

MEETING

AUDIT COMMITTEE

DATE AND TIME

WEDNESDAY 31ST JANUARY, 2018

AT 7.00 PM

VENUE

HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4BG

TO: MEMBERS OF AUDIT COMMITTEE (Quorum 3)

Chairman: Councillor Hugh Rayner (Chairman),
Vice Chairman: Councillor Sury Khatri BSc (Hons) MSc (Lond) (Vice-Chairman)

Councillors

Geof Cooke
Anthony Finn
Kathy Levine
Arjun Mittra
Peter Zinkin

Independent members

Geraldine Chadwick
Richard Harbord

You are requested to attend the above meeting for which an agenda is attached.

Andrew Charlwood – Head of Governance

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ORDER OF BUSINESS

Item No	Title of Report	Pages
1.	Minutes of last meeting	5 - 10
2.	Absence of Members (If any)	
3.	Declaration of Members' Disclosable Pecuniary interests and Non Pecuniary interests (If any)	
4.	Report of the Monitoring Officer (If any)	
5.	Public Question and Comments (If any)	
6.	Members' Items (If any)	
7.	Internal Audit Progress Report 1 October-31 December 2017	11 - 52
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10.	External Auditor - Annual Audit Letter	77 - 94
11.	External Auditor - Grants Certification Work Report 2016/17	95 - 108
12.	Any item(s) the Chairman decides are urgent	
13.	Motion to Exclude the Press and Public	
14.	Any other exempt item(s) the Chairman decides are urgent	

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Decisions of the Audit Committee

2 November 2017

Members:

AGENDA ITEM 1

Cllr Hugh Rayner (Chairman)
Cllr Sury Khatri (Vice-Chairman)

Councillor Geof Cooke
Councillor Anthony Finn
Councillor Kathy Levine

Councillor Arjun Mittra
Councillor Peter Zinkin

Also in attendance:

Geraldine Chadwick (Independent member)
Richard Harbord (Independent Member)

1 **MINUTES OF LAST TWO MEETINGS (Agenda Item 1):**

RESOLVED – That the minutes of the meetings held on 27 July 2017 and 19 September 2017 were approved as a correct record.

2 **ABSENCE OF MEMBERS (IF ANY) (Agenda Item 2):**

Apologies for lateness were received from Richard Harbord. (19.22 hrs).

3 **DECLARATION OF MEMBERS' DISCLOSABLE PECUNIARY INTERESTS AND NON PECUNIARY INTERESTS (IF ANY) (Agenda Item 3):**

Councillor Mittra noted a pecuniary interest under Item 7 – his mother owns a nursery in Barnet. He would leave the meeting for this item.

Councillor Zinkin disclosed a non-pecuniary interest – he is involved with a charity that runs a nursery.

Councillor Finn noted that he had a non-pecuniary interest in relation to the Menorah High School for Girls (Item 7).

The Chairman stated that Members with a non-pecuniary interest could choose whether to leave the room or not.

4 **REPORT OF THE MONITORING OFFICER (IF ANY) (Agenda Item 4):**

There was no report.

5 **PUBLIC QUESTION AND COMMENTS (IF ANY) (Agenda Item 5):**

There were no public questions or comments.

6 **MEMBERS' ITEMS (IF ANY) (Agenda Item 6):**

There were none.

7 INTERNAL AUDIT EXCEPTION RECOMMENDATIONS REPORT AND Q2 PROGRESS REPORT, 1 JULY - 30 SEPTEMBER 2017 (Agenda Item 7):

The Head of Internal Audit introduced the report. The Committee discussed this and asked questions to the relevant Director(s), or their representatives:

- Changes had been made to the Audit Plan for Family Services and work was ongoing to help support their improvement plan. The Audit Team would work with Family Services to ensure that the previous recommendations were implemented.

Action

- Councillor Cooke questioned when information on the Regeneration Benefits Realisation audit became available and why papers had not been provided to the Re Working Group. Cllr Cooke asked for a report on the Regeneration Benefits Realisation audit to be made in future to the Performance and Contract Management Committee (PCMC). The Head of Internal Audit stated that the responsible officers were expected to share the report with the Chair of the Assets, Regeneration and Growth Committee. The Chairman of the PCMC (Councillor Finn) agreed to Councillor Cooke's request and it was noted that the next PCMC meeting would be held on 28 November.

Action

- The Head of Internal Audit noted that limited assurance had been given to Menorah High School - its first audit since its change to a local authority school in 2016. This was in relation to procedural issues only and nothing untoward had been discovered. The Audit Team would follow up to ensure that high-priority matters had been addressed.

Action

It was noted that there was no knowledge of previous audits when it had been a private school. Cllr Cooke asked what due diligence was carried out by the Council and suggested that the Children, Education, Libraries and Safeguarding Committee (CELS) be made aware of this in case a similar situation arose in the future; the Chairman agreed to ensure that this was passed on.

Action

(Mr Harbord arrived - 7.22pm)

- Councillor Mitra enquired why the completion deadline dates for Estates Health and Safety Compliance were being revised and pushed forward into the future (page 41 of the committee papers. The Head of Internal Audit noted that this was due to the action requiring formal agreement of a change to the CSG contract which would take time. She would provide an update in the next quarterly report.

Action

- Councillor Levine asked which option of Estates Health and Safety Compliance (client-side Compliance Officer or CSG's own arrangements, page 44 of the committee papers) would be chosen. The Head of Internal Audit noted that the

second option was likely but she would check whether this had been agreed formally.

Action

- Councillor Cooke asked the Committee to note that Officers had put in a great deal of audit effort in relation to IT change management to get it to a satisfactory level and further audits were planned. Notwithstanding this Councillor Cooke still regarded it as an 'at risk' area. It was noted that three more audits were planned.

Councillors Zinkin and Mitra left the room due to their conflicts of interest in relation to nurseries.

An update on the Nursery Places audit was given and the report was noted.

The Head of Internal Audit agreed to check that Family Services would be undertaking spot visits when problems were drawn to their attention.

Action

Councillors Zinkin and Mitra returned to the meeting.

The Chairman stated that he would move a motion to ask any members of the press or public to leave the room for the next item (Prevent Report), if any were present, but there were none.

The Strategic Lead for Safer Communities presented the exempt report which was noted.

The follow-up audit work would be undertaken in February and the Head of Internal Audit would report back to the following meeting in April.

Action

Councillor Zinkin suggested that more information be published from the Prevent paper in the public domain rather than making it completely exempt. The Chairman would make future papers on this more open where possible.

RESOLVED:

- 1. That the Committee note the work completed to date on Internal Audit Q2 progress report - 1st July to 30th September 2017.**
- 2. That the Committee approves the change in measurement of Progress against the Plan to incorporate consideration of work in progress.**
- 3. That the Committee approves the proposed changes to the 2017/18 audit plan for Family Services detailed in the report.**

8 IMPROVEMENT PLAN (Agenda Item 8):

The Resources Director presented her report (which included at Appendix A the Accounts Closure Improvement Plan) on the audit process and pension fund.

It was noted that the objective was to have the accounts audited by the end of July from 2018 onwards. This was the statutory deadline.

The Chairman advised that he would urge all Members to submit any required declarations on time.

Action

The Resources Director reported that an interim audit would take place in January/February which would highlight any risk areas in advance.

Mr Lloyd-Thomas (BDO) reported that plans were being looked at to try to complete work earlier in the cycles though the closing balance sheet was always the most difficult. The Assistant Director of Finance noted that there would be a partial close at the end of December.

Councillor Levine asked about the additional costs incurred and whether these could be recouped from Capita. The Resources Director would report back on this in due course but the amount would have to be negotiated.

Action

RESOLVED:

- 1. That Audit Committee consider and comment on the Accounts Closure Improvement Plan;**
- 2. That the Audit Committee is asked to note that progress against this plan will be presented to its meeting on 31 January 2018.**

9 ACCOUNTS PREPARATION TIMETABLE (VERBAL UPDATE) (Agenda Item 9):

The Chairman reported that this new standing item was intended as an aide memoire for Members. As usual a meeting would take place to run through the draft accounts towards the end of May/beginning of June as part of the increased assurance process.

10 EXTERNAL AUDITOR PROGRESS REPORT (VERBAL UPDATE) (Agenda Item 10):

Mr Lloyd-Thomas noted that the audit opinion on the accounts was confirmed as true and fair.

11 CORPORATE ANTI-FRAUD TEAM (CAFT) Q2 PROGRESS REPORT 2017-18 (Agenda Item 11):

A report was received. The Head of Counter Fraud Operations noted that a new table had been inserted which provided a quarter-on-quarter comparison.

RESOLVED:

- 1. That the Committee note the CAFT Progress Report covering the period 1st July 2017 – 30th September 2017.**

- 12 **AUDIT COMMITTEE WORK PROGRAMME, NOVEMBER 2017- APRIL 2018 (Agenda Item 12):**

This was noted.

