

**MEETING**

**AUDIT COMMITTEE**

**DATE AND TIME**

**MONDAY 14TH FEBRUARY, 2022**

**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 AUDITORS REPORT 2020-21<br>- Appendix A        | 3 - 80   |
| 8       | INTERNAL AUDIT EXCEPTION RECOMMENDATIONS Q3<br>- Item 2 | 81 - 100 |

This page is intentionally left blank



Report to the Audit Committee

# LONDON BOROUGH OF BARNET COUNCIL

Interim Completion Report: year ended 31 March 2021

AGENDA ITEM 7

IDEAS | PEOPLE | TRUST



# CONTENTS

|   |  |    |   |   |    |
|---|--|----|---|---|----|
| 1 | Introduction                                       | 3  | 4 | Audit differences                       | 35 |
|   | Welcome  | 3  |   | Audit differences                       | 35 |
| 2 | Executive summary                                  | 4  |   | Unadjusted audit differences            | 39 |
|   | Overview   | 4  |   | Prior year unadjusted audit differences | 43 |
|   | The numbers  | 5  | 5 | Other reporting matters                 | 44 |
|   | Other matters                                      | 6  |   | Reporting on other information          | 44 |
|   | Financial outturn                                  | 7  |   | Whole of Government Accounts            | 45 |
|   | Audit risks overview                               | 8  | 6 | Use of resources                        | 46 |
| 3 | Significant risks                                  | 9  |   | Use of resources overview               | 46 |
|   | Management override of controls                    | 9  | 7 | Control environment                     | 47 |
|   | Recognition of grant income                        | 10 |   | Significant deficiencies                | 47 |
|   | Expenditure cut-off                                | 11 |   | Other deficiencies                      | 48 |
|   | Pension asset and liability valuation              | 12 |   | Prior year deficiencies                 | 52 |
|   | PPE and Investment property                        | 16 | 8 | Independence and fees                   | 58 |
|   | Provision for non collection of intercompany loans | 20 |   | Independence                            | 58 |
|   | Non-collection of receivables                      | 21 |   | Fees                                    | 59 |
|   | Completeness and existence of non current asset    | 24 | 9 | Appendices contents                     | 60 |
|   | Accuracy of group consolidation                    | 25 |   |   |    |
|   | Classification of Brent cross non current asset    | 26 |   |   |    |
|   | Going concern                                      | 27 |   |   |    |
|   | Other matters                                      | 28 |   |   |    |
|   | Matters requiring additional consideration         | 34 |   |   |    |

# WELCOME

## Contents

Introduction

Welcome

Executive summary

Significant risks

Audit differences

Other reporting matters

Use of resources

Control environment

Independence and fees

Appendices contents

We have pleasure in presenting our **Interim Completion 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 our 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. It includes the findings, conclusions and additional misstatements identified since we presented our **Audit Progress Report** on 15 December to the Audit Committee (report dated 9 December 2021). We will provide an update on outstanding work at the Audit Committee and anticipate reporting the final audit results in **March 2022**, although this is dependent upon resolution of some technical accounting issues covered later in this 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 February 2022



**Lisa Blake**  
Engagement lead

t: 01473 320716  
m: 077 913 97160  
e: lisa.blake@bdo.co.uk



**Michael Asare Bediako**  
Audit Manager

t: 020 7893 3643  
m: 078 112 44020  
e: michael.asarebediako@bdo.co.uk



**Gerald Chanduru**  
Assistant Manager

t: 01473 320759  
m: 075 803 3983  
e: gerald.chanduru@bdo.co.uk



**Anmol Uppal**  
Assistant Manager

t: 020 3219 4109  
m: 075 830 09103  
e: anmol.uppal@bdo.co.uk

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

|                         |
|-------------------------|
| Contents                |
| Introduction            |
| Executive summary       |
| Overview                |
| The numbers             |
| Other matters           |
| Financial outturn       |
| Audit risks overview    |
| Significant risks       |
| Audit differences       |
| Other reporting matters |
| Use of resources        |
| Control environment     |
| Independence and fees   |
| Appendices contents     |

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 substantially complete, and we anticipate issuing our opinion on the Group's financial statements and the Council's use of resources for the year ended 31 March 2021 in March 2022, although this is dependent upon resolution of some technical accounting issues covered later in this report. One of these issues relates to the accounting treatment applied to infrastructure assets, which is a sector-wide issue that could materially impact the Council's financial statements (see page 17).

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

- Contents
- Introduction
- Executive summary
- Overview
- The numbers
- Other matters
- Financial outturn
- Audit risks overview
- Significant risks
- Audit differences
- Other reporting matters
- Use of resources
- Control environment
- Independence and fees
- Appendices contents

### 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 a net figure of £8.352 million (to 34.187 million) and the Group deficit increased by the same £8.352 million (to £66.282 million). Net assets for the Council decreased by £8.352 million (to £912.785) and the Group by £8.352 million (to £853.611 million). Details of all audit adjustments are shown on pages 41 to 45. The impact of these adjustments on the Council's General Fund and HRA balances was £0.570 million as they mostly 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 increase by £0.157 (to £912.445 million) and decrease for the Group by £0.123 million (to £852.991 million). Details of all audit adjustments are shown on pages 45 and 48.

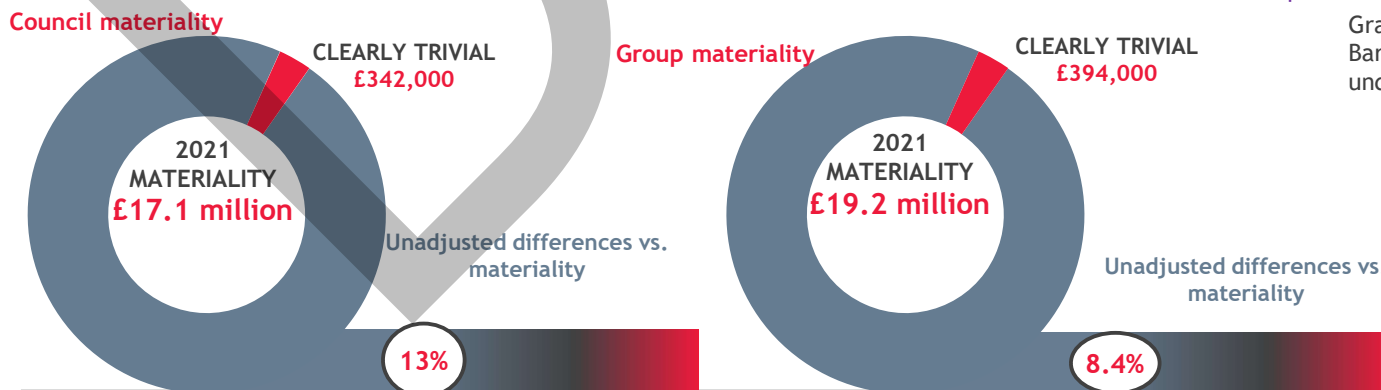
There are 21 audit differences from the prior year corrected in 2020/21 that impact on the Comprehensive Income and Expenditure Statement surplus on the provision of services for 2020/21. These are no longer audit differences at 31 March 2021. The impact of unadjusted differences in the current year and roll forward of prior year differences has resulted in an understatement of the surplus on the provision of services for 2020/21 of £2.2 million for the Council and £1.614 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.

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



# OTHER MATTERS

## Executive summary

### Contents

Introduction

Executive summary

Overview

The numbers

Other matters

Financial outturn

Audit risks overview

Significant risks

Audit differences

Other reporting matters

Use of resources

Control environment

Independence and fees

Appendices contents

### Financial reporting

- 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. However, we have identified misstatements where the accounting policies in the subsidiaries are inconsistent with the CIPFA Code and appropriate consolidation adjustments had not been appropriately processed such as carrying social housing at cost whereas the Code, which has been adopted by the group, requires this to be carried as existing use value as social housing.
- 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                      | -                | -                            | No   |
| Recognition of grant income before conditions are met  | Significant | Yes  | No                      | Yes              | -                            | No   |
| Recognition of expenditure in the incorrect accounting period  | Significant | No   | No                      | Yes              | -                            | No   |
| Inappropriate assumptions and estimates used in pension assets and liabilities valuation   | Significant | Yes  | Yes                     | Yes              | No                           | Yes. Letter of representation on assumptions used in the valuation.  |
| 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                      | -                | -                            | Work still in progress   |

 Areas requiring your attention

# AUDIT RISKS OVERVIEW

|                         |
|-------------------------|
| Contents                |
| Introduction            |
| Executive summary       |
| Overview                |
| The numbers             |
| Other matters           |
| Financial outturn       |
| Audit risks overview    |
| Significant risks       |
| Audit differences       |
| Other reporting matters |
| Use of resources        |
| Control environment     |
| Independence and fees   |
| Appendices contents     |

| Audit Risk  | Risk Rating | Significant management estimate or judgement | Use of experts required | Error identified | Significant control findings | Discussion points / Letter of Representation   |
|---|-------------|--|-------------------------|------------------|------------------------------|--|
| 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              | Yes                          | <b>Significant issues:</b> <ul style="list-style-type: none"> <li>Incorrect elimination of significant intercompany balances and transactions</li> <li>Social housing at cost in subsidiaries not corrected to social housing valuation</li> </ul> |
| Incorrect classification of land acquired for the Brent Cross development   | significant | Yes  | No                      | No               | No                           | No   |

 Areas requiring your attention

# MANAGEMENT OVERRIDE OF CONTROLS

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters                                      |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |

**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**

**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 audit work on journals and estimates did not identify any issues.

Our review of management estimates has not identified the existence of any systemic bias. Further commentary on significant management estimates are included on the following pages.

Whilst there are a number of audit adjustments arising from our work these relate to capital and financing issues that do not impact on the funding outturn (or General Fund and HRA balances).

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

We have identified that management raised a business rate appeal provision at year end (£17.5m overall, £5.25m Council’s share) for material change in circumstance (MCC) relating to COVID-19. On 25 March 2021 the Government announced that it intended to legislate to block any such appeals by rate payers. However, management made the provision on the basis that no legislation had been enacted as at the balance sheet date and it was probable that appeals relating to COVID-19 will still qualify as MCC.

After the year end the Rating (Coronavirus) Bill, which seeks to ensure that COVID-19 cannot be taken as a cause of MCC for business rates, successfully passed both houses of parliament and is currently awaiting Royal Assent to become an Act.

|  |   |
|--|---|
| 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               |   |

# MANAGEMENT OVERRIDE OF CONTROLS

- Contents
- Introduction
- Executive summary
- Significant risks**
- Management override of controls
- Recognition of grant income
- Expenditure cut-off
- Pension asset and liability valuation
- PPE and Investment property
- Provision for non collection of intercompany loans
- Non-collection of receivables
- Completeness and existence of non current asset
- Accuracy of group consolidation
- Classification of Brent cross non current asset
- Going concern
- Other matters
- Matters requiring additional consideration
- Audit differences
- Other reporting matters
- Use of resources
- Control environment
- Independence and fees
- Appendices contents

**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**

**Results (continued)**

Our view is that the passing of the Rating (Coronavirus) Bill confirms that it is not ‘probable’ that any settlement will occur for these claims, when considering both the information available before and after year end. Consequently, the provision does not meet the requirements of IAS 37. Furthermore, in terms of IAS 10 (Events after the Reporting Period), this would be an adjusting subsequent event. Both the accounting and auditing standards (IAS 37, IAS 10 and ISA 560) indicate that this provision should be reversed and the financial statements adjusted to reflect the passing of the Bill. We have provided management with a response to their accounting justification paper which set out the detail behind our view.

We are awaiting management’s decision on this matter and note that, if adjusted, this will have an impact on the funding outturn (General Fund and HRA balances).

**Conclusion**

To be confirmed.

|  |   |
|--|---|
| 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               |   |

# RECOGNITION OF GRANT INCOME

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters                                      |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |

## 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.**

## 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 service underspend of £1.475 million was incorrectly added to non-specific grant in the CIES resulting in an overstatement of grant income. (Unadjusted Ref #13).

