORING TRUST IN AUDIT AND CORPORATE GOVERNANCE

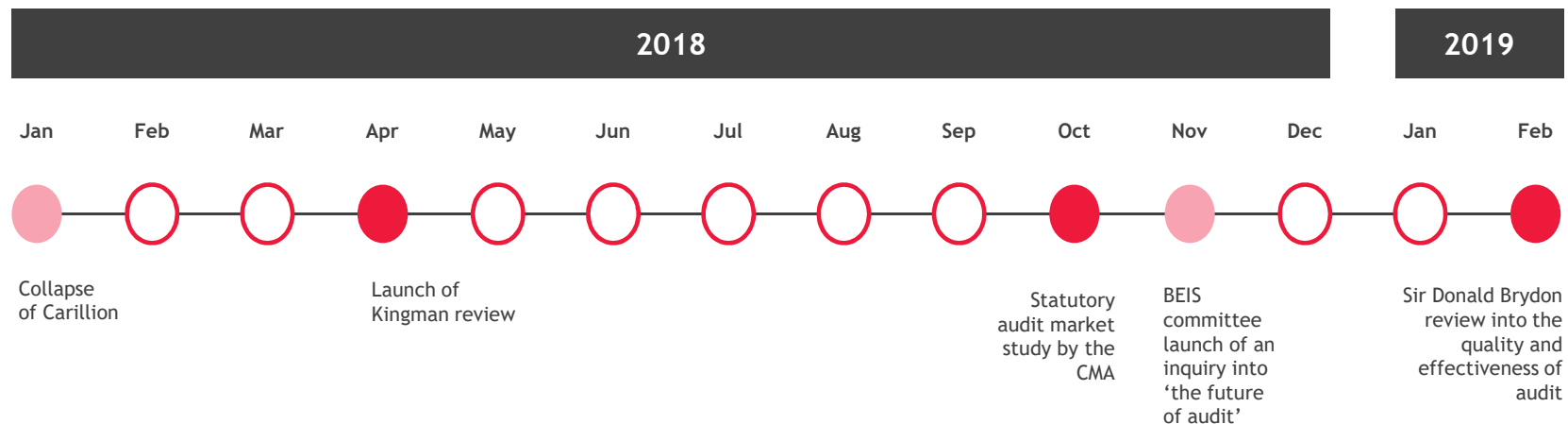
## BEIS consultation issued March 2021

The collapse of Carillion at the beginning of 2018 precipitated a root and branch review of how the audit market works with three main components, all reporting to the Secretary of State for Business Energy and Industrial Strategy. The latest BEIS consultation as published in March 21 outlines proposals to increase choice and quality in the audit market, establish clearer responsibilities for the detection and prevention of fraud, and ensure the audit product and audit profession are fit for the future. The consultation aims to present measures that balance the need for meaningful reform with proportionate impacts on business, both now and for the future. The next pages aim to summarise the key areas of the consultation but for more information please refer to the [consultation](#) directly.

Although the consultation is only closed in July 2021, changes have already begun: There are already a number of changes being made by the market participants themselves such as increased operational separation of audit from consulting and voluntary restriction of non-audit services. At BDO we support the aims of operational separation of audit practices. Without being complacent we do not have a large consulting practice like some of our rivals and we have always run our audit business to be independently and sustainably profitable, therefore the main causes of concern that this seeks to address namely cultural contamination and cross subsidisation are less relevant for us. We do however recognise that the profession needs to restore the confidence of users and operational separation or ring fencing is an important step on that journey. We have drawn up plans for how we would implement this and are currently consulting with stakeholders. Whilst full compliance is not required until 2024 we are likely to implement a number of aspects particularly around governance and financial transparency by July 2021.

Whilst there is some uncertainty regarding the timeline post the close of the consultation it is our understanding that the implementation of the Audit, Reporting and Governance Authority (ARGA) is likely to be in 2023.

### HISTORIC CONSULTATIONS TIMELINE



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# BEIS CONSULTATION AT A GLANCE