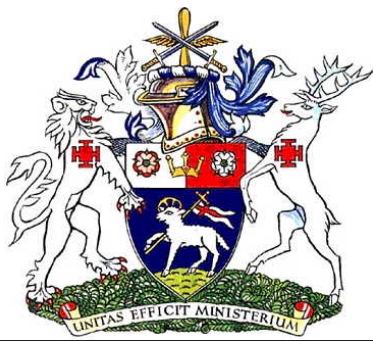
- 13 **ANY ITEM(S) THE CHAIRMAN DECIDES ARE URGENT (Agenda Item 13):**

There were no urgent items.

The meeting finished at 20:55 hrs.

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AGENDA ITEM 7



Audit Committee
31st January 2018

Title	Internal Audit Exception Recommendations Report and Q3 Progress Report 1st October to 31st December 2017
Report of	Head of Internal Audit
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix 1 - Internal Audit Q3 progress report (1 st October to 31 st December 2017)
Officer Contact Details	Caroline Glitre, Head of Internal Audit caroline.glitre@barnet.gov.uk 020 8359 3721

Summary

Members are asked to note Appendix 1, which reports the progress against internal audit recommendations and work completed to date on the Internal Audit & Corporate Anti-Fraud Team (CAFT) Plan 2017-18 and high priority internal audit recommendations.

We have completed 53 reviews, 67% of our 2017/18 internal audit programme for the year, 18 of which were delivered in Q3, which is above the target for the agreed profile for our work.

Detail has been presented within the report on audits that were given 'Limited' assurance and Management letters that have resulted in high priority actions being agreed in Q3:

		Assurance rating
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1	Pensions Administration	Limited
2	CILS / S106 Expenditure	Limited
3	Transformation – Benefits Realisation	Limited
4	Elections Annual Canvass	N/A – Management Letter

Full copies of 'No' and 'Limited' Assurance audit reports are available on the Barnet website here:

<http://barnet.moderngov.co.uk/ecCatDisplay.aspx?sch=doc&cat=13619&path=0>

The Q3 progress update also covers the follow-up audit work done to confirm implementation of previous high priority recommendations. We have confirmed that 31% of the recommendations due have been fully implemented, against a target of 90%.

As requested at the July 2017 Audit Committee, the report also includes a summary of the follow-up work on medium priority recommendations over:

- Nursery Places - Free Early Education Funding
- Community Infrastructure Levy (CILS) and Section 106 (S106) – Phase I, Income

The report also includes the follow-up of Contract Register Maintenance medium priority recommendations; our 2017/18 plan included resource for following up a selection of medium priority recommendations during the year.

Family Services audits

As part of the 2017/18 audit plan agreed by the Audit Committee in April 2017, we proposed to undertake a number of audits relating to Family Services. As reported to the Audit Committee in Q2, due to the Council having been inspected by Ofsted during the quarter, we have been working with the Director of Children's Services and the Inspection & Improvement Lead to agree the most effective way for internal audit to support the Family Services Improvement Programme.

During Q3 we have:

- Met with the Independent Chair of the Improvement Board to discuss and agree our approach.
- Mapped previous relevant internal audit recommendations to the Improvement Plan and provided details to the relevant workstream leads. During Q4 we will work with them to assure ourselves that the recommendations, where still relevant, have been implemented.
- Attended the Children's Services Operational Improvement Group and provided feedback on those meetings.
- Liaised with the Inspection and Improvement Lead on how best to support her work.
- Included a review of evidence to support Improvement Plan workstreams within relevant audits that we are already undertaking, for example within the Onboarding audit in Q4 we will be providing independent assurance over CSG HR's performance against their 30 day target for recruitment into Family Services (linked to Ofsted Improvement Plan 2c (iii) Improve recruitment system to be more effective and efficient enabling)

We will continue to report back to the Audit Committee against this on a quarterly basis.



Recommendations

1. That the Committee note the work completed to date on Internal Audit Q3 progress report - 1st October to 31st December 2017.

1. WHY THIS REPORT IS NEEDED

1.1 The Audit Committee’s role in receiving this report is to note the overall progress made against the 2017-18 Internal Audit Plan and the high priority recommendations made. In addition, the Audit Committee can inquire of Directors and Assistants Directors as to their progress against recommendations.

2. REASONS FOR RECOMMENDATIONS

2.1 The Audit Committee approved the Internal Audit Plan 2017-18 in April 2017 and this report notes the progress against that plan and progress against high priority recommendations.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not relevant.

4. POST DECISION IMPLEMENTATION

4.1 The Internal Audit Plan 2017-18 will continue to be delivered as reported to the Audit Committee with recommendations implemented in line with the report.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 All internal audit and risk management planned activity is aligned with the Council’s objectives set out in the Corporate Plan 2015-2020, and thus supports the delivery of those objectives by giving an auditor judgement on the effectiveness of the management of the risks associated with delivery of the service.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 When internal audit findings are analysed alongside finance and performance information it can provide management with the ability to assess value for money.

5.2.2 The Internal Audit Plan 2017-18 agreed by the Audit Committee is being achieved from Internal Audit’s current budget.

5.3 Legal and Constitutional References

5.3.1 There are no legal issues in the context of this report.

5.3.2 The Council's Constitution, Responsibilities for Functions - the Audit Committee terms of reference paragraph 2 states that the Committee can consider summaries of specific internal audit reports as requested.

5.4 Risk Management

5.4.1 All Internal Audit activity is directed toward giving assurance about risk management within the areas examined. By so doing the aim is to help maximise the achievement of the Council's objectives. Internal Audit does this by identifying areas for improvement and agreeing actions to address the weaknesses.

5.4.2 Internal Audit work contributes to increasing awareness and understanding of risk and controls amongst managers and thus leads to improving management processes for securing more effective risk management.

5.5 Equalities and Diversity

5.5.1 Effective systems of audit, internal control and corporate governance provide assurance on the effective allocation of resources and quality of service provision for the benefit of the entire community. Individual audits assess, as appropriate, the differential aspects on different groups of individuals to ensure compliance with the Council's duties under the 2010 Equality Act.

5.6 Consultation and Engagement

5.6.1 N/A

6. BACKGROUND PAPERS

6.1 Audit Committee 11 March 2010 (Decision Item 11) - the Committee accepted that there would be progress reports to all future meetings of the Committee and, that for all "limited" or "no assurance" audits, there should be a brief explanation of the issues identified.

<http://barnet.moderngov.co.uk/Data/Audit%20Committee/201003111900/Agenda/Document%208.pdf>

6.2 Audit Committee 21 September 2010 (Decision Item 7) – the Committee agreed that where an audit had limited assurance that greater detail be provided than previously.

<http://barnet.moderngov.co.uk/Data/Audit%20Committee/201009211900/Agenda/Document%203.pdf>

6.3 Audit Committee 17 February 2011 (Decision Item 7) – the Committee (i) agreed that a report would be prepared quarterly regarding those internal audit recommendations not implemented (ii) requested that the table of priority 1 recommendations should in future indicate what date recommendations were made to service areas and the implementation date.

<http://barnet.moderngov.co.uk/Data/Audit%20Committee/201102171900/Agenda/Document%204.pdf>

6.4 Audit Committee 20 April 2017 (Decision Item 10) – the Audit Committee approved the Internal Audit and Anti-Fraud Strategy and Annual Plan 2017-18.

<https://barnetintranet.moderngov.co.uk/documents/g8829/Printed%20minutes%2020th-Apr-2017%2019.00%20Audit%20Committee.pdf?T=1>

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Internal Audit – London Borough of Barnet

Appendix 1



Internal Audit Progress Report 1 October – 31 December 2017



Cross Council Assurance Service

1.0 Summary

1.1 Purpose of this report

1.1.1 We are committed to keeping the Audit Committee up to date with Internal Audit progress and activity throughout the year. This summary has been prepared to update you on our activity since the last meeting of the Audit Committee and to bring to your attention any other matters that are relevant to your responsibilities.

1.2 Progress against the 2017/18 internal audit plan

1.2.1 We have completed 53 reviews, 67% of our 2017/18 internal audit programme for the year, 18 of which were delivered in Q3, which is above the target for the agreed profile for our work. Please see Appendix A for further narrative on our performance indicators (PIs).

1.2.2 In line with our reporting protocol with the Audit Committee we present any no assurance or limited assurance reports for discussion. For this Audit Committee, we present the following final reports, see section 2 for detail:

- **Pensions Administration** – Limited Assurance
- **CILS and S106 Expenditure** – Limited Assurance
- **Transformation – Benefits Realisation** – Limited Assurance

1.2.3 In line with our Internal Audit Charter, we also present a summary of any management letters which have included significant issues. For this Audit Committee, we present the following, see section 3 for detail:

- **Elections Annual Canvass management review**

1.3 Findings of our Follow Up Work

1.3.1 We have undertaken follow up work on all high priority actions with an implementation date of 31st December 2017 or sooner. We have discussed with management the progress made in implementing actions falling due in this period and have sought evidence to support their response.