## Conclusion

Grant income has been appropriately recognised when the grant conditions have been met.

However, we found instances where grant income was overstated due to misclassification.

|  |  |
|--|--|
| 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               |  |

# EXPENDITURE CUT-OFF

## 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 testing of adult social care payments identified instances where expenditure had been recorded in the incorrect accounting period, including six invoices totaling £0.139 million charged to 2020/21 that related to backdated care support in 2019/20. We estimated the potential overstatement across adult social care costs to be £1.901 million.

Our expenditure testing also identified spends in 2019/20 that were not accrued due to the Council's policy of not accruing spend under £25,000. Further analysis by the Council identified a total of £0.590 million spend and £0.347 million receipt relating to 19/20 that were recognised in 2020/21 but should have been accrued in 2019/20. We have asked management to assess the impact of this policy on 2020/21 spend and receipts that have not been accrued to assess the overall impact on the financial statement. (Unadjusted # to be confirmed)

Our testing of schools' expenditure also identified that expenditure relating to 2021/22 had been recorded in the 2020/21 accounts. The actual error is £0.018 million however the extrapolated error across overall schools' expenditure is £4.836 million. (Unadjusted #11)

Testing of expenditure items without a purchase order also identified instances where expenditure had been recorded in the incorrect accounting period. The factual error is £0.067 million however the extrapolated error across this expenditure balance is £0.407 million. (Unadjusted #12)

## Conclusion

Our audit work identified instances where adult social care had not been recorded in the correct accounting period although this is unlikely to result in a significant overstatement of expenditure and mainly results from backdating of funded care packages.

We are also waiting for the Council's working paper evidencing the impact of the £25,000 de-minimis accrual policy on 2021 spend and receipts. It will only take about 700 transactions less than £25,000 not accrued for the accounts to be materially misstated given the size of the Council, this doesn't seem completely unfeasibly.

|  |  |
|--|--|
| 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               |  |

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters                                      |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |



# PENSION ASSET AND LIABILITY VALUATION

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters                                      |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |

## 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.**

|  |   |
|--|---|
| 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               | ■ |

There is a risk that the membership data and 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 identified that some of the pension disclosures in the accounts did not agree to the IAS 19 report from the pension fund actuary. For instance, in the pension obligation disclosure, estimated benefits paid, effects of business combination and a portion of contributions by council were netted off instead of disclosing each item separately. Management has agreed to update the disclosures.

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.

# 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)

- no issues around valuation or ownership of assets of the scheme have been identified by the pension fund auditor

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 have been accounted for by the actuary.

The Actuary based the Council's share of the scheme's asset on estimated investment value at year end based on the month 9 position. The net impact of this error is £1.330 million understatement of the Council's share of the scheme's assets. (Unadjusted #1)

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.

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters                                      |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |

# 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)

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 the impact of McCloud on current service to be £1.394 million for the Council and £1.534 million for the Group. Management has not corrected this in the accounts on the basis of materiality. (Unadjusted Ref#8)

## 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 £1.534 million for the Group. (Unadjusted Ref#9)

## 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 ability as they estimate the impact to be 0.0% as both part-time and full workers received same access to pension under LGPS.

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.

## Conclusion

The defined benefit obligation has been appropriately calculated and the assumptions used are reasonable, although the net liability had not been updated to reflect the additional liability of McCloud judgement on current service and Goodwin judgement.

The Council's share of the scheme asset understated by £1.330 million.(Unadjusted #1)

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters                                      |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |

# 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

< lower Impact of assumptions on the estimate higher >



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 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 - 3.85%      | 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)<br>with Club Vita local adjustments |                  | Reasonable   |

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.

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters                                      |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |

# PROPERTY, PLANT & EQUIPMENT 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 methodology to HRA dwellings. Details on the following page.

Historically it has been generally accepted public sector practice for highways authorities to not write out the value of replaced highways infrastructure components and/or those components which are fully depreciated from the balance sheet. This practice has recently been highlighted as contrary to the Code requirement that the carrying amount of replaced components be written out of the Balance Sheet. There are a number of reasons for the practice being adopted including; asset registers not recording infrastructure assets with sufficient level of detail to identify individual infrastructure assets or changes to them; processes which drive infrastructure spend (eg condition surveys) do not record historical information relating to previous spend.

Over time, this is likely to have resulted in a material overstatement of gross book value and accumulated depreciation and net book value may be materially overstated if infrastructure is being replaced more frequently than useful economic lives suggest.

|  |  |
|--|--|
| 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               |  |

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters                                      |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |

# PROPERTY, PLANT & EQUIPMENT AND INVESTMENT PROPERTY

**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.**

## Results (continued)

We understand that Barnet Council adopts this common approach to accounting for infrastructure assets. This issue has been raised nationally with the NAO and all public sector audit suppliers and will be discussed further at the Local Government Technical Network later this month.

Our work to date on the accuracy and completeness of non highways infrastructure 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.

## Contents

Introduction

Executive summary

Significant risks

Management override of controls

Recognition of grant income

Expenditure cut-off

Pension asset and liability valuation

PPE and Investment property

Provision for non collection of intercompany loans

Non-collection of receivables

Completeness and existence of non current asset

Accuracy of group consolidation

Classification of Brent cross non current asset

Going concern

Other matters

Matters requiring additional consideration

Audit differences

Other reporting matters

Use of resources

Control environment

Independence and fees

Appendices contents



# 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. [We received the beacon valuation in December and our audit of the valuation is still in progress](#)

### 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. [The latest rebuild cost shows a similar increase resulting a nil impact on Council owned schools.](#)

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.

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters                                      |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |

# 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.

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters                                      |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |



# 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.**

**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 42 years starting from 2027 and at year end £64 million had been drawn down by ODHL, with an expected credit loss for credit risk of £0.732 million applied to the loan.

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

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 >

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters                                      |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |

# 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

### 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               | ■ |

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters                                      |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |

# 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)

#### Contents

Introduction

Executive summary

Significant risks

Management override of controls

Recognition of grant income

Expenditure cut-off

Pension asset and liability valuation

PPE and Investment property

Provision for non collection of intercompany loans

Non-collection of receivables

Completeness and existence of non current asset

Accuracy of group consolidation

Classification of Brent cross non current asset

Going concern

Other matters

Matters requiring additional consideration

Audit differences

Other reporting matters

Use of resources

Control environment

Independence and fees

Appendices contents



# NON-COLLECTION OF RECEIVABLES

## Significant estimate - allowance for credit losses

---

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

---

#### 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

---

#### 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.

---

#### Contents

Introduction

Executive summary

Significant risks

Management override of controls

Recognition of grant income

Expenditure cut-off

Pension asset and liability valuation

PPE and Investment property

Provision for non collection of intercompany loans

Non-collection of receivables

Completeness and existence of non current asset

Accuracy of group consolidation

Classification of Brent cross non current asset

Going concern

Other matters

Matters requiring additional consideration

Audit differences

Other reporting matters

Use of resources

Control environment

Independence and fees

Appendices contents

# 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 statute (REFCUS) was incorrectly capitalised.

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

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.

|  |  |
|--|--|
| 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               |  |

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters                                      |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |

# 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

### 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 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.

The subsidiaries include social housing proprieties at cost and reported this at £112.275 million. This includes £45 million of properties transferred from the Council (£37.6 million completed in year and £12.8 million carried forward from the previous year) and the remaining £17 million acquired on the open market. However, the group accounting policy requires social housing to be carried at existing use value for social housing, and no valuation adjustment was obtained for the group consolidation. Management did not determine the open market value of the properties that were transferred from the Council, completed in year and those brought forward from the prior year before applying the social housing discount. Open market value is expected to be different for these properties, especially those completed in year as construction cost generally include cost items that do not add to the value of properties and are written down upon valuation.

**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.**

|  |  |
|--|--|
| 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               |  |

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters                                      |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |

# ACCURACY OF GROUP CONSOLIDATION

**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.**

## Results (continued)

Management has instructed the Council's valuers to value these properties .

Our review of management's group consolidation working papers also identified the following:

- £45 million capital debtor with a subsidiary for the transfer of properties was not eliminated on consolidation.(Adjusted #10)
- £42 million double counting of assets transferred to subsidiaries. Management added these properties back to Council's property balance at year end even though properties are still included in the balance sheet of the subsidiaries effectively double counting on consolidation. Adjusted #11)
- In the Comprehensive Income and Expenditure Statement, a £0.305 million difference (unadjusted #10) between interest on loans to subsidiaries and interest eliminated on consolidation. The accrued loan of £2.7 million was not reversed out of the balance sheet. (Adjusted #10)
- £18 million consolidation adjustment that incorrectly increased operating expenditure and decreased net pension liability remeasurement. Although this has £nil bottom line impact, the respective lines in the Comprehensive Income and Expenditure Statement have been misstated in the group accounts. (Adjusted #13)
- The surplus or deficit on provision of service in the Movement in Reserves Statement (MiRS) did not agree to the Comprehensive income and Expenditure Statement. This could be due to some of the incorrect journals on consolidation. The MiRs balance included other balance sheet items such as £0.732 million impairment balance at year end that should have been reversed through the balance sheet not as an in year CIES consolidation adjustment.
- Share of subsidiary balance in the MiRs also incorrect due to the incorrect consolidation journals processed.
- The adjustment between the Council and group line in the MiRs to eliminate in year accounting policy difference between group and the Council incorrectly included items such as prior year impairment balance and did not include £12 million in year grant that is treated differently by the subsidiaries and group. The Council recognises grants advanced to the subsidiaries as revenue expenditure whereas the subsidiaries deferred this in the balance sheet and recognise as income over time.
- £15 million difference in loan granted to the subsidiaries reclassified from investing to financing activities in the cash flow statement

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters                                      |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |

# ACCURACY OF GROUP CONSOLIDATION

**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.**

## Results (continued)

- The Council consolidated a new subsidiary (BELs) despite this being an immaterial component. This is contrary to the group policy of consolidating only material components in the consolidation process. Furthermore, in doing this consolidation, the Council only eliminated the balances and transactions in the subsidiary and failed to eliminate the corresponding balances in the Council's accounts. (Adjusted #12)

## Conclusion

Significant errors were identified in the group financial statements relating to elimination intra-group transactions and balances.

We have reported a significant deficiency in the controls and processes for preparing the group financial statements and recommend that substantial improvement to consolidation workings papers is sought by increasing the level of experience or training within the finance team on group consolidation, especially given the increasing activities with group entities and the transactions becoming more complex.