Issued March 21

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Key Area of the BEIS consultation	Summary
1. Resetting the scope of regulation by expanding the definition of Public Interest Entities to include large private companies and “large” AIM quoted companies.	<p>The government proposes two possible tests to extend the scope of PIES:</p> <p>To adopt the test used to identify companies already required to include a corporate Annual Governance Statement in their directors’ report, or adopt a narrower test which incorporates the threshold for additional non-financial reporting requirements for existing PIES. This would cover companies with both: Over 500 employees and a turnover of more than £500 million as their consolidated position.</p> <p>The Government is also proposing that any new definition of PIE should also include companies on the exchange-regulated AIM market with market capitalisations above €200m.</p>
2. Increasing the accountability of directors	<p>The consultation sets out a couple of options relating to directors accountability for internal controls and then indicates a tentative preferred option which would require a directors’ statement about the effectiveness of the internal controls. Unlike the US’s approach to internal controls which mandates external auditor attestation in most cases this option would leave the decision on whether the statement should be assured by an external auditor to the directors, audit committee and shareholders.</p> <p>This section of the consultation also includes proposals to require companies to report on their distributable reserves and for directors to be required to make a formal statement about the legality and affordability of proposed dividends.</p>
3. New corporate reporting requirements	<p>Introducing a requirement for PIES to produce an annual Resilience Statement. This new statement consolidates and builds upon the existing going concern and viability statements and would apply initially to Premium Listed companies.</p> <p>Introducing an Audit and Assurance Policy where directors have to describe their approach to seeking assurance. For publicly quoted entities, this would be subject to an advisory shareholder vote at the time of its publication,</p>
4. Strengthening the supervision of corporate reporting	<p>Giving the Audit, Reporting and Governance Authority (ARGA) (which replaces the Financial Reporting Council) more power to direct changes to company reports and accounts.</p> <p>Creating increased transparency for the Corporate Reporting Review (CRR) process and an extension of the CRR process to the whole of the annual report and accounts.</p> <p>The Government proposes to broaden the regulator’s review powers so that it can scrutinise the entire contents of a company’s Annual Report and Accounts.</p>

# BEIS CONSULTATION AT A GLANCE 2

Key Area of the BEIS consultation	Summary
5. Provisions concerning company directors	<p>Giving the regulator investigation and enforcement powers in relation to wrongdoing by all directors of Public Interest Entities. Due to the principles of collective responsibility and a unitary board, all directors of Public Interest Entities would be in scope.</p> <p>Strengthening malus and clawback provisions within executive director remuneration.</p>
6. Changes to audit purpose and scope	<p>The Government will seek to introduce a regulatory framework to cover both audits of financial statements (statutory audit) and other types of information which companies decide to have audited through the Audit and Assurance Policy process. It also proposes to legislate to require directors of Public Interest Entities to report on the steps they have taken to prevent and detect material fraud.</p>
7. Changes to audit committee oversight and engagement with shareholders	<p>ARGA to establish a standards and supervision regime. ARGA will write the standards by which Audit Committees will need to operate and they will monitor compliance against these standards. Initially this will only apply to FTSE 350 Audit Committees.</p> <p>Additional requirements for audit committees in the appointment and oversight of auditors, which is intended to ensure the committee acts effectively as an independent body responsible for safeguarding the interests of shareholders.</p> <p>Increased engagement between a company and its shareholders. The Government agrees with Brydon's recommendation that the audit committee's annual report should set out which shareholder suggestions put forward for consideration had been accepted or rejected by the auditor.</p>
8. Improved competition, choice and resilience in the audit market	<p>The implementation of a managed shared audit regime for companies audited by the Big Four.</p> <p>The operational separation of certain accountancy firms.</p> <p>Statutory powers for the regulator to monitor the resilience of the audit market.</p>
9. Greater supervision of audit quality	<p>Making the regulator responsible for approving the auditors of PIEs and improving the transparency of Audit Quality Review reports by allowing AQR reports on individual audits to be published without consent.</p>
10. A new and strengthened regulator; the Audit, Reporting and Governance Authority	<p>The regulator will be given the power to make rules requiring market participants to pay a levy to meet the regulator's costs of carrying out its regulatory functions.</p>
11. Additional changes to the regulator's responsibilities	<p>The regulator will have the power to require an expert review where it has identified significant concern regarding a PIEs corporate reporting and auditing.</p>

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# FRC ETHICAL STANDARD

Issued in December 2019

In December 2019 the FRC published the Revised Ethical Standard 2019 ('ES'), which is applicable from 15 March 2020. There are some transitional provisions for services and arrangements that are not currently prohibited under the existing Standard. The ES aims to further strengthen auditor independence and enhance confidence in the profession. The table below provides a high level summary of the key headlines.

Key headlines	Impact
<b>The objective, reasonable &amp; informed third party test</b>	Reinforcement that ethical principles take priority over rules. A need to take care where particular facts and circumstances are either not addressed directly by the rules or might appear to 'work around' the rules, or result in an outcome that is inconsistent with the general principles.
<b>Extra-territorial impact</b>	For group audits where the audited entity has overseas operations, the ES will require all BDO Member firms to be independent of the UK audited entity and its UK and overseas affiliates in accordance with the UK Ethical Standard, irrespective of if their audit work is relied upon.
<b>Contingent fees</b>	Non-audit services with contingent or success-based fee arrangements will be prohibited for audited entities.
<b>Secondments</b>	All secondments/loan staff to audited entities are prohibited with the exception of secondments to public sector entities.
<b>Recruitment and remuneration services</b>	Prohibition on providing remuneration services to audited entities such as advising on the quantum of the remuneration package or the measurement criteria for calculation of the package. In addition, the prohibition on providing recruitment services to an audited entity that would involve the firm taking responsibility for, or advising on the appointment of, any director or employee of the entity.
<b>Non-audit services to a public interest entity (PIE)</b>	Moving to a "white-list" of permitted non-audit services for PIEs. The white-list largely consists of services which are either audit-related or required by law and/or regulation. The provision of services not on the white-list are prohibited. The ES separates those permitted services which are exempt from the 70% fee cap and those services which are subject to the fee cap.
<b>Other entities of public interest ('OEPI')</b>	<p>OEPI is a new term in the Ethical Standard. The FRC have imposed the 'white-list' applicable to PIE audited entities to also apply to OEPIs. OEPIs are entities which, according to the FRC, do not meet the definition of a PIE but nevertheless are of significant public interest to stakeholders. They include AIM listed entities which exceed the threshold to be an <i>SME listed entity</i> - generally those with a market cap of more than €200m; Lloyd's syndicates; Private sector pension schemes with more than 10,000 members and more than £1billion of assets; Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860), excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure. These would be entities which:</p> <ul style="list-style-type: none"><li>- Have more than 2000 employees; and / or</li><li>- Have a turnover of more than £200 million and a balance sheet total of more than £2 billion.</li></ul> <p>The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020.</p>