- A total of 13 high priority actions have been followed up this quarter. 4 actions have been implemented (31%) and 8 have been partially implemented (69%). This is well below the target of 90% being implemented.
- As requested at the July 2017 Audit Committee, we have followed-up the medium priority recommendations on:
 - Nursery Places - Free Early Education Funding
 - Community Infrastructure Levy (CILS) and Section 106 (S106) – Phase I, Incomeand found them to have been implemented.
- Our 2017/18 plan included resource for following up a selection of medium priority recommendations during the year; in Q3 we have completed a follow-up of Contract Register Maintenance medium priority recommendations and found them 2 of 5 actions to have been implemented.

- Progress is summarised in Section 5.

1.4 Other Matters

1.4.1 Family Services audits

As part of the 2017/18 audit plan agreed by the Audit Committee in April 2017, we proposed to undertake a number of audits relating to Family Services. As reported to the Audit Committee in Q2, due to the Council having been inspected by Ofsted during the quarter, we have been working with the Director of Children's Services and the Inspection & Improvement Lead to agree the most effective way for internal audit to support the Family Services Improvement Programme.

During Q3 we have:

- Met with the Independent Chair of the Improvement Board to discuss and agree our approach.
- Mapped previous relevant internal audit recommendations to the Improvement Plan and provided details to the relevant workstream leads. During Q4 we will work with them to assure ourselves that the recommendations, where still relevant, have been implemented.
- Attended the Children's Services Operational Improvement Group and provided feedback on those meetings.
- Liaised with the Inspection and Improvement Lead on how best to support her work.
- Included a review of evidence to support Improvement Plan workstreams within relevant audits that we are already undertaking, for example within the Onboarding audit in Q4 we will be providing independent assurance over CSG HR's performance against their target for recruitment into Family Services (linked to Ofsted Improvement Plan 2c (iii) Improve recruitment system to be more effective and efficient enabling)

We will continue to report back to the Audit Committee against this on a quarterly basis.

1.5 Recommendations

- That the Audit Committee notes the progress made against our 2017/18 Internal Audit Programme.

2.0 No and Limited Assurance reports issued since the previous meeting

Pensions Administration – Limited Assurance

December 2017

Number of findings by risk rating

Critical	0
High	2 (Finding 1-2)
Medium	6 (Findings 3-8)
Low	1
Advisory	0

Summary

The administration of London Borough of Barnet’s pension fund (“the fund” or “the scheme”) is outsourced to Customer Support Group (“CSG”, part of Capita) who are responsible for working with scheme employers to ensure that the records are kept up to date and that members are supplied with correct information regarding their pension entitlements. The Council, as administering authority, is currently subject to scrutiny by The Pensions Regulator (“TPR”) in light of concerns raised when it investigated the Council’s failure to submit its 2016 annual return. Correspondence between the Council and TPR highlights several weaknesses in the control environment of the fund and the Council are in regular correspondence with them to provide evidence that controls have been developed and are being embedded. The Council issued CSG with a contractual remedy notice on 25 August 2017 in light of the issues being experienced with the service. The Council also agreed a service improvement plan in August 2017 with CSG as a result of these enquiries, covering the quality assurance, project management and communications improvements needed to ensure the scheme complies with TPR’s requirements. Progress against this plan is being regularly monitored at monthly senior officer meetings. It was reported to the Local Pensions Board that the 2017 scheme return was submitted on 10 November 2017, ahead of the 22 November 2017 deadline.

We found that scheme member transactions are mostly well managed through Hartlink, the pension fund administration system, but that there are weaknesses in the processes which take place outside Hartlink, such as the annual benefits statement process, and governance of scheme administration. A review of data quality has also identified significant issues and the arrangements with scheme employers means that the scheme currently has limited ways of encouraging compliance with scheme working practices. The scheme will need to invest in improving the quality of existing data and the data gathered in future. We acknowledge that this may be a costly exercise, however, the scheme has the ability to charge scheme employers for this data quality work both now and in the future under regulation 70 of The Local Government Pensions Scheme Regulations 2013, providing the reason for the rectification work is due to scheme employers failing to meet its obligations. Going forward, the scheme will also need to work more closely with employers, for example by engaging proactively when changes to membership are detected, and will need to consider both exercising its right to report employers to TPR if employers do not comply with legal requirements and charging additional costs incurred resolving issues to employers as permitted by the scheme regulations.

This audit has identified **two high, six medium and one low risk** findings.

We identified the following high risk-rated issues as part of the audit:

Scheme data quality (finding one) – A data quality review undertaken by CSG, on behalf of the Council, in

October 2017 identified that the quality of data held to identify team members is below the standards expected by TPR, with 85% of records created before June 2010 containing missing information compared to a target of 95%. We also identified that a data quality review of the data used to calculate benefits and value the fund has not been undertaken, but a review is currently being scoped. We also found that there were issues in the data provided to CSG by employers for 60% of the employers reviewed and that there was no reporting on the nature and extent of data quality issues noted. This increases the risk of inaccurate data being held by the scheme and delays in preparing annual benefits statements not being identified.

Preparation of annual benefit statements (finding two) – We found that there were weaknesses in the project management of the annual benefits statement process which meant that the results of data quality checks for a number of employers, from whom data was received in May 2017, were not communicated until mid-July 2017 reducing the period available to resolve any issues from three months to one month. We also found that there were a number of active member records for which no benefit statement was prepared due to a lack of data. This led to some members receiving annual benefit statements after the statutory deadline of 31 August 2017, or not at all. This was an area of concern raised by TPR when it considered the 2015/16 annual benefit statements process.

We identified the following medium risk-rated issues as part of the audit:

Retirement benefit calculations (finding three) – A number of retirees received their benefits over 30 days after they retired as a result of delays in notifying the scheme of their intention to retire, either by the employee or employer. We also found that annual benefit statements did not communicate the timescales involved in retirements leading to members not being aware of the timescales involved. There is a risk that retirees may not receive their benefits promptly leading to financial hardship.

Governance of scheme administration (finding four) – We found that contract monitoring meetings held to monitor the pension administration section of the CSG contract were not formally recorded by the Council and that the employer targets for the scheme administration strategy are not monitored. This could lead to the Council not identifying breaches of laws and regulations.

Communication strategy (finding five) – There was no scheme communication strategy or agreed fund administration strategy in place during the period under review. This could lead to scheme members having an expectation gap between what they expect and what is provided by the scheme or scheme records may be incomplete as a result of employers not working effectively with the administration team.

New members and impact on data quality (finding six) – The scheme does not follow up on new joiners identified outside of the usual notification process and there were duplicate records. This could lead to membership records being incomplete meaning that scheme liabilities could be understated.

Transfers (finding seven) – There were some delays in the payment of transfers out of the fund and issuing letters to scheme members once the transfer took place. This could lead to members not being aware of their entitlement or leading to breaches of legal requirements in relation to transfers out.

Breaches of law (finding eight) – The Council did not have a breaches of law policy in place until late

October 2017 and does not receive reporting on possible breaches of law. TPR also identified that CSG did not report a breach of law when 2016 annual benefit statements were issued late. The Council may not report matters required to TPR leading to them being exposed to fines or other civil action by TPR.

Management accepted our findings and agreed appropriate actions to be implemented. The dates for the actions vary, but we will bring a progress update to the Audit Committee in April 2018.

S106 and CILS Expenditure – Limited Assurance

November 2017

Number of findings by risk rating

Critical	0
High	3 (Findings 1-3)
Medium	1 (Finding 4)
Low	2
Advisory	1

Summary

We found that RE and Council management are proactively addressing some known issues with the controls and processes around CILs and S106. This includes:

- Recruitment in 2016/17 of experienced key staff into the RE Planning Obligations team.
- Improvement of oversight and governance of CIL infrastructure spending through a CIL and S106 Officers Group (CSOG). This is chaired by the Director for Development and Regeneration, was established in April 2017 and has met monthly since that time (excluding August). To secure CIL and S106 funding, officers write and present proposals to the Group which considers the requests and then makes a recommendation to approve or reject the proposal when it reaches the Assets and Capital Board. The Group are also responsible for reviewing the progress of S106 projects and expenditure and to review the progress of allocation and expenditure of neighbourhood CIL. Due to the recent formation of the Group we were unable to comment on the operating effectiveness of this control at the time of the audit, although we did find evidence to confirm that bids were being proposed and approved in line with our expectations.
- Management confirmed that they were undertaking a reconciliation of all CIL and S106 schemes to ascertain allocation and expenditure agreed to date.
- The CIL and S106 schedules were maintained within Excel spreadsheets to assist in the management of charges and agreements. At our Phase I audit we commented that the manual nature of the process heightens the risk of data accuracy issues arising due to fraud or error. Management confirmed that the Exacom database system has been procured and is currently being implemented with CIL notices now being issued through Exacom. The Strategic Planning Infrastructure Team are currently migrating information from the manual spreadsheets into Exacom with approximately 90%

and 10% of, respectively, the historic CIL and S106 data now being held within Exacom (November 2017). The implementation of the Exacom system will reduce reliance on the manual monitoring spreadsheet and will facilitate more effective monitoring and oversight through improved reporting.