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters                                      |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |

# CLASSIFICATION OF BRENT CROSS NON CURRENT ASSET

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters                                      |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |

## 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 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.**

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

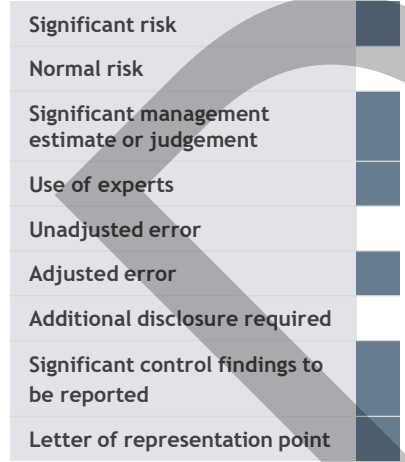
### Results

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 all the parcel of lands to be readied for transfer into the joint venture as surplus assets in its financial statements. *We have reviewed management’s papers supporting this classification.*

### Conclusion

*We have reviewed management’s analysis supporting the classification of lands for transfer to the Brent Cross development in addition to our independent analysis. We concur that management’s classification of these assets as property, plant & equipment surplus assets is most appropriate while the Council continues to progress the land banking for this regeneration scheme. As the project progresses there will be a need to consider moving these into assets held for sale when ready to transfer, however we understand this is only scheduled to happen in 2023.*





# 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.

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters                                      |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |

# 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> |

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters                                      |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |

# 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  |
|---|--|
| <p><b>Misclassification between short and long term investment</b></p> <p>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.</p>   | <p>Management has agreed to update the financial statements to correct this error. (Adjusted Ref#6)</p>  |
| <p><b>Council tax relief recorded in the incorrect period</b></p> <p>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.</p> | <p>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).</p> |
| <p><b>Incorrect HRA depreciation calculated</b></p> <p>We identified that incorrect useful economic lives were used in depreciating infrastructure assets resulting in understatement of depreciation for the year by £4.789 million</p>  | <p>Management has agreed to update the financial statements to correct this error. (Adjusted Ref#7)</p>  |
| <p>We identified that pension fund contributions of £7.804 million, paid in advance for 2023 were incorrectly classified as a short-term debtor instead of a long-term debtor. (Adjusted #15)</p>   | <p>Management to correct this in the accounts</p>  |
| <p>Our audit work on interest payable on loans identified an overstatement of interest and borrowings by £0.570 million. (Adjusted #14)</p>   | <p>Management has agreed to amend the financial statements.</p>  |

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters 1                                    |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |

## 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>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> |
| <p><b>Presentation of accrued interest</b></p> <p>We identified that accrued interest of £1.897 million payable within 12 months after year end has been incorrectly classified as part of long-term borrowing balance at year end. (Adjusted #9)</p>   | <p>Management has agreed to correct this misclassification.</p>  |

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters 2                                    |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |

## 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>  |

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters 3                                    |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |

## 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> |

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| Pension liability valuation                        |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters 4                                    |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |

# 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> |

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters 5                                    |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |



# 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>Netting off overdraft balance against cash balance</b></p> <p>Our audit of the Council's cash and cash equivalent balance at year end identified that most of the Council's bank accounts were in overdraft (total overdraft of £33.217 million) with the significant one being the General Fund bank account with an overdraft balance of £21.406 million. The Council had netted this off against its cash balance. Management could not provide sufficient evidence to support that they have a legally enforceable right to settle on a net basis and intend to settle on a net basis. Consequently, we consider the netting off inappropriate without evidence to support that the offsetting rules have been met. Current liabilities and assets have been understated by £33.217 million as result of the offsetting. (Adjusted #3)</p> | <p>Management has agreed to update the final accounts to correct these issues.</p>                     |
| <p><b>Credit note processed in the incorrect period</b></p> <p>Our testing of post year end credit notes identified two credit notes relating to pre year end not processed at year end. These overstated expenditure and understated debtors by £0.030 million however the extrapolated error across the total expenditure balance is £2.453 million. (Unadjusted #11)</p>  | <p>Unadjusted based on materiality and the fact that this is a projected not factual misstatement.</p> |

- Contents
- Introduction
- Executive summary
- Significant risks
- Management override of controls
- Recognition of grant income
- Expenditure cut-off
- Pension asset and liability valuation
- PPE and Investment property
- Provision for non collection of intercompany loans
- Non-collection of receivables
- Completeness and existence of non current asset
- Accuracy of group consolidation
- Classification of Brent cross non current asset
- Going concern
- Other matters 5
- Matters requiring additional consideration
- Audit differences
- Other reporting matters
- Use of resources
- Control environment
- Independence and fees
- Appendices contents

# MATTERS REQUIRING ADDITIONAL CONSIDERATION

|  |
|--|
| Contents   |
| Introduction                                       |
| Executive summary                                  |
| Significant risks                                  |
| Management override of controls                    |
| Recognition of grant income                        |
| Expenditure cut-off                                |
| Pension asset and liability valuation              |
| Pension liability valuation                        |
| PPE and Investment property                        |
| Provision for non collection of intercompany loans |
| Non-collection of receivables                      |
| Completeness and existence of non current asset    |
| Accuracy of group consolidation                    |
| Classification of Brent cross non current asset    |
| Going concern                                      |
| Other matters                                      |
| Matters requiring additional consideration         |
| Audit differences                                  |
| Other reporting matters                            |
| Use of resources                                   |
| Control environment                                |
| Independence and fees                              |
| Appendices contents                                |

## 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 and significant matters in connection with related parties.

## Group matters

We have completed our review of the group working papers and have reported our findings on page 27

# AUDIT DIFFERENCES

|   |
|---|
| Contents                                |
| Introduction                            |
| Executive summary                       |
| Significant risks                       |
| <b>Audit differences</b>                |
| Audit differences                       |
| Adjusted audit differences              |
| Unadjusted audit differences            |
| Prior year unadjusted audit differences |
| Other reporting matters                 |
| Use of resources                        |
| Control environment                     |
| Independence and fees                   |
| Appendices contents                     |

**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 £8.352 million (to 34.187 million) and the Group deficit increased by the same £8.352 million (to £66.282 million).

Net assets for the Council decreased by £8.352 million (to £912.785) and the Group by £8.352 million (to £853.611 million).

Details of all audit adjustments are shown on pages 41 to 44.

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 increase by £0.157 (to £912.445 million) and decrease for the Group by £0.123 million (to £852.991 million).

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

These adjustments would also decrease the Council’s General Fund and HRA balances by £1.298 million (down from £19.654 million to £18,356 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 Understatement of the surplus on the provision of services for 2020/21 of £2.2 million for the Council and £1.614 million for the Group.

# ADJUSTED AUDIT DIFFERENCES

|  | Council                |             |               |                |               | Group                  |             |               |                |               |
|--|------------------------|-------------|---------------|----------------|---------------|------------------------|-------------|---------------|----------------|---------------|
|  | Income and expenditure |             |               | Balance Sheet  |               | Income and expenditure |             |               | Balance sheet  |               |
|  | CIES<br>£'000          | DR<br>£'000 | (CR)<br>£'000 | DR<br>£'000    | (CR)<br>£'000 | DR<br>£'000            | DR<br>£'000 | (CR)<br>£'000 | DR<br>£'000    | (CR)<br>£'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: Inappropriate netting off of overdraft against cash balance</b>   |                        |             |               |                |               |                        |             |               |                |               |
| Dr Bank  |                        |             |               | 33,217         |               |                        |             |               | 33,217         |               |
| Cr Overdraft   |                        |             |               |                | -33,217       |                        |             |               |                | -33,217       |
| <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 **  | 2,993                  | 2,993       |               |                |               | 2,993                  | 2,993       |               |                |               |
| Dr Revaluation reserve *   |                        |             |               | 497            |               |                        |             |               | 497            |               |
| Cr Council dwellings   |                        |             |               |                | (3,490)       |                        |             |               |                | (3,490)       |

|   |
|---|
| Contents                                |
| Introduction                            |
| Executive summary                       |
| Significant risks                       |
| Audit differences                       |
| Audit differences                       |
| Adjusted audit differences              |
| Prior year unadjusted audit differences |
| Other reporting matters                 |
| Use of resources                        |
| Control environment                     |
| Independence and fees                   |
| Appendices contents                     |

## ADJUSTED AUDIT DIFFERENCES

| Adjusted audit differences  | Council                |             |               |               |               | Group                  |             |               |               |               |
|---|------------------------|-------------|---------------|---------------|---------------|------------------------|-------------|---------------|---------------|---------------|
|   | Income and expenditure |             |               | Balance Sheet |               | Income and expenditure |             |               | Balance sheet |               |
|   | CIES<br>£'000          | DR<br>£'000 | (CR)<br>£'000 | DR<br>£'000   | (CR)<br>£'000 | CIES<br>£'000          | DR<br>£'000 | (CR)<br>£'000 | DR<br>£'000   | (CR)<br>£'000 |
| <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**   | 4,789                  | 4,789       |               |               |               | 4,789                  | 4,789       |               |               |               |
| Cr Accumulated depreciation   |                        |             |               |               | (4,789)       |                        |             |               |               | (4,789)       |
| <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: Misclassification of accrued interest</b>                    |                        |             |               |               |               |                        |             |               |               |               |
| Dr Long term investment   |                        |             |               | 1,897         |               |                        |             |               | 1,897         |               |
| Cr Short term investment  |                        |             |               |               | (1,897)       |                        |             |               |               | (1,897)       |
| <b>Adjustment 10: Incorrect elimination of interco debt</b>                   |                        |             |               |               |               |                        |             |               |               |               |
| Dr Long term borrowings   |                        |             |               |               |               |                        |             |               | 47,735        |               |
| Cr Long term debtors  |                        |             |               |               |               |                        |             |               |               | (47,735)      |
| <b>Adjustment 11: Double counting of properties sold to a sub</b>             |                        |             |               |               |               |                        |             |               |               |               |
| Dr Reserves*  |                        |             |               |               |               |                        |             |               | 42,522        |               |
| Cr Property, plant and equipment  |                        |             |               |               |               |                        |             |               |               | (42,522)      |

## ADJUSTED AUDIT DIFFERENCES

|   | Council                |             |               |               |               | Group                  |             |               |               |               |
|---|------------------------|-------------|---------------|---------------|---------------|------------------------|-------------|---------------|---------------|---------------|
|   | Income and expenditure |             |               | Balance Sheet |               | Income and expenditure |             |               | Balance sheet |               |
|   | CIES<br>£'000          | DR<br>£'000 | (CR)<br>£'000 | DR<br>£'000   | (CR)<br>£'000 | CIES<br>£'000          | DR<br>£'000 | (CR)<br>£'000 | DR<br>£'000   | (CR)<br>£'000 |
| <b>Adjusted audit differences</b>   |                        |             |               |               |               |                        |             |               |               |               |
| <b>Adjustment 12: Elimination of interco short term debtors/creditors</b>                                   |                        |             |               |               |               |                        |             |               |               |               |
| Dr creditors  |                        |             |               |               |               |                        |             |               | 3,924         |               |
| Cr debtors  |                        |             |               |               |               |                        |             |               |               | (3,924)       |
| <b>Adjustment 13: Incorrect consolidation adjustment to operating expenditure and pension remeasurement</b> |                        |             |               |               |               |                        |             |               |               |               |
| Dr Net pension liability measurement  |                        |             |               |               |               |                        | 18,738      |               |               |               |
| Cr Other operating expenditure  |                        |             |               |               |               |                        |             | (18,738)      |               |               |
| <b>Adjustment 14: Understatement of interest expense</b>  |                        |             |               |               |               |                        |             |               |               |               |
| Dr Interest expense   | 570                    | 570         |               |               |               | 570                    | 570         |               |               |               |
| Cr Borrowings   |                        |             |               |               | (570)         |                        |             |               |               | (570)         |
| <b>Adjustment 15:</b>   |                        |             |               |               |               |                        |             |               |               |               |
| <b>Adjustment 16:</b>   |                        |             |               |               |               |                        |             |               |               |               |
| <b>Adjustment 17:</b>   |                        |             |               |               |               |                        |             |               |               |               |

- Contents
- Introduction
- Executive summary
- Significant risks
- Audit differences**
- Audit differences
- Adjusted audit differences
- Adjusted audit differences
- Prior year unadjusted audit differences
- Other reporting matters
- Use of resources
- Control environment
- Independence and fees
- Appendices contents

# ADJUSTED AUDIT DIFFERENCES

|   |
|---|
| Contents                                |
| Introduction                            |
| Executive summary                       |
| Significant risks                       |
| Audit differences                       |
| Audit differences                       |
| Adjusted audit differences              |
| Prior year unadjusted audit differences |
| Other reporting matters                 |
| Use of resources                        |
| Control environment                     |
| Independence and fees                   |
| Appendices contents                     |

|   | Council                |             |               |                |                | Group                  |             |               |                |                |
|---|------------------------|-------------|---------------|----------------|----------------|------------------------|-------------|---------------|----------------|----------------|
|   | Income and expenditure |             |               | Balance Sheet  |                | Income and expenditure |             |               | Balance sheet  |                |
| Adjusted audit differences  | CIES<br>£'000          | DR<br>£'000 | (CR)<br>£'000 | DR<br>£'000    | (CR)<br>£'000  | CIES<br>£'000          | DR<br>£'000 | (CR)<br>£'000 | DR<br>£'000    | (CR)<br>£'000  |
| <b>Total adjusted CIES / net assets audit differences</b>                                 | <b>8,352</b>           |             |               |                | <b>(8,352)</b> | <b>8,352</b>           |             |               |                | <b>(8,352)</b> |
| <b>(Surplus) on the provision of services / net assets for the year after adjustments</b> | <b>(34,187)</b>        |             |               | <b>912,785</b> |                | <b>66,282</b>          |             |               | <b>853,611</b> |                |
| Items marked as * above in the balance sheet are reserve adjustments                      |                        |             |               | 5,705          |                |                        |             |               | 48,257         |                |

## Impact on General Fund and HRA balances

|                                       |         |                    |
|---------------------------------------|---------|--------------------|
| Balance before adjustments            | 19,084  |                    |
| CIES adjustments above                | 8,352   |                    |
| Statutory adjustments through MIRS ** | (7,782) | Adjustment ref 5,7 |
| Balance after adjustments             | 19,654  |                    |

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.