# FRC PRACTICE AID FOR AUDIT COMMITTEES

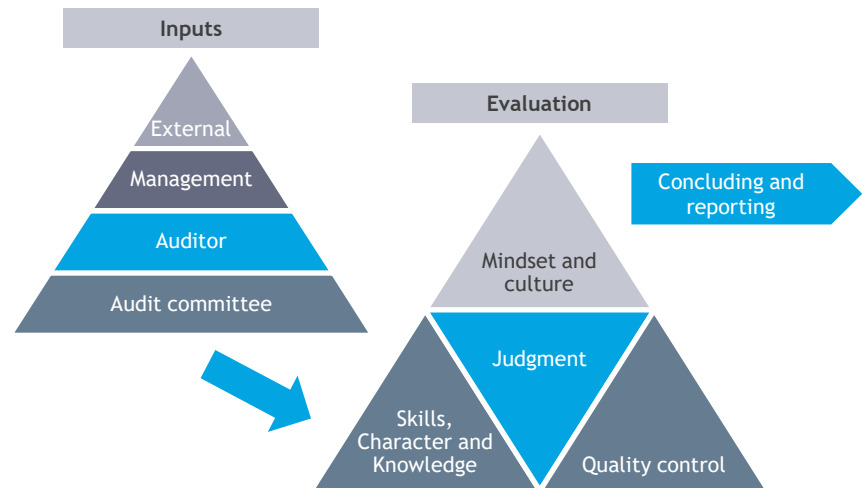
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The Financial Reporting Council (FRC) issued an updated practice aid for audit committees in December 2019 and a full copy can be found on the [FRC website](#). In their practice aid the FRC note: ‘The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company’s internal control framework. A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and trustworthy basis for taking decisions.’

The practice aid then discusses how the role of audit committees in serving the interests of investors and other stakeholders is through their independent oversight of the annual corporate reporting process including the audit. The FRC highlight that the responsibility for appointing the external auditor, approving their remuneration and any non audit services work, ensuring their independence and challenging them over the quality of their work falls to the audit committee and can play a key role in facilitating a high quality audit (see note below).

It gives guidance for Audit Committees in the following areas:

- Audit tenders and the tender process including audit fee negotiations and auditor independence
- A model for use by audit committees in making an overall assessment of an external auditor including inputs, evaluations and concluding



- Transparency - reporting to the Board on how the audit committee has discharged these responsibilities
- Some guidance on key areas of audit judgement

The provision of high quality audits are a key focus of FRC and the new Executive Director of Supervision, David Rule, sent a letter to all audit firms in November 2019 explaining the factors he would expect to see in place in order to facilitate the delivery of high quality audits. A copy of the letter can be found on the [FRC website](#)



# OUR RESPONSIBILITIES

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### Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your consolidated and single-entity financial statements. We report our opinion on the financial statements to officers of the Council.

We read and consider the ‘other information’ contained in the Statement of Accounts such as the Narrative Report . We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report by exception any significant weaknesses identified by our work on the Council’s value for money arrangements and a summary of associated recommendations made.

We review the Whole of Government Accounts Data Collection Tool provided to HM Treasury and express an opinion on whether it is consistent with the audited financial statements.

### What we don’t report

Our audit is not designed to identify all matters that may be relevant to the Audit Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.





# ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

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	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.
<b>Group matters</b>		
6	Limitations on the audit where information was restricted.	No exceptions to note.
7	Any issues with the quality of component auditors work.	No exceptions to note.
8	Any fraud or suspected fraud at group or component level.	No exceptions to note.



# COMMUNICATION WITH YOU

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## Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance (TCWG) are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit Committee.

In communicating with TCWG of the Council and the Group, we consider TCWG of subsidiary entities to be informed about matters relevant to their subsidiary. Please let us know if this is not appropriate.

## Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Planning Report	13 April 2021	Audit Committee
Report on significant weaknesses in controls / Audit progress report (this report)	8 December 2021	Audit Committee
Audit Completion Report	February 2022	Audit Committee
Auditor's Annual Report	(TBC)	Audit Committee

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## **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 a 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 companies), the firm undertakes 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 Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk)

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the audited body and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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