We found that improvements needed to be made with regard to the monitoring of CIL and S106 expenditure and identified a number of control weaknesses. These should be addressed as part of the work being undertaken by management to improve this area.

This audit has identified 3 high, 1 medium and 2 low risk findings. We have also raised one Advisory recommendation.

We identified the following high risk rated issues as part of the audit:

Roles, Responsibilities and Decision Making (finding 1, high rated)

- There are a number of different teams involved in the administration of Community Infrastructure Levy (CIL) and S106 expenditure. Processes involve several departments within the Council, Re, CSG Finance and HB Public Law. Due to the number of teams involved in the process and the number of individuals within some of those teams, there are a number of dependencies and we found a lack of clarity and awareness around respective responsibilities in the administration, allocation and draw down of CIL and S106 expenditure.
- Problems were exacerbated by key posts within the Planning Obligations team being vacant during part of 2015/16 and 2016/17, and turnover of staff in other areas.
- We also found a lack of clarity over the authorisation required for CIL/S106 funding drawdowns.

CIL and S106 Expenditure and Monitoring (finding 2, high rated)

We inspected the S106 Schedule and found a lack of clarity around expenditure information in the S106 monitoring schedule. A full reconciliation of the data is underway to confirm whether up to £1,459,350.44 has been spent within required time periods. The move to the EXACOM system is facilitating reconciliation, but this key task is incomplete and is necessary to ensure issues are remedied. Without resolution of this matter the funds could potentially be reclaimed. A clear position on the matter and resolution of issues is required rapidly.

Specific development non-financial obligation tracking and verification (finding 3, high rated)

We selected a sample of 12 specific S106 schemes and for the 6 where there were non-financial development obligations we traced to ensure the delivery of these had been appropriately verified. We found exceptions with 2/6 schemes (33%). The exceptions related to Travel Plans, Apprenticeship schemes and Affordable

Housing. The governance arrangements were not clear in this area in that agreements had been made with developers but these were not clearly documented and had not been reported to Committee.

We identified the following medium risk rated issues as part of the audit:

Administrative CIL (finding 4, medium rated)

We found a number of issues relating to the treatment of CIL to be spent on administrative expenses:

- At the time of the audit, for administrative expenses relating to Barnet CIL there was a lack of evidence and no clear audit trail to confirm the administrative CIL expenditure made to date and to ensure it had been in line with the legislation.
- For administration expenses relating to Mayoral CIL we found that £127,560.54 related to a narrative of 'Designated and Regulatory Services Management'. We were not provided with a detailed breakdown of this cost and therefore cannot provide assurance that this expenditure specifically related to CIL administration.
- We found that funding relating to CIL administration expenditure had been carried forward from 2016/17 but this was not in-line with the legislature.

Management accepted our findings and agreed appropriate actions to be implemented by 30 April 2018.

Transformation Benefits Realisation – Limited Assurance

October 2017

Number of findings by risk rating

Critical	-
High	3 (Findings 1-3)
Medium	-
Low	-
Advisory	-

Summary

‘Benefits Realisation’ is the process for the identification, definition, tracking, realisation and achievement of benefits resulting from a programme of change or an investment (for example a project). Effective benefits realisation planning enables organisations to justify the reasons for a change and/or investment and the measurement of achievement to ensure that planned benefits will be, and have been, delivered.

The Council has a Corporate Project Management Toolkit which includes guidance, tools and templates to utilise with the aim of ensuring that project benefits, both financial and non-financial, are clearly identified, monitored and managed during the project to ensure the planned benefits are realised. Whilst we did not identify issues with the underlying tools and templates in place to support effective management and governance of projects we did identify issues relating to the understanding and application of benefits management tools by those responsible for project and programme management, which is linked to a need for better training in benefits management for project managers at the Council and within the CSG Project Management Office (PMO). Issues were identified in relation to the management of the whole cycle of benefits identification, monitoring and realisation: it is not being delivered in line with this aspect of the toolkit and therefore does not support effective benefits realisation. There is a need to upskill project managers to enable them to embed the Council’s benefits management tools effectively into business as usual project and programme management.

The Council delivers a portfolio of Transformation projects and programmes with the overall aim of achieving its corporate priorities and ensuring efficiency and cost savings targets are realised. To achieve the required benefits and ensure that the Council justifies its investment decisions and maximise outcomes from them the identification, monitoring and realisation of benefits must be carried out effectively. Failure to realise benefits as part of transformation projects and programmes could result in key organisational objectives not being met.

We identified the following areas for improvement as part of the audit:

- **Benefits identification and definition** – We found that planned benefits for the three projects reviewed had not been fully defined and we were therefore unable to determine how the Council would be able to fully articulate the planned benefits of projects and fully justify the investment decisions (**Finding one - high**);
- **Benefits monitoring and measurement** – We found that sufficient controls were not in place for benefits to be effectively measured and monitored to ultimately demonstrate realisation. We were therefore unable to determine how the Council would be able to fully determine whether projects were on track to deliver the intended benefits and therefore whether the projects remained viable (**Finding two - high**); and
- **Benefits Handover and realisation** – We found that benefits were not consistently handed over to the

service area in a structured way which led to the service area not regularly monitoring planned benefits to ensure that they have been fully realised (**Finding three - high**).

Management accepted our findings and agreed appropriate actions to be implemented by 31st March 2018 for provision of training and review of key projects and 30th June 2018 for completion of reviews by project managers.

3.0 Management Reviews

Elections Management – Annual Canvass

Summary

The aim of this management review was to support the Council in ensuring that the quality assurance processes in place within Electoral Services optimise outputs from the Annual Canvass and accurately capture responses made by residents in time for the Electoral Register's publication on 1 December 2017.

We also reviewed the progress made by the Electoral Services Team against the recommendations from our April 2017 data analysis review and relevant recommendations arising from the Heath and Smith reviews.

This review identified 3 high and 2 medium risk findings.

We identified the following high risk issues as part of the review. All findings relating to the canvass data were rectified immediately by the service prior to the publication of the electoral register on 1st December.

Completeness of property lists sent to canvassers for a face-to-face visit – control operating effectiveness (finding one, high)

During our review we identified that a number of properties had not been added to canvassers' rounds. As a result of the audit testing it was identified that there was a software issue which led to 2,351 properties not having been included in the rounds; this represents 1.5% of residential properties within the Borough. The issue has since been resolved but the matter was not escalated in a timely manner by the team and there are weaknesses in the control environment that make it hard for the Electoral Services Team to easily identify where properties have not been included in canvassers rounds.

Processing of Household Enquiry Forms (HEF) - control design (finding two, high)

We selected 25 households for which the electoral register showed the resident had returned a HEF by post and asked for a change to be made to the register. We found that:

- For 1/25 (4%) HEFs a change request had not been processed.

We also selected 25 households for which the register showed a HEF had been received from the property but no changes had been made to the register as a result. We found that:

- For 1/25 (4%) HEFs a resident had requested changes, however the HEF had been processed as 'no change' and the register had not been updated in accordance with the resident's request; and
- For 1/25 (4%) HEFs the wrong side of the form had been scanned. This was found to be the case for all 29 forms which had been scanned in the same batch as this form. As the forms were subsequently destroyed, it was not possible to verify whether these forms had been correctly processed in line with residents' responses.
- As a result of further testing to ascertain whether other batches had been incorrectly scanned we found two further errors: one change request had been incorrectly processed as 'no change' and one blank form had been incorrectly processed as 'no change'.

We found that the design of the HEF had contributed to the wrong side of forms being scanned; this design should therefore be amended to remove the possibility of this issue recurring.

We found that quality assurance processes were not in place within the Electoral Services Team to verify whether forms had been processed accurately.

Documentation relating to the canvass process – control design (finding three, high)

We found a lack of policies and procedures in place relating to the administration of the canvass. There was no shared project plan to document key tasks, timetables or governance and escalation arrangements.

Management accepted our findings and agreed appropriate actions to be implemented. All findings relating to the canvass data were rectified immediately by the service prior to the publication of the electoral register on 1st December.

As this piece of work is considered 'consultancy' under the Public Sector Internal Audit Standards (PSIAs), it is required for us to state how any potential independence threats have been managed. The relevant paragraphs of the Internal Audit Charter are as follows:

Internal Audit Charter reference	How independence threat has been managed
4.3 Any reviews that need to be undertaken of the Assurance Group (for example, governance, elections or corporate anti-fraud) will, where appropriate, be undertaken through the internal audit provider, currently Price Waterhouse Coopers (PwC), to ensure independence and objectivity to the review.	<p>The review was undertaken jointly between a PwC audit manager and an LBB audit executive. The reason for using the LBB audit executive was that in May 2017 he undertook a secondment into the Elections team to support them with the preparations for the snap general election. During this time he gained a strong understanding of the service and the systems in use which enabled a more effective and efficient management review to be undertaken. By having PwC review his work we ensured independence and objectivity.</p> <p>We have agreed for the same LBB audit executive to undertake a placement</p>

	in February 2018 to support the service in implementing the recommendations. PwC will then verify whether the actions have been appropriately completed.
8.7 To maintain independence, any auditor involved in consulting activity will not have involvement in the audit of that area for at least 12 months before or after the consulting activity.	The LBB audit executive will not be involved in an audit of the Elections service for at least 12 months after the completion of the placement in February 2018.