# UNADJUSTED AUDIT DIFFERENCES

| Unadjusted audit differences  | Council                |             |               |                |               | Group                  |             |               |                |               |
|---|------------------------|-------------|---------------|----------------|---------------|------------------------|-------------|---------------|----------------|---------------|
|   | Income and expenditure |             |               | Balance Sheet  |               | Income and expenditure |             |               | Balance sheet  |               |
|   | CIES<br>£'000          | DR<br>£'000 | (CR)<br>£'000 | DR<br>£'000    | (CR)<br>£'000 | CIES<br>£'000          | DR<br>£'000 | (CR)<br>£'000 | DR<br>£'000    | (CR)<br>£'000 |
| <b>(Surplus) on the provision of services / net assets for the year</b>                                   | <b>(34,187)</b>        |             |               | <b>912,228</b> |               | <b>66,282</b>          |             |               | <b>853,114</b> |               |
| <b>Unadjusted 1: Valuation of schools using service provision rebuild basis for updated pupil numbers</b> |                        |             |               |                |               |                        |             |               |                |               |
| Dr Pension reserve *  |                        |             |               | 1,330          |               |                        |             |               | 1,330          |               |
| Cr Pension liability  |                        |             |               |                | (1,330)       |                        |             |               |                | (1,330)       |
| <b>Unadjusted 2: Schools bank reconciliation differences</b>  |                        |             |               |                |               |                        |             |               |                |               |
| Dr Expenditure **   | <b>580</b>             | 580         |               |                |               | <b>580</b>             | 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 **   | <b>216</b>             | 216         |               |                |               | <b>216</b>             | 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**   | <b>(376)</b>           | (376)       |               |                |               | <b>(376)</b>           | (376)       |               |                |               |
| <b>Unadjusted 5: Impairment of over due debt</b>  |                        |             |               |                |               |                        |             |               |                |               |
| Dr Allowance for doubtful debt(CIES)**  | <b>487</b>             | 487         |               |                |               | <b>487</b>             | 487         |               |                |               |
| Cr Debtors  |                        |             |               |                | (487)         |                        |             |               |                | (487)         |
| <b>Unadjusted 6: Over accrual of income</b>   |                        |             |               |                |               |                        |             |               |                |               |
| Dr Income   | <b>2,369</b>           | 2,369       |               |                |               | <b>2,369</b>           | 2,369       |               |                |               |
| Cr Debtors  |                        |             |               |                | (2,369)       |                        |             |               |                | (2,369)       |

|   |
|---|
| Contents                                |
| Introduction                            |
| Executive summary                       |
| Significant risks                       |
| Audit differences                       |
| Audit differences                       |
| Unadjusted audit differences            |
| Prior year unadjusted audit differences |
| Other reporting matters                 |
| Use of resources                        |
| Control environment                     |
| Independence and fees                   |
| Appendices contents                     |

# UNADJUSTED AUDIT DIFFERENCES

| Unadjusted audit differences   | Council                |             |               |               |               | Group                  |             |               |               |               |
|--|------------------------|-------------|---------------|---------------|---------------|------------------------|-------------|---------------|---------------|---------------|
|  | Income and expenditure |             |               | Balance Sheet |               | Income and expenditure |             |               | Balance sheet |               |
|  | CIES<br>£'000          | DR<br>£'000 | (CR)<br>£'000 | DR<br>£'000   | (CR)<br>£'000 | CIES<br>£'000          | DR<br>£'000 | (CR)<br>£'000 | DR<br>£'000   | (CR)<br>£'000 |
| <b>Unadjusted 7:</b> Schools income mapped to expenditure                            |                        |             |               |               |               |                        |             |               |               |               |
| Dr school expenditure* *   |                        | 2,500       |               |               |               |                        | 2,500       |               |               |               |
| Cr Income  |                        |             | (2,500)       |               |               |                        |             | (2,500)       |               |               |
| <b>Unadjusted 8:</b> Impact of McCloud judgement on current service cost             |                        |             |               |               |               |                        |             |               |               |               |
| Dr current service cost **   | 1,394                  | 1,394       |               |               |               | 1,534                  | 1,534       |               |               |               |
| Cr Pension liability   |                        |             |               |               | (1,394)       |                        |             |               |               | (1,534)       |
| <b>Unadjusted 9:</b> Adjustment for impact of Goodwin                                |                        |             |               |               |               |                        |             |               |               |               |
| Dr Past service cost**   | 1,394                  | 1,394       |               |               |               | 1,534                  | 1,534       |               |               |               |
| Cr Pension liability   |                        |             |               |               | (1,394)       |                        |             |               |               | (1,534)       |
| <b>Unadjusted 10:</b> Difference in interco interest eliminated on consolidation     |                        |             |               |               |               |                        |             |               |               |               |
| Dr Interest income   |                        |             |               |               |               |                        | 305         |               |               |               |
| Cr Interest expense  |                        |             |               |               |               |                        |             | (305)         |               |               |
| <b>Unadjusted 11:</b> Schools expenditure recorded in the incorrect period           |                        |             |               |               |               |                        |             |               |               |               |
| Dr Creditors   |                        |             |               |               | 4,836         |                        |             |               |               | 4,836         |
| Cr Expenditure**   | (4,836)                |             | (4,836)       |               |               | (4,836)                |             | (4,836)       |               |               |
| <b>Unadjusted 12:</b> Non purchase order expenditure recorded in the incorrect perio |                        |             |               |               |               |                        |             |               |               |               |
| Dr Opening reserve*  |                        |             |               |               | 407           |                        |             |               |               | 407           |
| Cr Expenditure   | (407)                  |             | (407)         |               |               | (407)                  |             | (407)         |               |               |

|   |
|---|
| Contents                                |
| Introduction                            |
| Executive summary                       |
| Significant risks                       |
| Audit differences                       |
| Audit differences                       |
| Unadjusted audit differences            |
| Prior year unadjusted audit differences |
| Other reporting matters                 |
| Use of resources                        |
| Control environment                     |
| Independence and fees                   |
| Appendices contents                     |

## UNADJUSTED AUDIT DIFFERENCES

| Unadjusted audit differences                                      | Council                |             |               |               |               | Group                  |             |               |               |               |
|---|------------------------|-------------|---------------|---------------|---------------|------------------------|-------------|---------------|---------------|---------------|
|   | Income and expenditure |             |               | Balance Sheet |               | Income and expenditure |             |               | Balance sheet |               |
|   | CIES<br>£'000          | DR<br>£'000 | (CR)<br>£'000 | DR<br>£'000   | (CR)<br>£'000 | CIES<br>£'000          | DR<br>£'000 | (CR)<br>£'000 | DR<br>£'000   | (CR)<br>£'000 |
| <b>Unadjusted 13: Grant reserve mapped to grant income</b>        |                        |             |               |               |               |                        |             |               |               |               |
| Dr Grant income   | 1,475                  | 1,475       |               |               |               | 1,475                  | 1,475       |               |               |               |
| Cr Opening reserve*   |                        |             |               |               | (1,475)       |                        |             |               |               | (1,475)       |
| <b>Unadjusted 14: Credit not recorded in the incorrect period</b> |                        |             |               |               |               |                        |             |               |               |               |
| Dr Debtors  |                        |             |               | 2,453         |               |                        |             |               | 2,453         |               |
| Cr Expenditure  | (2,453)                |             | (2,453)       |               |               | (2,453)                |             | (2,453)       |               |               |
| <b>Unadjusted 15:</b>   |                        |             |               |               |               |                        |             |               |               |               |

|   |
|---|
| Contents                                |
| Introduction                            |
| Executive summary                       |
| Significant risks                       |
| Audit differences                       |
| Audit differences                       |
| Unadjusted audit differences            |
| Prior year unadjusted audit differences |
| Other reporting matters                 |
| Use of resources                        |
| Control environment                     |
| Independence and fees                   |
| Appendices contents                     |

# UNADJUSTED AUDIT DIFFERENCES

|   | Council                |             |               |               |               | Group                  |             |               |               |               |
|---|------------------------|-------------|---------------|---------------|---------------|------------------------|-------------|---------------|---------------|---------------|
|   | Income and expenditure |             |               | Balance Sheet |               | Income and expenditure |             |               | Balance sheet |               |
|   | CIES<br>£'000          | DR<br>£'000 | (CR)<br>£'000 | DR<br>£'000   | (CR)<br>£'000 | CIES<br>£'000          | DR<br>£'000 | (CR)<br>£'000 | DR<br>£'000   | (CR)<br>£'000 |
| <b>Unadjusted audit differences</b>   |                        |             |               |               |               |                        |             |               |               |               |
| <b>Total unadjusted audit differences</b>   | (157)                  |             |               |               | 157           | 123                    |             |               |               | (123)         |
| <b>(Surplus) on the provision of services / net assets for the year if adjusted</b> | (34,344)               |             |               | 912,455       |               | 66,405                 |             |               | 852,991       |               |
| Items marked as * above in the balance sheet are reserve adjustments                |                        |             |               | 262           |               |                        |             |               | 262           |               |

## Impact on General Fund and HRA balances

|                                       |               |                            |
|---------------------------------------|---------------|----------------------------|
| Balance before adjustments            | 19,654        |                            |
| CIES adjustments above                | (157)         |                            |
| Statutory adjustments through MIRS ** | (1,141)       | Adjustments 2,3,4,5,8,9,11 |
| <b>Balance after adjustments</b>      | <b>18,356</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.

|   |
|---|
| Contents                                |
| Introduction                            |
| Executive summary                       |
| Significant risks                       |
| <b>Audit differences</b>                |
| Audit differences                       |
| Unadjusted audit differences            |
| Prior year unadjusted audit differences |
| Other reporting matters                 |
| Use of resources                        |
| Control environment                     |
| Independence and fees                   |
| Appendices contents                     |

## 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<br>£'000 | CIES<br>£'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)         |

|   |
|---|
| Contents                                |
| Introduction                            |
| Executive summary                       |
| Significant risks                       |
| <b>Audit differences</b>                |
| Audit differences                       |
| Adjusted audit differences              |
| Prior year unadjusted audit differences |
| Other reporting matters                 |
| Use of resources                        |
| Control environment                     |
| Independence and fees                   |
| Appendices contents                     |

## PRIOR YEAR UNADJUSTED AUDIT DIFFERENCES

|  | Council        | Group          |
|--|----------------|----------------|
|  | CIES<br>£'000  | CIES<br>£'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> |

### Contents

Introduction

Executive summary

Significant risks

Audit differences

Audit differences

Adjusted audit differences

Prior year unadjusted audit differences

Other reporting matters

Use of resources

Control environment

Independence and fees

Appendices contents

# 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. |

|                                |
|--------------------------------|
| Contents                       |
| Introduction                   |
| Executive summary              |
| Significant risks              |
| Audit differences              |
| Other reporting matters        |
| Reporting on other information |
| Whole of Government Accounts   |
| Use of resources               |
| Control environment            |
| Independence and fees          |
| Appendices contents            |



# WHOLE OF GOVERNMENT ACCOUNTS

|                                |
|--------------------------------|
| Contents                       |
| Introduction                   |
| Executive summary              |
| Significant risks              |
| Audit differences              |
| Other reporting matters        |
| Reporting on other information |
| Whole of Government Accounts   |
| Use of resources               |
| Control environment            |
| Independence and fees          |
| Appendices contents            |