4.0 Progress against plan

Stage	Name of review	Report classification	Total findings	Ratings				
				Critical	High	Medium	Low	Advisory
Quarter 3								
Complete	Pensions Admin	Limited	9	-	2	7	-	-
Complete	S106 / CILs expenditure	Limited	7	-	3	1	2	1
Complete	Transformation - Benefits Realisation	Limited	3	-	3	-	-	-
Complete	Elections Management – Annual Canvass	Management letter issued – see section 3.0	5	-	3	2	-	-
Complete	Purchase Cards follow-up	Follow-up report issued – see section 5.3	3	-	1	2	-	-
Complete	Eligibility to Work - Pre-Employment Checks (Non-Schools) (Joint with CAFT)	Reasonable	3	-	1	2	-	-

Complete	Troubled Families – Payment By Results – December 2017 submission	Data integrity issues meant we were unable to successfully verify the claim; it was therefore not submitted	1	-	1	-	-	-
Complete	Special Project Initiation Requests (SPIRs)	Reasonable	4	-	-	2	1	1
Complete	St. James Catholic High School	Reasonable	8	-	-	4	4	-
Complete	Bell Lane School	Reasonable	8	-	-	3	5	-
Complete	Queenswell Junior School	Reasonable	6	-	-	4	2	-
Complete	Childs Hill School	Reasonable	6	-	-	1	5	-
Complete	Education, Health & Care Plans	Substantial	-	-	-	1	1	2
Complete	Capital Development Pipeline – Stag House	Substantial	4	-	-	-	3	1
Complete	Coppetts Wood School	Substantial	4	-	-	1	3	-
Complete	Performance Management Framework (Advisory)	Management letter issued on updated Performance Management Framework						
Complete	Eligibility to Work - Pre-Employment Checks (Schools) (Joint with CAFT)	Management letter issued to schools						
Complete	Troubled Families – Payment By Results – October 2017 submission	Claim verified						
Draft Report	Barnet Group Assurance Mapping	TBC	-	-	-	-	-	-
Draft Report	SWIFT to Mosaic Data Migration	TBC	-	-	-	-	-	-
Draft Report	Income Generation (Advisory)	TBC	-	-	-	-	-	-
Draft Report	Cambridge Education governance including contract management	TBC	-	-	-	-	-	-

Draft Report	Performance Reviews (operating effectiveness)	TBC	-	-	-	-	-	-
Draft Report	Accounts Payable	TBC	-	-	-	-	-	-
Draft Report	Accounts Receivable	TBC	-	-	-	-	-	-
Draft Report	Council Tax	TBC	-	-	-	-	-	-
Draft Report	NNDR	TBC	-	-	-	-	-	-
Draft Report	Delayed Transfers of Care <small>Note: this management review was added to the plan at the request of Adults & Communities</small>	TBC	-	-	-	-	-	-
Draft Report	Wessex Gardens School	TBC	-	-	-	-	-	-
Fieldwork	Commercial – Contract Management Toolkit (Advisory)	TBC	-	-	-	-	-	-
Fieldwork	Fixed Asset Register - Corporate Landlord – cross checks with Land Registry	TBC	-	-	-	-	-	-
Fieldwork	Transformation – The Way We Work	TBC	-	-	-	-	-	-
Fieldwork	Facilities Management	TBC	-	-	-	-	-	-
Planning	Emergency Planning <small>Note: through discussions with management we have agreed to split this into two separate reviews, one of Emergency Planning and one of Business Continuity, both of which are now at the planning stage</small>	TBC	-	-	-	-	-	-
Planning	Business Continuity	TBC	-	-	-	-	-	-
Planning	Better Care Fund - development of protocol for joint Internal Audits with the Clinical Commissioning Group	TBC	-	-	-	-	-	-
Planning	Public Health Delivery Model 2018 Onwards	TBC	-	-	-	-	-	-
Planning	Housing Benefit	TBC	-	-	-	-	-	-
Planning	Integra Issue Management	TBC	-	-	-	-	-	-

Planning	IT Governance - Strategic Decision Making	TBC	-	-	-	-	-	-
Planning	Commensura - Agency Staff Note: this was added to the plan through the scoping of the Pre-Employment Checks audit	TBC	-	-	-	-	-	-
Planning	Risk Management Framework	TBC	-	-	-	-	-	-
Planning	Deputyship – money management	TBC	-	-	-	-	-	-
Planning	Review of new Depot arrangements	TBC	-	-	-	-	-	-
Planning	Highways Programme	TBC	-	-	-	-	-	-
Planning	Onboarding process	TBC	-	-	-	-	-	-
Planning	CSG Estates – Rent Reviews	TBC	-	-	-	-	-	-
Planning	Health & Safety – Project Management	TBC	-	-	-	-	-	-
Planning	Contract Management - Sport & Physical Activity (SPA)	TBC	-	-	-	-	-	-
Planning	Troubled Families - Payment by Results - January submission	TBC	-	-	-	-	-	-
Planning	Transformation - Customer Transformation Programme	TBC	-	-	-	-	-	-
Planning	Prevent Follow-Up Phase 2	TBC	-	-	-	-	-	-
Planning	Equalities	TBC	-	-	-	-	-	-
Planning	Freedom Passes	TBC	-	-	-	-	-	-
Planning	General Ledger	TBC	-	-	-	-	-	-
Planning	Budget Monitoring	TBC	-	-	-	-	-	-
Planning	Treasury Management	TBC	-	-	-	-	-	-
Planning	Cash Management	TBC	-	-	-	-	-	-

Planning	Non-Schools Payroll (To include review of Holiday pay, Sick Pay, Overpayments)	TBC	-	-	-	-	-	-
Planning	Schools Payroll	TBC	-	-	-	-	-	-
Planning	Teachers Pensions	TBC	-	-	-	-	-	-
Planning	Elections follow-up - Advisory Note: this was added to the plan off the back of the Elections Management – Annual Canvass review	TBC	-	-	-	-	-	-
Deferred to 2018/19	Investing in IT – Lessons Learnt (Advisory) Due to further delays with the full delivery of this project we have deferred this review	TBC	-	-	-	-	-	-
Deferred to 2018/19	Highways DLO This has been deferred to 2018/19 to enable allocation of more audit days to the Highways Programme review and to enable winter gritting to have been completed	TBC	-	-	-	-	-	-
Deferred to 2018/19	CSG 3 Year review – KPI baselines This has been deferred to 2018/19 to enable review of two quarters of data after new KPIs agreed	TBC	-	-	-	-	-	-
Quarter 2								
Completed	Regeneration – Benefits Realisation	Limited	2	-	2	-	-	-
Completed	Menorah High School for Girls	Limited	10	-	1	8	1	-
Completed	Friern Barnet School	Reasonable	6	-	1	2	3	-
Completed	Woodcroft School	Reasonable	5	-	1	1	3	-
Completed	Planning Applications and Enforcement (Joint with CAFT)	Reasonable	8	-	-	5	1	2
Completed	Cromer Road School	Reasonable	6	-	-	2	4	-
Completed	Core HR Upgrade	Substantial	3	-	-	1	2	-

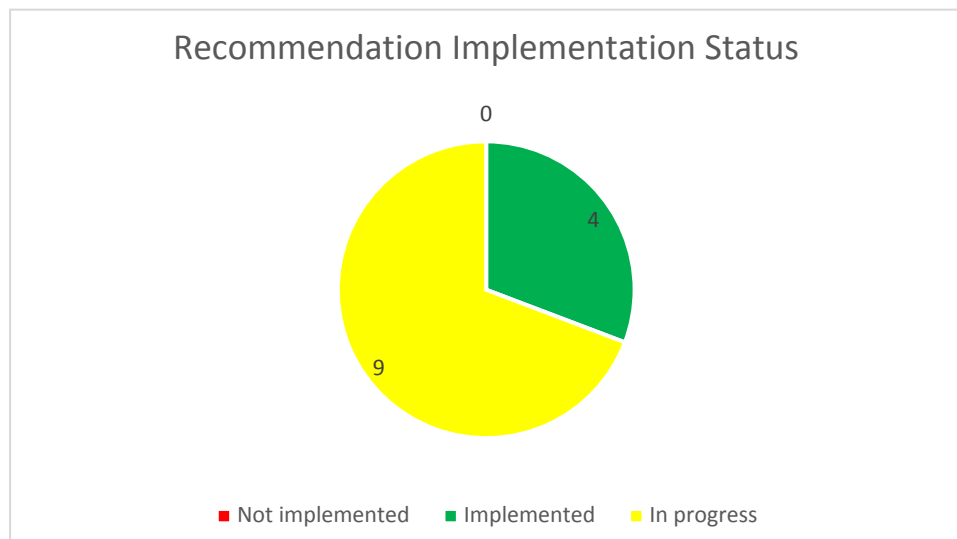
Completed	Prevent	Management letter issued and followed up – see section 3.3						
Completed	Prevent Follow-Up	Follow-up report issued – see exempt report appendix 2						
Completed	IT Change Management Follow-Up	Follow-up report issued – see section 4.2						
Completed	IT Risk Diagnostic	Management letter issued – see section 3.1						
Completed	GDPR Readiness Review	Management letter issued – see section 3.2						
Completed	Disabled Facilities Grant (DFG) 2016/17	Claim verified						
Completed	Disabled Facilities Grant (DFG) 2017/18	Claim verified						
Completed	Bus Subsidy Grant	Claim verified						
Completed	Troubled Families – Payments By Results	Claim verified						
Quarter 1								
Completed	Community Infrastructure Levy (CIL) and Section 106 (S106) – Phase I, Income	Limited	7	-	1	4	1	1
Completed	Nursery Places – Free Early Education Funding	Limited	7	-	1	4	1	1
Completed	Contract Register Maintenance	Reasonable	5	-	1	2	1	1
Completed	Non-Schools Payroll	Reasonable	5	-	-	5	-	-
Completed	Pensions Administration	Reasonable	4	-	-	3	1	-
Completed	Water Safety	Reasonable	3	-	-	3	-	-
Completed	Commercial Waste – achieving income target (Joint with CAFT)	Reasonable	5	-	-	5	-	-

Completed	Livingstone School	Reasonable	5	-	-	2	3	-
Completed	St. John's N11 School	Reasonable	7	-	-	2	5	-
Completed	Brunswick Park School	Reasonable	7	-	-	2	5	-
Completed	Hollickwood	Reasonable	5	-	-	3	2	-
Completed	Northway	Reasonable	4	-	-	3	1	-
Completed	Safeguarding – Family Services	Substantial	1	-	-	1	-	-
Completed	Beis Yaakov School	Substantial	3	-	-	1	2	-
Completed	Mapledown School	Substantial	3	-	-	1	2	-
Completed	Troubled Families - Payment by Results Q1	N/A	-	-	-	-	-	-
Completed	Estates / Health & Safety compliance & Subcontractor ordering follow-up	N/A	-	-	-	-	-	-

5.0 Follow Up

5.1 Summary

5.1.1 The wheel below demonstrates how many high priority actions due this period have been implemented, are in progress or are not implemented.



5.3 Outstanding actions

5.3.1 During this period we followed up 9 high priority actions which were found to be outstanding. These high priority actions are summarised below:

Name of report	Agreed Action	Status (Not Implemented / In Progress)	Owner	Due Date
1. Re Operation Review - Phase 2: Operating Effectiveness of Controls (January 2017)	Highways: ad hoc inspections – Control Design Re will establish prioritisation criteria to be applied by the Customer Hub team to systematically assess the severity of a reported defect and to enable enquiries to be prioritised accordingly. These criteria will be shared and agreed with the Council. The Council and Re will agree an	In Progress Draft prioritisation criteria were provided to audit prior to Audit Committee on 2nd November. For this action to move to Implemented we need to see evidence that Re and the Council have agreed these and that they are now in operation. For action 2 we need to see evidence	Strategic Director - Environment Operations Director, Re	Original: 31 March 2017 1st Revised date: 31 July 2017 2nd Revised date: 30 November

	<p>ongoing assurance mechanism to enable the Council to monitor the performance of ad hoc inspections. This will consist of the Council reviewing a sample of enquiries to assess the reasonableness of the assessment applied and assess whether follow up action was appropriate and performed in a timely manner based on the severity of the issue.</p>	<p>that the Council has been undertaking the planned review of a sample of enquiries to assess the reasonableness of the assessment applied / timeliness of resultant action.</p>		<p>2017 3rd Revised date: 31st March 2018</p>
<p>2. Highways Programme (March 2017)</p>	<p>Performance Management</p> <p>The current suite of KPIs in place will be reviewed. As part of this exercise obsolete indicators will be removed and the KPIs set out in the framework agreement will be reviewed to determine what potential indicators would add value to the current performance management framework.</p> <p>These indicators will be added to those measured and reported by the contractor on a monthly basis as appropriate.</p>	<p>In Progress</p> <p>Note: The Council calls off The London Highways Alliance Contract (LoHAC) for highways services.</p> <p>In July 2017, TFL were undergoing a review of the Performance measures for the LoHAC contract.</p> <p>The final draft was expected to be concluded by October 2017. At that time, we were told that Re and the Council would apply those measures even if TFL and LoHAC had not fully finalised their review process. If that was the case, we were told that Re and the Council would then revisit if necessary once they had reached their final position.</p> <p>January 2018 update:</p> <p>The Interim Commercial Advisor in Commercial Services - responsible for managing the project investigating the performance measures in place regarding Highways Customer Services - provided the proposed suite of Highways performance measures for monitoring the Re/Council contract. The approach to the project - as set out in the Highways Customer Review document provided - confirmed a project output as " review current KPIs and PIs and whether future changes are required", with a focus on the customer, residents and Members. Our review of a category of the proposed</p>	<p>Strategic Lead Commissioner - Transport and Highways, LBB</p> <p>Service Director – Highways, Re</p> <p>Contract Performance and Traffic Manager, Re</p>	<p>Original: 30 June 2017</p> <p>1st Revised date: 31 October 2017</p> <p>2nd Revised date: 31 March 2018</p>

		<p>suite of Highways performance measures called outcome measures, for instance, confirmed new performance measures have such customer focus.</p> <p>The Highways Customer Review document stated that the target date for related draft recommendations was mid-Feb 2018 before being reviewed at the relevant Governance Boards, the Partnership Operations Board and the Strategic Partnership Joint Venture Board in March 2018.</p>		
<p>3. Highways Programme (March 2017)</p>	<p>Performance Management</p> <p>The Council and Re will discuss the alignment of performance targets between the LoHAC contract and those in place to monitor Re's performance where applicable. This will be considered as part of the contract KPI review highlighted in action (a) as well as the 4 year review of the overarching Re contract which will consider the suite of KPIs that are in place to assess Re's performance.</p>	<p>In Progress</p> <p>We reviewed the Deed of Variation between the Council and Conway Aecom, signed by the Strategic Director - Environment and Conway Aecom Director, relating to the operation of the call-off arrangement under the LoHAC framework contract. LoHAC has contracts and agreements with the four suppliers - in line with four London geographical areas - which will run until 2021. LoHAC has entered into an agreement for the provision of highways services in the North West of London with CONWAY AECOM (CA) who provide the Council's highways services.</p> <p>One of the terms varied related to the contractor undertaking category 1 and category 2 reactive defect repairs. The variation specified that related works would be measured against the relevant performance indicators in the LoHAC call-off contract. The proposed suite of performance measures for monitoring the Re / Council Joint Venture also included 10 (seven indicated as new) LoHAC performance measures confirming arrangements to align Re/Council and LoHAC Highways performance monitoring. The LoHAC target for category 1 and 2 repairs was stated as</p>	<p>Interim Commercial Advisor, LBB</p> <p>Strategic Lead Commissioner - Transport and Highways, LBB</p> <p>Service Director – Highways, Re</p> <p>Contract Performance and Traffic Manager, Re</p>	<p>Original: 30 June 2017</p> <p>1st Revised date: 31 October 2017</p> <p>2nd Revised date: 31 March 2018</p>

		<p>98% in the performance documentation provided to us by the project manager for review.</p> <p>The action is still considered in progress until the proposed suite of RE/Council performance indicators with LoHAC aligned targets, where applicable, has been approved at the Partnership Operations Board and the Strategic Partnership Joint Venture Board in March 2018.</p>		
<p>4. Contract Register Maintenance (July 2017)</p>	<p>Roles & Responsibilities</p> <p>Further operational guidance, setting out roles and responsibilities for respective parties involved in maintaining the contract register, will be produced. This will include a RACI matrix (Roles, Accountability, Consult, Inform) to map out respective responsibilities and will clarify that contract managers are responsible for communicating changes to contract details held within the Curtis Fitch system. This will be communicated to stakeholders through periodic training provided.</p>	<p>In Progress</p> <p>Procurement operational guidance provided to Internal Audit specified the RACI matrix across all parties. Specifically, within the RACI matrix, accountability for contract changes was indicated as the contract manager and the Service. The guidance also indicated that Contract Managers were responsible for communicating contract changes to Procurement Business Partners. The final appendix indicated that contract register training was planned for Q4 2017-18. The CSG Procurement Transformation Lead indicated that Contract Register training had already been provided and that further training was planned in quarter 4.</p> <p>Evidence was provided confirming that the relevant training had been cascaded to procurement officers in Home & Community Services, Adults and Communities and Fleet Management, Street Scene to ensure that they were aware of their roles and responsibilities.</p> <p>We'll regard the action as fully implemented once we see evidence that the guidance has been cascaded to all contract managers.</p>	<p>Procurement Transformation Lead, CSG</p>	<p>Original: 31 August 2017</p> <p>1st Revised: 31 December 2017</p> <p>2nd Revised: 31 March 2018</p>