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

## 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 |

|                           |
|---------------------------|
| Contents                  |
| Introduction              |
| Executive summary         |
| Significant risks         |
| Audit differences         |
| Other reporting matters   |
| Use of resources          |
| Use of resources overview |
| Control environment       |
| Independence and fees     |
| Appendices contents       |

# 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.   |

- Contents
- Introduction
- Executive summary
- Significant risks
- Audit differences
- Other reporting matters
- Use of resources
- Control environment
- Significant deficiencies
- Other deficiencies
- Other deficiencies
- Other deficiencies
- Other deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Independence and fees
- Appendices contents

# 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> | <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.</p>  | <p>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.</p> |
| Group Consolidation | <p>Although there has been improvement in the presentation of the MiRs, significant errors were identified in the group financial statement relating to inconsistent accounting policies and elimination of intra-group transactions. A similar deficiency was raised in the prior year.</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 to ensure consolidation journals including those arising as a result of accounting policy differences have accurately processed.</li> </ul> | <p>Management agrees with this recommendation and will put controls and measures in place to address this.</p>  |

|                          |
|--------------------------|
| Contents                 |
| Introduction             |
| Executive summary        |
| Significant risks        |
| Audit differences        |
| Other reporting matters  |
| Use of resources         |
| Control environment      |
| Significant deficiencies |
| Other deficiencies       |
| Other deficiencies       |
| Other deficiencies       |
| Other deficiencies       |
| Prior year deficiencies  |
| Prior year deficiencies  |
| Prior year deficiencies  |
| Prior year deficiencies  |
| Prior year deficiencies  |
| Prior year deficiencies  |
| Prior year deficiencies  |
| Independence and fees    |
| Appendices contents      |

# OTHER DEFICIENCIES

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

| Area   | Observation & implication   | Recommendation  | Management response   |
|--|---|---|---|
| RBS: formal leaver process<br>Core HR: formal leaver starter process | <p>RBS: Lack of formal leaver process</p> <p>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</p> <p>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.</p> | <p>Implement a process that requires that a formal starter/ Mover/Leaver is issued which must:</p> <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> | <p>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.</p> |

- Contents
- Introduction
- Executive summary
- Significant risks
- Audit differences
- Other reporting matters
- Use of resources
- Control environment
- Significant deficiencies
- Other deficiencies
- Other deficiencies
- Other deficiencies
- Other deficiencies
- Other deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Independence and fees
- Appendices contents

## 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>   | <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.</p>   | <p>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.</p> |
| 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> | <p>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</p> | <p>Management agrees with the recommendation and will investigate the changes required with the software providers.</p>  |

- Contents
- Introduction
- Executive summary
- Significant risks
- Audit differences
- Other reporting matters
- Use of resources
- Control environment**
- Significant deficiencies
- Other deficiencies
- Other deficiencies
- Other deficiencies
- Other deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Independence and fees
- Appendices contents

# OTHER DEFICIENCIES

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

| Area   | Observation & implication   | Recommendation  | Management response   |
|--|---|---|---|
| QL, CoreHR, UPM:<br>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> |

- Contents
- Introduction
- Executive summary
- Significant risks
- Audit differences
- Other reporting matters
- Use of resources
- Control environment**
- Significant deficiencies
- Other deficiencies
- Other deficiencies
- Other deficiencies
- Other deficiencies
- Other deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Independence and fees
- Appendices contents



# 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> |

- Contents
- Introduction
- Executive summary
- Significant risks
- Audit differences
- Other reporting matters
- Use of resources
- Control environment**
- Significant deficiencies
- Other deficiencies
- Other deficiencies
- Other deficiencies
- Other deficiencies
- Other deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Independence and fees
- Appendices contents

# 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> |

- Contents
- Introduction
- Executive summary
- Significant risks
- Audit differences
- Other reporting matters
- Use of resources
- Control environment**
- Significant deficiencies
- Other deficiencies
- Other deficiencies
- Other deficiencies
- Other deficiencies
- Other deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Prior year deficiencies
- Independence and fees
- Appendices contents

## 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                  |

### Contents

Introduction

Executive summary

Significant risks

Audit differences

Other reporting matters

Use of resources

Control environment

Significant deficiencies

Other deficiencies

Other deficiencies

Other deficiencies

Other deficiencies

Prior year deficiencies

Prior year deficiencies

Prior year deficiencies

Prior year deficiencies

Prior year deficiencies

Prior year deficiencies

Independence and fees

Appendices contents

## PRIOR YEAR DEFICIENCIES

| Area   | Issue and impact  | Original recommendation   | Progress  | Management response                                 |
|--|---|---|---|---|
| Termination of leavers access to IT systems- Integra                           | <p>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.</p> <p>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.</p> | 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]  |

|                          |
|--------------------------|
| Contents                 |
| Introduction             |
| Executive summary        |
| Significant risks        |
| Audit differences        |
| Other reporting matters  |
| Use of resources         |
| Control environment      |
| Significant deficiencies |
| Other deficiencies       |
| Other deficiencies       |
| Other deficiencies       |
| Other deficiencies       |
| Other deficiencies       |
| Prior year deficiencies  |
| Prior year deficiencies  |
| Prior year deficiencies  |
| Prior year deficiencies  |
| Prior year deficiencies  |
| Prior year deficiencies  |
| Prior year deficiencies  |
| Independence and fees    |
| Appendices contents      |

## PRIOR YEAR DEFICIENCIES

| 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  |   |

### Contents

Introduction

Executive summary

Significant risks

Audit differences

Other reporting matters

Use of resources

Control environment

Significant deficiencies

Other deficiencies

Other deficiencies

Other deficiencies

Other deficiencies

Prior year deficiencies

Prior year deficiencies

Prior year deficiencies

Prior year deficiencies

Prior year deficiencies

Prior year deficiencies

Independence and fees

Appendices contents

## PRIOR YEAR DEFICIENCIES

| 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]            |

### Contents

Introduction

Executive summary

Significant risks

Audit differences

Other reporting matters

Use of resources

Control environment

Significant deficiencies

Other deficiencies

Other deficiencies

Other deficiencies

Other deficiencies

Prior year deficiencies

Prior year deficiencies

Prior year deficiencies

Prior year deficiencies

Prior year deficiencies

Prior year deficiencies

Independence and fees

Appendices contents

## PRIOR YEAR DEFICIENCIES

|                          |
|--------------------------|
| Contents                 |
| Introduction             |
| Executive summary        |
| Significant risks        |
| Audit differences        |
| Other reporting matters  |
| Use of resources         |
| Control environment      |
| Significant deficiencies |
| Other deficiencies       |
| Other deficiencies       |
| Other deficiencies       |
| Other deficiencies       |
| Prior year deficiencies  |
| Prior year deficiencies  |
| Prior year deficiencies  |
| Prior year deficiencies  |
| Prior year deficiencies  |
| Prior year deficiencies  |
| Independence and fees    |
| Appendices contents      |

| 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.

|                         |
|-------------------------|
| Contents                |
| Introduction            |
| Executive summary       |
| Significant risks       |
| Audit differences       |
| Other reporting matters |
| Use of resources        |
| Control environment     |
| Independence and fees   |
| Independence            |
| Fees                    |
| Appendices contents     |



## FEES

### Fees summary

|  | 2020/21<br>Actual<br>£ | 2020/21<br>Planned<br>£ | 2019/20<br>Actual<br>£ |
|--|------------------------|-------------------------|------------------------|
| <b>Audit fee</b>   |                        |                         |                        |
| • Code audit fee: consolidated Group and single-entity financial statements and use of resources | £130,919               | (1)£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.



|                              |
|------------------------------|
| Contents                     |
| Introduction                 |
| Executive summary            |
| Significant risks            |
| Audit differences            |
| Other reporting matters      |
| Use of resources             |
| Control environment          |
| <b>Independence and fees</b> |
| Independence                 |
| Fees                         |
| Appendices contents          |

# APPENDICES CONTENTS

|                          |
|--------------------------|
| Contents                 |
| Appendices contents      |
| Regulatory Developments  |
| Ethical standard         |
| Audit committee guidance |
| Our responsibilities     |
| Communication with you   |
| Letter of representation |
| Audit quality            |

|   |   |    |   |                          |    |
|---|---|----|---|--------------------------|----|
| A | Regulatory Developments                           | 61 | F | Letter of representation | 69 |
|   | Restoring trust in audit and corporate governance | 61 |   | Representative letter    | 69 |
|   | BEIS consultation at a glance                     | 62 |   | Representative letter 2  | 70 |
|   | BEIS consultation at a glance 2                   | 63 |   | Representative letter 3  | 71 |
| B | Ethical standard                                  | 64 | G | Audit quality            | 72 |
|   | FRC Ethical standard                              | 64 |   | Audit quality            | 72 |
| C | Audit committee guidance                          | 65 |   |                          |    |
|   | FRC Practice Aid for Audit Committees             | 65 |   |                          |    |
| D | Our responsibilities                              | 66 |   |                          |    |
|   | Our responsibilities                              | 66 |   |                          |    |
|   | Additional matters we are required to report      | 67 |   |                          |    |
| E | Communication with you                            | 68 |   |                          |    |
|   | Communication with you                            | 68 |   |                          |    |

# RESTORING TRUST IN AUDIT AND CORPORATE GOVERNANCE

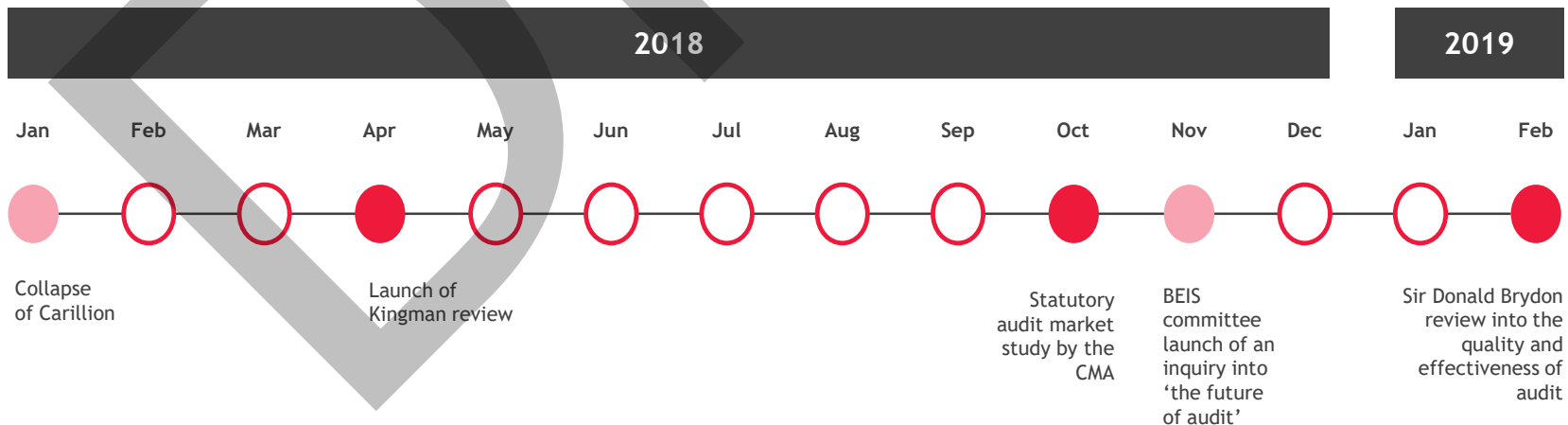
## BEIS consultation issued March 2021

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



- Contents
- Appendices contents
- Regulatory Developments
- Ethical standard
- Audit committee guidance
- Our responsibilities
- Communication with you
- Letter of representation
- Audit quality

# BEIS CONSULTATION AT A GLANCE

Issued March 21

|                                 |
|---------------------------------|
| Contents                        |
| Appendices contents             |
| Regulatory Developments         |
| BEIS consultation at a glance   |
| BEIS consultation at a glance 2 |
| Ethical standard                |
| Audit committee guidance        |
| Our responsibilities            |
| Communication with you          |
| Letter of representation        |
| Audit quality                   |

| 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>   |

### Contents

Appendices contents

Regulatory Developments

BEIS consultation at a glance

BEIS consultation at a glance 2

Ethical standard

Audit committee guidance

Our responsibilities

Communication with you

Letter of representation

Audit quality

# 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> |

|                          |
|--------------------------|
| Contents                 |
| Appendices contents      |
| Regulatory Developments  |
| Ethical standard         |
| Audit committee guidance |
| Our responsibilities     |
| Communication with you   |
| Letter of representation |
| Audit quality            |

# FRC PRACTICE AID FOR AUDIT COMMITTEES

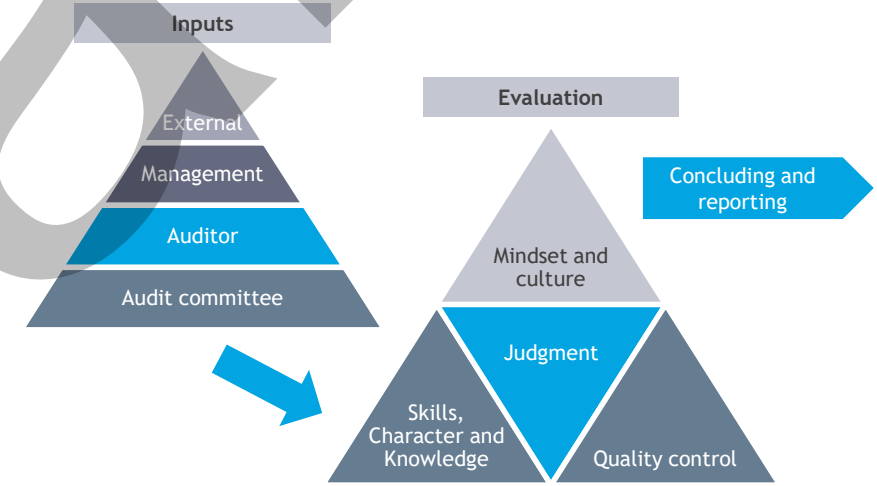
|                          |
|--------------------------|
| Contents                 |
| Appendices contents      |
| Regulatory Developments  |
| Ethical standard         |
| Audit committee guidance |
| Our responsibilities     |
| Communication with you   |
| Letter of representation |
| Audit quality            |

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

## Responsibilities and reporting

### 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.



|                             |
|-----------------------------|
| Contents                    |
| Appendices contents         |
| Regulatory Developments     |
| Ethical standard            |
| Audit committee guidance    |
| <b>Our responsibilities</b> |
| Communication with you      |
| Letter of representation    |
| Audit quality               |



# ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

|                      | 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. |



- Contents
- Appendices contents
- Regulatory Developments
- Ethical standard
- Audit committee guidance
- Our responsibilities**
- Additional matters we are required to report
- Communication with you
- Letter of representation
- Audit quality

# COMMUNICATION WITH YOU

|                          |
|--------------------------|
| Contents                 |
| Appendices contents      |
| Regulatory Developments  |
| Ethical standard         |
| Audit committee guidance |
| Our responsibilities     |
| Communication with you   |
| Letter of representation |
| Audit quality            |

## 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 Interim Completion Report  | 14 February 2022          | Audit Committee |
| Audit Completion Report  | (TBC)                     | Audit Committee |
| Auditor's Annual Report  | (TBC)                     | Audit Committee |

# AUDIT QUALITY

|                          |
|--------------------------|
| Contents                 |
| Appendices contents      |
| Regulatory Developments  |
| Ethical standard         |
| Audit committee guidance |
| Our responsibilities     |
| Communication with you   |
| Letter of representation |
| Audit quality            |



## **BDO is totally committed to audit quality**

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

BDO welcomes feedback from external bodies and is committed to implementing 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)

FOR MORE INFORMATION:

**Lisa Blake**

t: 01473 320716  
m: 077 913 97160  
e: lisa.clampin@bdo.co.uk

**Michael Asare Bediako**

t: 020 7893 3643  
m: 078 112 44020  
e: michael.asarebediako@bdo.co.uk

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.

BDO is an award winning UK member firm of BDO International, the world's fifth largest accountancy network, with more than 1,500 offices in over 160 countries.

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

© December 2021 BDO LLP. All rights reserved.

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

**London Borough of Barnet**

**Internal Audit Performance**  
**External Quality Assessment**

Date: 10 February 2022

Report Author: Paul Rock

## Introduction

---

The Public Sector Internal Audit Standards (PSIAS) require an external quality assessment be undertaken at least every five years. The PSIAS apply to all public sector internal audit service providers, whether in-house, shared services or outsourced.

Standard 1312 states:

*External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.*

Across London, the London Audit Group has organised a system of independent externally validated self-assessments. It was agreed that self-assessments against the standards, and where appropriate the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note (LGAN) will be completed, and that these will be externally validated by suitably qualified individuals or teams from other members of the London Audit Group.

This review of internal audit's performance at the London Borough of Barnet has been led by Paul Rock who is the Head of Internal Audit for the London Borough of Tower Hamlets and is appropriately qualified, independent and has no actual or perceived conflicts of interest. The terms of reference for this assessment were discussed and agreed with the Council's Executive Director of Resources, Executive Director of Assurance and Chair of the Audit Committee.

## Conclusion

---

Overall, the internal audit service at the London Borough of Barnet is a well led, professional and respected service that adds value and provides evidence based, reliable assurance over the Council's governance, risk management and internal controls.

Based on the self-assessment, supporting evidence and independent validation it is the view of the lead assessor that the internal audit service for the London Borough of Barnet **generally conforms with the Public Sector Internal Audit Standards**. Definitions of all the ratings are detailed in Appendix A.

|                           |   |
|---------------------------|---|
| <b>Generally Conforms</b> | The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, comply with the requirements in all material respects. |
|---------------------------|---|

## Stakeholder Survey

---

During this assessment a survey of key stakeholders was undertaken. In summary the survey results were positive and have revealed the following:

- The service is delivered with professionalism and integrity.
- Issues/concerns are raised at the right level.
- Internal Audit responds quickly to changes in the organisation.
- Internal Audit has the necessary resources.
- Internal Audit is adept at communicating its work.
- The service has a positive impact on governance, risk management and control.
- Internal Audit asks challenging and incisive questions.
- The service appropriately promotes ethics and values.

The full results of the survey are shown at Appendix B.

In addition to the survey, we interviewed a series of key stakeholders. The feedback from the stakeholders (with one exception) was very positive. Internal Audit was often described as follows:

- A well led, respected, efficient and professional service.
- Internal Audit always adds value and provides an excellent service.
- The reports to Audit Committee are of high quality and are appropriately detailed.
- The service demonstrates and promotes high levels of integrity.

In terms of areas for improvement, the survey and interviews indicate that internal audit could:

- provide managers with more guidance on the role and purpose of internal audit; and
- continue to raise the profile of the whole service across the Council.

Both of which will assist in demonstrating the value internal audit adds and encourage management to be more responsive to internal audit reports and recommendations.

### **Areas for Improvement**

---

The assessment has identified some minor areas for improvement which includes the following:

- Training logs for all internal audit staff should be maintained (not applicable to contractors).
- Internal Audit's planning and audit progress templates need to be updated and consistently completed in full for each audit/advisory engagement.

- The terms of reference template needs to be refreshed to include clear links between Internal Audit's planned activity and the Council objectives and related risks.
- Going forward, terms of reference should be issued for all advisory work and evidence of the terms of reference being agreed by the Head of Internal Audit prior to issue should be retained on the audit evidence file.
- The annual Head of Internal Audit report should be updated to include references to the independence of internal audit and an assertion that internal audit has conformed with the Public Sector Internal Audit Standards.
- Internal Audit's assurance and risk mapping needs to be updated.
- An explanation/assessment of internal audit's resources and their adequacy should be included when presenting the overall audit plan to senior management and the Audit Committee.
- The Head of Internal Audit should consider introducing a review of the audit work programme (referred to locally as an ECRM) before the audit or advisory work commences.

Whilst not a requirement of the PSIAS, the Head of Internal Audit may also wish to consider the following:

- Developing a three to five year strategy for the Internal Audit service.
- Auditing the Council's approach to fraud prevention, detection and investigation.

A summary of the outcomes of this assessment follows. An action plan has been developed by the Head of Internal Audit to address these areas and is included as Appendix C. Progress/completion of this action plan should be reported to senior management and the Audit Committee.



## Summary Assessment

| Statement  | Generally Conforms | Partially Conforms | Does not Conform |
|--|--------------------|--------------------|------------------|
| <b>Mission of Internal Audit</b>   |                    |                    |                  |
| Does the internal audit activity aspire to accomplish the Mission of Internal Audit as set out in the PSIAS?   | ✓                  |                    |                  |
| <b>Definition of Internal Auditing</b>   |                    |                    |                  |
| Is the internal audit activity independent and objective?  | ✓                  |                    |                  |
| Does the internal audit activity use a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation? | ✓                  |                    |                  |
| <b>Core Principles</b>   |                    |                    |                  |
| Does the internal audit activity conform with the PSIAS by demonstrating integrity?  | ✓                  |                    |                  |
| Does the internal audit activity conform with the PSIAS by demonstrating competence and due professional care?   | ✓                  |                    |                  |
| Does the internal audit activity fully conform with the PSIAS by being objective and free from undue influence (independent)?  | ✓                  |                    |                  |
| Does the internal audit activity fully conform with the PSIAS by being aligned with the strategies, objectives, and risks of the organisation?   | ✓                  |                    |                  |
| Is the internal audit activity appropriately positioned and adequately resourced?  | ✓                  |                    |                  |
| Does the internal audit activity demonstrate quality and continuous improvement?   | ✓                  |                    |                  |
| Does the internal audit activity communicate effectively?  | ✓                  |                    |                  |
| Does the internal audit activity provide risk-based assurance, based on adequate risk assessment?  | ✓                  |                    |                  |
| Is the internal audit activity insightful, proactive, and future-focused?  | ✓                  |                    |                  |

| <b>Statement</b>  | <b>Generally Conforms</b> | <b>Partially Conforms</b> | <b>Does not Conform</b> |
|---|---------------------------|---------------------------|-------------------------|
| Does the internal audit activity promote organisational improvement?  | ✓                         |                           |                         |
| <b>Code of Ethics</b>   |                           |                           |                         |
| Do internal auditors display integrity?   | ✓                         |                           |                         |
| Do internal auditors display objectivity?   | ✓                         |                           |                         |
| Do internal auditors display due respect and care by maintaining confidentiality?   | ✓                         |                           |                         |
| Do internal auditors display competency?  | ✓                         |                           |                         |
| Do internal auditors, whether consciously or through conformance with organisational procedures and norms, have due regard to the Committee on Standards of Public Life's <i>Seven Principles of Public Life</i> ?  | ✓                         |                           |                         |
| <b>Attribute Standards</b>  |                           |                           |                         |
| Does the internal audit charter conform with the PSIAS by including a formal definition of the purpose, authority and responsibility of the internal audit activity?  | ✓                         |                           |                         |
| Does the internal audit charter conform with the PSIAS by clearly and appropriately defining the terms 'board' and 'senior management' for the purposes of the internal audit activity?   | ✓                         |                           |                         |
| Does the Chief Audit Executive (CAE) periodically review the internal audit charter and present it to senior management and the board for approval?   | ✓                         |                           |                         |
| Does the CAE have direct and unrestricted access to senior management and the board?  | ✓                         |                           |                         |
| Are threats to objectivity identified and managed.  | ✓                         |                           |                         |
| Does the CAE report to an organisational level equal or higher to the corporate management team? Does the CAE report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities?   | ✓                         |                           |                         |
| Does the CAE's position in the management structure: Provide the CAE with sufficient status to ensure that audit plans, reports and action plans are discussed effectively with the board? Ensure that he or she is sufficiently senior and independent to be able to provide credibly constructive challenge to senior management? | ✓                         |                           |                         |