<p>5. Contract Register Maintenance (July 2017)</p>	<p>Roles & Responsibilities</p> <p>A mechanism for communicating changes to the register will be developed. A pro-forma that captures the changes required in a standardised format will be developed and uploaded to the Council's intranet. A central mailbox will be created and completed change forms will be sent to this central mailbox that will be monitored by the procurement team for processing.</p>	<p>In Progress</p> <p>The procurement operational guidance clearly specified the contract manager and Delivery Unit accountability for communicating changes to the contract and the arrangements for communicating related changes to CSG Procurement or directly to the CSG Procurement Business Partners for updating the contracts register.</p> <p>Evidence was provided confirming that the relevant training had been cascaded to procurement officers in Home & Community Services, Adults and Communities and Fleet Management, Street Scene to ensure that they were aware of their responsibilities for communicating changes to the contracts register.</p> <p>We'll regard the action as fully implemented once we see evidence that the guidance has been cascaded to all contract managers.</p>	<p>Procurement Transformation Lead, CSG</p>	<p>Original: 31 August 2017 1st Revised: 31 December 2017 2nd Revised: 31 March 2018</p>
<p>6. Contract Register Maintenance (July 2017)</p>	<p>Roles & Responsibilities</p> <p>An annual exercise will be performed whereby contract register extracts from Curtis Fitch will be communicated to delivery units. Delivery units will be required to review the extract and confirm this is accurate and complete based on their knowledge of contracts in place.</p>	<p>In Progress</p> <p>The procurement operational guidance clearly specified the responsibilities and arrangements for ensuring the accuracy of the Central and local contract registers.</p> <p>Evidence was provided confirming that the relevant training had been cascaded to procurement officers in Home & Community Services, Adults and Communities and Fleet Management, Street Scene to ensure that they were aware of their responsibilities for confirming the accuracy of the contracts register as part of the annual procurement forward planning exercise.</p>	<p>Procurement Transformation Lead, CSG</p>	<p>Original: 31 August 2017 1st Revised: 31 December 2017 2nd Revised: 31 March 2018</p>

		<p>Management indicated that an initiative to cleanse and standardise data across Integra and Curtis Fitch had been undertaken however evidence of Delivery Unit engagement in this exercise has not yet been provided.</p> <p>We'll regard the action as fully implemented once we see evidence of the guidance being cascaded to all contract managers, exercises involving the cleansing of contract register data and evidence of Delivery Unit engagement in the process.</p>		
<p>7. Purchase Cards follow-up (October 2017)</p>	<p>Allocation of expenditure (Control design)</p> <p>System functionality issues will be resolved as soon as possible. The control issue and associated risks will be presented to the Integra working group in order to prioritise the resolution of this issue.</p>	<p>In Progress</p> <p>Treasury Management have undertaken significant monitoring of the level of P-Card transactions that had not been cleared or disbursed by P-Card holders. P-Card transactions need to be cleared before they can be approved by the relevant budget holder. This has resulted in a reduction in the level of un-cleared and therefore unapproved transactions from approximately £120k in October 2017 to £23k in January 2018.</p> <p>Reasons for not clearing P-Card expenses in a timely fashion vary, for example:</p> <ul style="list-style-type: none"> • P-Card holder delays in clearing items • CST-Helpdesk delays in addressing related P-Card holder queries • Problems relating to the relevant account set-up in Integra <p>Where P-Card holders have been unable to clear P-Card expenses owing to an Integra issue, they have been instructed</p>	<p>Head of Treasury and Pensions, CSG</p>	<p>Original: 31 March 2017</p> <p>1st Revised date: 31 March 2018</p>

		<p>by Treasury to escalate the issue to CST-Helpdesk, which supports Integra users, for resolution. We saw evidence that this was being done by P-Card holders.</p> <p>Management stated that the Integra issue, whereby users could not approve transactions, has now been resolved. However, there is also a backlog of outstanding transactions and management stated that a request has gone to the Integra service provider (CIBS) to set these transactions to the status 'entered' which means that they will then need to be approved by users. Once this has been actioned, the Integra user group will be alerted and asked to undertake approvals promptly.</p> <p>The Head of Treasury and Pensions indicated that a decision had been taken 4/1/2018 to introduce an additional control by suspending cards where expenditure was not being disbursed/processed. Although this would not address root causes of the issue it would prevent unallocated and unapproved expenditure on a particular card from growing.</p> <p>Further action needed for Full Implementation:</p> <ul style="list-style-type: none"> • Treasury Management to document reasons for delays of more than two months in clearing P-Card expenses. This will enable them to chase those who are slow in clearing their items, whilst also providing a clear log of those cases to be escalated to the Integra working group for resolution. • 		
<p>8. HR Eligibility to Work – Pre-employment checks (non-schools)</p>	<p>Disclosure and Barring Service (DBS) requirement and status monitoring – control operating effectiveness</p>	<p>In Progress</p> <p>CSG HR have agreed the changes needed and have assigned the most</p>	<p>HR Business Manager, CSG</p>	<p>Original: 1 December 2017</p>

<p>(November 2017)</p>	<p>Arrangements to stream line and make the capturing and collation of DBS data more efficient will be implemented.</p>	<p>appropriate business analyst to develop these requirements. The new reporting framework is anticipated to be in place by mid-March.</p>		<p>1st Revised date: 31 March 2018</p>
<p>9. Customer Support Group (CSG) – Invoicing and Monitoring Arrangements</p> <p>(April 2016)</p>	<p>Contract Monitoring – Assurance activities</p> <p>a) Management should undertake an exercise to understand the key controls in place within each of CSG’s core processes. This could be achieved through review of the appropriate policy and procedure documents.</p> <p>b) Management should assess and document whether the controls in place are sufficient to mitigate the Council’s key operational risks.</p> <p>c) Any control gaps identified in the first line of defence should be raised with Capita and where appropriate processes should be amended accordingly.</p> <p>d) Management should review and update the assurance framework document to ensure inclusion of the identified first line of defence activities. All key Second and Third line activities should also be recorded, including detailing the officers with the core roles and responsibilities in relation to them.</p> <p>e) Management should review the activities on the assurance map to ensure there is sufficient flow of information between the first, second and third lines of defence to allow the Council to promptly identify issues with any of the key delivery risks.</p> <p>f) Management should then consider whether the information available through the three lines of defence is sufficient to provide senior management with assurance that the key strategic risks are</p>	<p>In Progress</p> <p>The Council undertook a Performance Governance Review, sponsored by the then Chief Operating Officer and led by the newly appointed Commercial Director, between April and October 2017. This review covered the following workstreams:</p> <ul style="list-style-type: none"> • Roles & Responsibilities • Governance • Performance • Contract Management <p>The outcome of the review was reported to SCB in November 2017 and it was agreed that the effectiveness of the resultant changes at the Council would be reviewed by SCB after six months of operation.</p> <p>As part of the changes, there are now monthly Contract Monitoring Meetings occurring for each of the nine CSG contract areas. Through these meetings the Council’s client leads will request documentation of the key controls in place within each of CSG’s core processes. These will be agreed / challenged where necessary. The Three Lines of Defence document will then be updated and agreed by senior management.</p>	<p>Director of Commercial (LBB)</p> <p>Director of Resources (LBB)</p> <p>CSG client leads (LBB)</p>	<p>Original: Q2 2016/17</p> <p>1st Revised: 31 March 2017</p> <p>2nd Revised: 31 July 2017</p> <p>3rd Revised: 31 July 2018</p>

mitigated.

g) Once reviewed, the three lines of defence map should be signed off by senior stakeholders including all SROs, the Director of Resources, the relevant Contract Managers, the Commercial Director and the Chief Operating Officer.