| Statement  | Generally Conforms | Partially Conforms | Does not Conform |
|--|--------------------|--------------------|------------------|
| Does the CAE confirm to the board, at least annually, that the internal audit activity is organisationally independent?  |                    | ✓                  |                  |
| Is the organisational independence of internal audit realised by functional reporting by the CAE to the board?   | ✓                  |                    |                  |
| Does the CAE communicate and interact directly with the board?   | ✓                  |                    |                  |
| Where the CAE has roles or responsibilities that fall outside of internal auditing, are adequate safeguards in place to limit impairments to independence or objectivity? Does the board periodically review these safeguards? | ✓                  |                    |                  |
| Do internal auditors have an impartial, unbiased attitude?   | ✓                  |                    |                  |
| Do internal auditors avoid any conflict of interest, whether apparent or actual?   | ✓                  |                    |                  |
| If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties?  | ✓                  |                    |                  |
| Does review indicate that work allocations have operated so that internal auditors have not assessed specific operations for which they have been responsible within the previous year?  | ✓                  |                    |                  |
| If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?                          | ✓                  |                    |                  |
| Is the risk of over-familiarity or complacency managed effectively?  | ✓                  |                    |                  |
| Have internal auditors declared interests in accordance with organisational requirements?  | ✓                  |                    |                  |
| Where any internal auditor has accepted any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties has this been declared and investigated fully?                         | ✓                  |                    |                  |
| Does review indicate that no instances have been identified where an internal auditor has used information obtained during the course of duties for personal gain?   | ✓                  |                    |                  |
| Have internal auditors disclosed all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to any confidentiality agreements?                                | ✓                  |                    |                  |

| Statement   | Generally Conforms | Partially Conforms | Does not Conform |
|---|--------------------|--------------------|------------------|
| If there has been any real or apparent impairment of independence or objectivity relating to a proposed consulting services engagement, was this disclosed to the engagement client before the engagement was accepted? | ✓                  |                    |                  |
| Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the board before the engagement was accepted?        | ✓                  |                    |                  |
| Does the CAE hold a professional qualification, such as CMIIA/CCAB or equivalent? Is the CAE suitably experienced?  | ✓                  |                    |                  |
| Is the CAE responsible for recruiting appropriate internal audit staff, in accordance with the organisation's human resources processes?  | ✓                  |                    |                  |
| Does the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities?  | ✓                  |                    |                  |
| Do internal auditors have sufficient knowledge to evaluate the risk of fraud and anti-fraud arrangements in the organisation?   | ✓                  |                    |                  |
| Do internal auditors have sufficient knowledge of key information technology risks and controls?  | ✓                  |                    |                  |
| Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?                              | ✓                  |                    |                  |
| Do internal auditors exercise due professional care?  | ✓                  |                    |                  |
| Do internal auditors exercise due professional care during a consulting engagement?   | ✓                  |                    |                  |
| Has the CAE defined the skills and competencies for each level of auditor? Does the CAE periodically assess individual auditors against the predetermined skills and competencies?                                      | ✓                  |                    |                  |
| Do internal auditors undertake a programme of continuing professional development?  | ✓                  |                    |                  |
| Has the CAE developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?                | ✓                  |                    |                  |
| Does the QAIP include both internal and external assessments?   | ✓                  |                    |                  |

| <b>Statement</b>  | <b>Generally Conforms</b> | <b>Partially Conforms</b> | <b>Does not Conform</b> |
|---|---------------------------|---------------------------|-------------------------|
| Does the CAE ensure that audit work is allocated to staff with the appropriate skills, experience and competence?   | ✓                         |                           |                         |
| Do internal assessments include ongoing monitoring of the internal audit activity?  | ✓                         |                           |                         |
| Does ongoing performance monitoring contribute to quality improvement through the effective use of performance targets?   | ✓                         |                           |                         |
| Are the periodic self-assessments or assessments carried out by people external to the internal audit activity undertaken by those with a sufficient knowledge of internal audit practices? | ✓                         |                           |                         |
| Does the periodic assessment include a review of the activity against the risk-based plan and the achievement of its aims and objectives?   | ✓                         |                           |                         |
| Has an external assessment been carried out, or is one planned to be carried out, at least once every five years?   | ✓                         |                           |                         |
| Has the CAE properly discussed the qualifications and independence of the assessor or assessment team with the board?   | ✓                         |                           |                         |
| Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive?                              | ✓                         |                           |                         |
| Has the CAE reported the results of the QAIP to senior management and the board?  | ✓                         |                           |                         |
| Has the CAE included the results of the QAIP and progress against any improvement plans in the annual report?   | ✓                         |                           |                         |
| Has the CAE stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this?   | ✓                         |                           |                         |
| Has the CAE reported any instances of non-conformance with the PSIAS to the board?  | ✓                         |                           |                         |
| If appropriate, has the CAE considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced?   | ✓                         |                           |                         |
| <b>Performance Standards</b>  |                           |                           |                         |
| Has the CAE determined the priorities of the internal audit activity in a risk-based plan and are these priorities consistent with the organisation's goals?                                | ✓                         |                           |                         |

| Statement  | Generally Conforms | Partially Conforms | Does not Conform |
|--|--------------------|--------------------|------------------|
| Does the risk-based plan set out how internal audit's work will identify and address local and national issues and risks?  | ✓                  |                    |                  |
| Does the risk-based plan set out the: Audit work to be carried out?  | ✓                  |                    |                  |
| Does the CAE review the plan on a regular basis and has he or she adjusted the plan when necessary in response to changes in the organisation's business, risks, operations, programmes, systems and controls?   | ✓                  |                    |                  |
| Is the internal audit activity's plan of engagements based on a documented risk assessment?  | ✓                  |                    |                  |
| In developing the risk-based plan, has the CAE also given sufficient consideration to: Any declarations of interest (for the avoidance of conflicts of interest)? The requirement to use specialists, eg IT or contract and procurement auditors? Allowing contingency time to undertake ad hoc reviews or fraud investigations as necessary? The time required to carry out the audit planning process effectively as well as regular reporting to and attendance of the board, the development of the annual report and the CAE opinion? | ✓                  |                    |                  |
| In developing the risk-based plan, has the CAE consulted with senior management and the board to obtain an understanding of the organisation's strategies, key business objectives, associated risks and risk management processes?  | ✓                  |                    |                  |
| Does the CAE take into consideration any proposed consulting engagement's potential to improve the management of risks, to add value and to improve the organisation's operations before accepting them?   | ✓                  |                    |                  |
| Has the CAE communicated the internal audit activity's plans and resource requirements to senior management and the board for review and approval? Has the CAE communicated any significant interim changes to the plan and/or resource requirements to senior management and the board for review and approval, where such changes have arisen?   | ✓                  |                    |                  |
| Has the CAE communicated the impact of any resource limitations to senior management and the board?  | ✓                  |                    |                  |
| Does the risk-based plan explain how internal audit's resource requirements have been assessed?  |                    | ✓                  |                  |
| Has the CAE planned the deployment of resources, especially the timing of engagements, in conjunction with management to minimise disruption to the functions being audited, subject to the requirement to obtain sufficient assurance?  | ✓                  |                    |                  |
| If the CAE believes that the level of agreed resources will impact adversely on the provision of the internal audit opinion, has he or she brought these consequences to the attention of the board?   | ✓                  |                    |                  |

| Statement  | Generally Conforms | Partially Conforms | Does not Conform |
|--|--------------------|--------------------|------------------|
| Has the CAE developed and put into place policies and procedures to guide the internal audit activity?   | ✓                  |                    |                  |
| Does the risk-based plan include an adequately developed approach to using other sources of assurance and any work that may be required to place reliance upon those sources?  |                    | ✓                  |                  |
| Does the CAE report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan?  | ✓                  |                    |                  |
| Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation? | ✓                  |                    |                  |
| Does the internal audit activity assess and make appropriate recommendations to improve the organisation's governance processes?   | ✓                  |                    |                  |
| Has the internal audit activity evaluated the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities?   | ✓                  |                    |                  |
| Has the internal audit activity assessed whether the organisation's information technology governance supports the organisation's strategies and objectives?   | ✓                  |                    |                  |
| Has the internal audit activity evaluated the effectiveness of the organisation's risk management processes?   | ✓                  |                    |                  |
| Has the internal audit activity evaluated the risks relating to the organisation's governance, operations and information systems?   | ✓                  |                    |                  |
| Has the internal audit activity evaluated the potential for fraud and also how the organisation itself manages fraud risk?   | ✓                  |                    |                  |
| Do internal auditors address risk during consulting engagements consistently with the objectives of the engagement?  | ✓                  |                    |                  |
| Do internal auditors successfully avoid managing risks themselves, which would in effect lead to taking on management responsibility, when assisting management in establishing or improving risk management processes?                                      | ✓                  |                    |                  |
| Has the internal audit activity evaluated the adequacy and effectiveness of controls in the organisation's governance, operations and information systems  | ✓                  |                    |                  |

| Statement   | Generally Conforms | Partially Conforms | Does not Conform |
|---|--------------------|--------------------|------------------|
| Do internal auditors utilise knowledge of controls gained during consulting engagements when evaluating the organisation's control processes?   | ✓                  |                    |                  |
| Do internal auditors develop and document a plan for each engagement?   |                    | ✓                  |                  |
| Do internal auditors consider the following in planning an engagement, and is this documented: objectives, controls, risks, resources, operations, risk mitigation, adequacy, effectiveness, improvements?            | ✓                  |                    |                  |
| Where an engagement plan has been drawn up for an audit to a party outside of the organisation, have the internal auditors established a written understanding with that party?                                       | ✓                  |                    |                  |
| For consulting engagements, have internal auditors established an understanding with the engagement clients?  | ✓                  |                    |                  |
| Have objectives been agreed for each engagement?  | ✓                  |                    |                  |
| Have internal auditors ascertained whether management and/or the board have established adequate criteria to evaluate and determine whether organisational objectives and goals have been accomplished?               | ✓                  |                    |                  |
| Do the objectives set for consulting engagements address governance, risk management and control processes as agreed with the client?   | ✓                  |                    |                  |
| Is the scope that is established for each engagement generally sufficient to satisfy the engagement's objectives?   | ✓                  |                    |                  |
| Where significant consulting opportunities have arisen during an assurance engagement, was a specific written understanding as to the objectives, scope, respective responsibilities and other expectations drawn up? | ✓                  |                    |                  |
| For each consulting engagement, was the scope of the engagement generally sufficient to address any agreed-upon objectives?   | ✓                  |                    |                  |
| Have internal auditors decided upon the appropriate and sufficient level of resources required to achieve the objectives of each engagement?  | ✓                  |                    |                  |
| Have internal auditors developed and documented work programmes that achieve the engagement objectives?   | ✓                  |                    |                  |
| Do internal auditors generally identify (sufficient, reliable, relevant and useful) information which supports engagement results and conclusions?  | ✓                  |                    |                  |



| Statement  | Generally Conforms | Partially Conforms | Does not Conform |
|--|--------------------|--------------------|------------------|
| Have internal auditors generally based their conclusions and engagement results on appropriate analyses and evaluations?   | ✓                  |                    |                  |
| Have internal auditors generally remained alert to the possibility of the following when performing their individual audits, and has this been documented: Intentional wrongdoing? Errors and omissions? Poor value for money? Failure to comply with management policy? Conflicts of interest?  | ✓                  |                    |                  |
| Have internal auditors documented the relevant information required to support engagement conclusions and results?   | ✓                  |                    |                  |
| Does the CAE control access to engagement records?   | ✓                  |                    |                  |
| Are all engagements properly supervised to ensure that objectives are achieved, quality is assured and that staff are developed?   | ✓                  |                    |                  |
| Do the communications of engagement results include the following: The engagement's objectives? The scope of the engagement? Applicable conclusions? Recommendations and action plans, if appropriate?   | ✓                  |                    |                  |
| Do internal auditors generally discuss the contents of the draft final reports with the appropriate levels of management to confirm factual accuracy, seek comments and confirm the agreed management actions?   | ✓                  |                    |                  |
| If recommendations and an action plan have been included, are recommendations prioritised according to risk?   | ✓                  |                    |                  |
| Subject to confidentiality requirements and other limitations on reporting, do communications disclose all material facts known to them in their audit reports which, if not disclosed, could distort their reports or conceal unlawful practice?  | ✓                  |                    |                  |
| Where appropriate, do engagement communications acknowledge satisfactory performance of the activity in question?  | ✓                  |                    |                  |
| When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results?  | ✓                  |                    |                  |
| Where the CAE has been required to provide assurance to other partnership organisations, or arm's length bodies such as trading companies, have the risks of doing so been managed effectively, having regard to the CAE's primary responsibility to the management of the organisation for which they are engaged to provide internal audit services? | ✓                  |                    |                  |

| Statement  | Generally Conforms | Partially Conforms | Does not Conform |
|--|--------------------|--------------------|------------------|
| Are internal audit communications generally accurate, objective, clear, concise, constructive, complete and timely?  | ✓                  |                    |                  |
| If a final communication has contained a significant error or omission, did the CAE communicate the corrected information to all parties who received the original communication?  | ✓                  |                    |                  |
| Do internal auditors report that engagements are 'conducted in conformance with the PSIAS' only if the results of the QAIP support such a statement?   | ✓                  |                    |                  |
| Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following: The principle or rule of conduct of the <i>Code of Ethics</i> or <i>Standard(s)</i> with which full conformance was not achieved? The reason(s) for non-conformance? The impact of non-conformance on the engagement and the engagement results? | ✓                  |                    |                  |
| Has the CAE determined the circulation of audit reports within the organisation, bearing in mind confidentiality and legislative requirements?   | ✓                  |                    |                  |
| Has the CAE communicated engagement results to all appropriate parties?  | ✓                  |                    |                  |
| Before releasing engagement results to parties outside the organisation, did the CAE: Assess the potential risk to the organisation? Consult with senior management and/or legal counsel as appropriate? Control dissemination by restricting the use of the results?  | ✓                  |                    |                  |
| Where any significant governance, risk management and control issues were identified during consulting engagements, were these communicated to senior management and the board?  | ✓                  |                    |                  |
| Has the CAE delivered an annual internal audit opinion?  | ✓                  |                    |                  |
| Does the communication identify the following: The scope of the opinion, including the time period to which the opinion relates? Any scope limitations? The consideration of all related projects including the reliance on other assurance providers? The risk or control framework or other criteria used as a basis for the overall opinion?  | ✓                  |                    |                  |
| Does the annual report incorporate the following: annual opinion, summary of work, qualifications, impairments, comparisons, conformance with PSIAS, results of the QAIP, progress against improvement plans, summary of performance?  |                    | ✓                  |                  |
| Where issues have arisen during the follow-up process (for example, where agreed actions have not been implemented), has the CAE considered revising the internal audit opinion?   | ✓                  |                    |                  |

| Statement  | Generally Conforms | Partially Conforms | Does not Conform |
|--|--------------------|--------------------|------------------|
| Does the internal audit activity monitor the results of consulting engagements as agreed with the client?  | ✓                  |                    |                  |
| If the CAE has concluded that management has accepted a level of risk that may be unacceptable to the organisation, has he or she discussed the matter with senior management? | ✓                  |                    |                  |

## Appendix A – Definitions

---

|                    |   |
|--------------------|---|
| Generally Conforms | The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, comply with the requirements in all material respects.   |
| Partially Conforms | The internal audit service falls short of achieving some elements of practice but is aware of the areas for development. These will usually represent significant opportunities for improvement in delivering effective internal audit.   |
| Does Not Conform   | The internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many/all of the objectives and practice statements within the section or sub-sections. These deficiencies will usually have a significant negative impact on the internal audit service's effectiveness and its potential to add value to the organisation. These will represent significant opportunities for improvement, potentially including actions by senior management or the Audit Committee. |

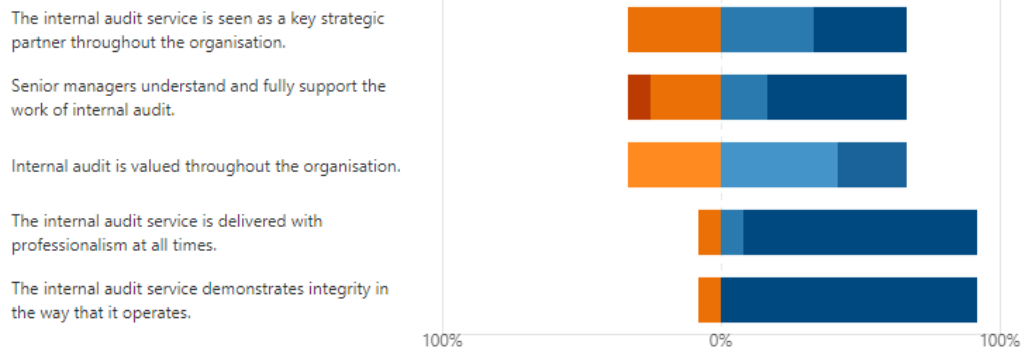
# Appendix B – Survey Results

There were 12 responses to this survey.

## 1. Standing and Reputation of Internal Audit

[More Details](#)

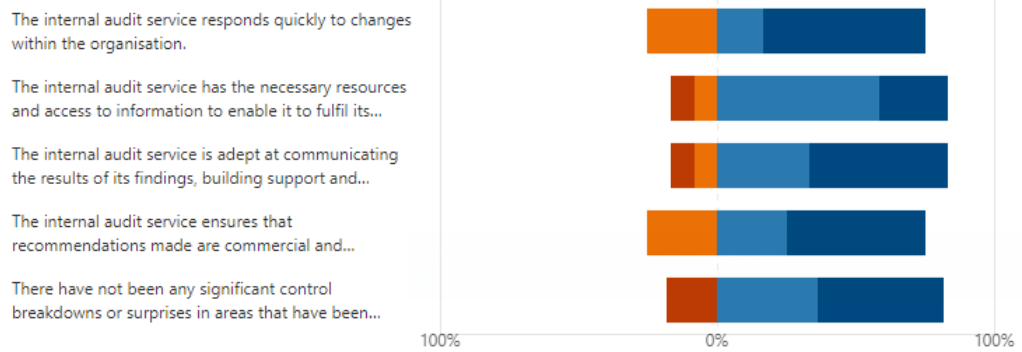
■ Do not agree ■ Partially agree ■ Generally agree ■ Fully agree



## 2. Impact on Organisational Delivery

[More Details](#)

■ Do not agree ■ Partially agree ■ Generally agree ■ Fully agree

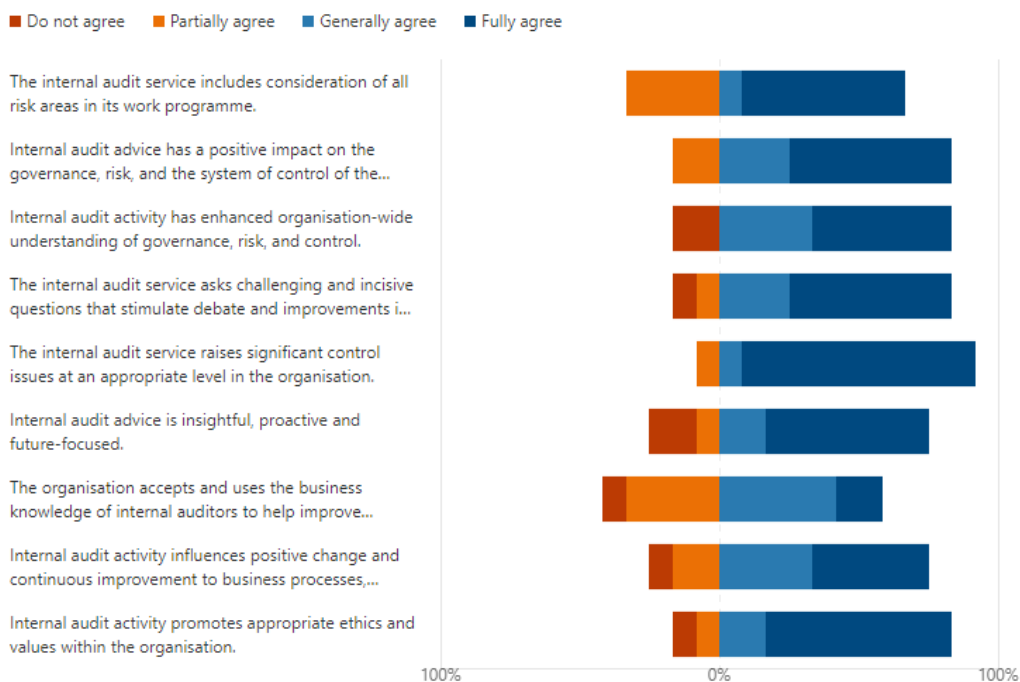


### Key

■ Do not agree ■ Partially agree ■ Generally agree ■ Fully agree

### 3. Impact on Governance, Risk and Control

[More Details](#)



#### Further comments

*Barnet internal audit service is excellent, very thorough and has a positive impact on the governance of the council.*

*Head of internal audit is well respected. Some of the co-sourced auditors aren't always fully up to speed with the organisation, the journey or the strategic objectives.*

*The internal Audit team themselves are excellent, but it isn't clear that that rest of the council responds to their findings and actions them in good time. We are constantly chasing updates, and there have been issues with the contractors not being cooperative.*

*In my experience the internal audit arrangements are not particularly effective in my areas. There has not been learning from inaccurate audit findings despite there being evidence presented and acknowledged - errors continue.*

## Appendix C – Action Plan

| Area for Improvement   | Planned actions   | Responsible Officer & Target Date  |
|--|---|--|
| Training logs for all internal audit staff should be maintained.   | As part of this review staff have logged their training. A formal log template will be developed, and staff will be asked to use this to log all training.  | Internal Audit Manager<br><br>31 March 2022  |
| Internal Audit's planning and audit progress templates needs to be updated and consistently completed in full for each audit/advisory engagement.  | The Audit checklist will be completed for all assignments and checked by the audit Manager at each stage of review to ensure it is up to date and work is compliant. This will apply to work completed by the in-house team only. | Internal Audit Manager<br><br>For work completed in the 2021/22 Audit Year and going forward |
| The terms of reference template need to be refreshed to include clear links between Internal Audit's planned activity and the Council objectives and related risks.  | The Template for the ToR has been amended to include this link.   | Internal Audit Manager – Complete (subject to review)<br><br>1 February 2022                 |
| The annual Head of Internal Audit report should be updated to include references to the independence of internal audit and an assertion that internal audit has conformed with the Public Sector Internal Audit Standards. | The introduction to the 2021/22 annual opinion will confirm the independence of internal audit and conformance with the PSIAS.  | Head of Internal Audit<br><br>30 June 2022   |

| Area for Improvement   | Planned actions   | Responsible Officer & Target Date           |
|--|---|---|
| Internal Audit's assurance and risk mapping needs to be updated.   | The Assurance Map will be updated on conclusion of the planning process for the 2022/23 financial year.   | Internal Audit Manager<br>30 June 2022      |
| An explanation/assessment of internal audit's resources and their adequacy should be included when presenting the overall audit plan to senior management and the Audit Committee. | The 2022/23 internal audit plan will include commentary on internal audit resources and their adequacy. The recent London Audit Group (LAG) benchmarking will provide context for this assessment.                                | Head of Internal Audit<br>31 March 2022     |
| The Head of Internal Audit should consider introducing a review of the audit work programme (referred to as an ECRM) before the audit or advisory work commences.                  | A risk-based review process for the ECRM will be introduced for the in-house team. The decision on whether this is required will be based on the complexity of the audit and the experience of the auditor carrying out the work. | Audit Manager / HIA<br>From 1 February 2022 |