5.4 Completed actions

5.4.1 During this period we followed up 4 high priority actions which are deemed to have been implemented. These are listed below:

Name of report	Agreed Action and Due Date
<p>1. Menorah High School (July 2017) Purchasing</p>	<p>The school will ensure that a purchase order is raised for all relevant goods and services and this is approved by an authorised signatory. This expenditure should then be entered as a commitment to the accounting system, prior to the order being placed.</p> <p>The school will introduce a clear separation of duties to ensure that the same officer is not responsible for authorising the purchase order, invoice and bank payment for the same purchase.</p> <p>Delivery notes will be signed to evidence checking of goods received. These will be filed with purchase orders and invoices in a systematic manner.</p> <p>The School will review the credit card policy and use of the school credit cards to ensure that all purchases are reviewed and executed in accordance with requirements as approved within the School's Financial Management Policy and Procedures document, ensuring at all times that a separation of duties exists between purchase order request, purchase order approval and online payment by credit card, sufficient budget is available, a record is kept of delivery to the school and that approved purchase orders and credit card order authorisation forms are retained for each purchase for independent review and scrutiny where necessary.</p> <p>Due: Autumn 2017/18</p>
<p>2. Nursery Places (July 2017) Frequency of Early Years Team Audits</p>	<p>Management will commence a new rolling programme of Early Years' Team Audits on PVI providers, ensuring that each provider is subject to an unannounced Early Years' Team Audit at least every four years.</p> <p>Target date: Early Years Team Audits will be in place from Easter 2017.</p> <p>Revised: 31 December 2017</p>
<p>3. HR Eligibility to Work – Pre-employment</p>	<p>The most up to date schedule showing the DBS status level and position of all Council staff will be reviewed to ensure</p>

<p>checks (non-schools)</p> <p>(November 2017)</p> <p>Disclosure and Barring Service (DBS) requirement and status monitoring – control operating effectiveness</p>	<p>that all data anomalies are identified and explained. In particular:</p> <ul style="list-style-type: none"> - The required DBS level (enhanced, standard or not applicable) recorded as “Not Known” in the CSG spreadsheet “Staff Requiring DBS” will be confirmed and recorded. - DBS disclosures described as “Not Present” will be resolved. <p>Target date:1 December 2017</p>
<p>4. HR Eligibility to Work – Pre-employment checks (non-schools)</p> <p>(November 2017)</p> <p>Disclosure and Barring Service (DBS) requirement and status monitoring – control operating effectiveness</p>	<p>Changes in status to DBS requirements, where applicable, should be recorded.</p> <p>Target date:1 December 2017</p>

5.5 Follow-up of Medium priority actions

This quarter, at the request of the Audit Committee, we have also undertaken follow-ups of the remaining Medium priority actions resulting from the two Limited Assurance reports from Q1:

- **Nursery Places – Free Early Education Funding (FEE)**
- **Community Infrastructure Levy (CIL) and Section 106 (S106) – Phase I, Income**

A summary of the outcome of these follow-ups is below.

Nursery Places – Free Early Education Funding (FEE)

Agreed Action(s)	Responsible Officers	Target Date	Audit Assessment January 2018
<p>1. Eligibility for FEE2 1a) The Early Years Team will implement a system of</p>	<p>Early Years Standards &</p>	<p>30/09/2017</p>	<p>Implemented</p>

<p>verifying a sample of children awarded FEE2, Free Early Education Funding for 2 year olds, in each term they are eligible for the funding. The sample will be chosen using a risk based approach, informed by the error identified during the audit.</p> <p>These checks will occur on a regular basis and evidence will be kept on file to demonstrate that the checks have been completed in line with expectations.</p>	Quality Lead		
<p>2. Interim and Final Payments 2a) Management will review the appropriateness of awarding an 80% advance payment to providers in time for any changes to be made for April 2018 after consultation in 2017/18 regarding the 30 hour offer.</p>	Head of Early Years - Early Intervention & Prevention	30/04/2018	N/A not yet due
<p>3. Headcount Issues 3a) A rolling headcount will be introduced by Family Services to ensure that there is greater emphasis on providers to input the most up-to-date information before payments can be processed and made to providers. Providers should be reminded of their responsibility to update the portal.</p>	Early Years Funding Officer - Commissioning & Business Improvement	31/07/2017	Implemented
<p>4. Updating and communication of FEE guidance for providers 4a) The Council's guidance relating to FEE provision within the Borough will be updated</p>	Early Years Registration Support Officer - Early Intervention & Prevention	30/09/2017	Implemented
<p>4b) Once updated the revised Council guidance relating to FEE provision will be communicated to all providers at the planned workshops</p>	Early Years Standards & Quality Lead Interim Data and Performance Manager	31/07/2017	Implemented
<p>5. Single Point of Failure Management will review the tasks performed by key</p>	Early Years Standards &	30/09/2017	Implemented

<p>Officers to ensure that other officers performing key tasks to eliminate the risk of a single point of failure occurring in the FEE Process.</p> <p>Management should review such arrangements to ensure that tasks occur in line with expectations.</p>	<p>Quality Lead</p>		
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Community Infrastructure Levy (CIL) and Section 106 (S106) – Phase I, Income

Agreed Action(s)	Responsible Officers	Target Date	Audit Assessment January 2018
<p>1. Internal Procedure Documents - Control design</p> <p>Internal procedure documents will be produced that set out the roles and responsibilities of all teams involved in the processing and collection of CIL and S106 liabilities.</p> <p>Once issued the procedure documents will be communicated to all relevant Officers involved in the processing of CIL and S106 liabilities.</p>	<p>Infrastructure Planning Team Manager, Re</p> <p>Planning Obligations Officer, Planning, Re</p>	<p>30/09/2017</p> <p>Revised target date: 31 December 2017</p>	<p>Implemented</p>
<p>2. CIL and s106 schedules - Control design</p> <p>The procurement of the EXACOM system will be prioritised to replace the need for manual spreadsheets to coordinate the management of CIL/S106 charges.</p>	<p>Growth Manager, Re</p>	<p>30/09/2017</p> <p>Revised target date: 31 December 2017</p>	<p>Implemented</p>
<p>4. Payments to Transport for London – Operating effectiveness</p> <p>The Council, CSG and Re will work together to ensure that payments to TfL in regard to Mayoral CIL are made on time.</p>	<p>Deputy Chief Executive Commissioning Director, Growth & Development</p> <p>Finance</p>	<p>31/07/2017</p> <p>Revised target date: 31 October 2017</p>	<p>Implemented</p>

	Manager, CSG Planning Obligations Officer, Planning, Re		
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As part of our 2017/18 audit plan we allowed additional audit days to undertake a sample of follow-ups across Medium priority recommendations. This quarter we have followed up the remaining Medium priority actions raised under the Contract Register Maintenance audit. The results are below:

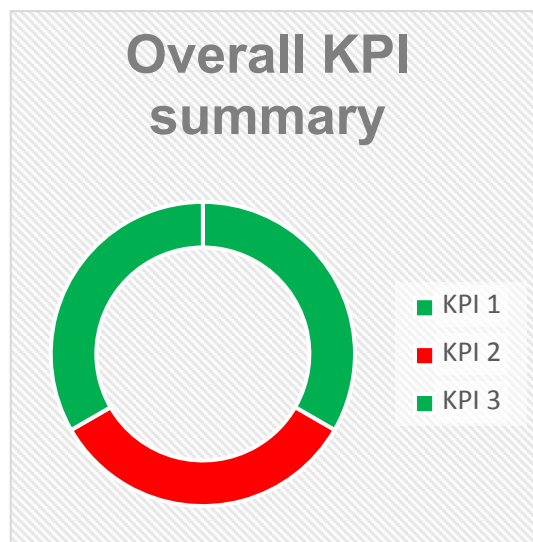
Contract Register Maintenance

Agreed Action(s)	Responsible Officers	Target Date	Audit Assessment November 2017
1b. Compliance analysis - Control design We will document the rationale for why some expenditure is considered potentially high risk, for example high monetary value or for a service provided to vulnerable adults or children.	Procurement Transformation Lead, CSG	September Procurement board 2017	Partly Implemented Evidence was provided showing how procurement expenditure raised in Integra was mapped to and risk rated in terms of the PESTLE criteria, so in line with its political, economic, social, technological, legal and environmental impact. Evidence outstanding: Obtain recent report to Procurement Board or other report to senior management demonstrating this. An Excel spreadsheet using the approach for spend analysis has been provided but evidence of formal reporting for scrutiny is required.

<p>1c. Compliance analysis - Control design</p> <p>We will present a high level summary of the results of the compliance testing to senior management in the Commissioning and Commercial teams. This will include an analysis of non-compliant expenditure across delivery units as well as details of high value or high risk compliance issues identified. We will also include a summary of this exercise periodically as part of the Procurement Board agenda.</p>	<p>Procurement Transformation Lead, CSG</p>	<p>September Procurement board 2017</p>	<p>Partly Implemented</p> <p>Evidence of non-compliant activity and expenditure was reported to Senior Management in 2017-18 quarters 2 and 3. Management stated that Procurement Business Partners will continue to review compliance reports showing instances of procurement non-compliance and the accuracy of contract registers with Delivery Units on a quarterly basis.</p> <p>Evidence outstanding:</p> <p>Evidence of Delivery Unit resolution of the potential issues identified within the report to Senior Management.</p>
<p>2a. Contract register data capture - Control design and operating effectiveness</p> <p>We will investigate whether the automated controls in place are operational to ensure mandatory fields are completed consistently.</p>	<p>Procurement Transformation Lead, CSG</p>	<p>July 2017</p>	<p>Partly Implemented</p> <p>Management stated that the Curtis Fitch system which held the Council's procurement data automatically enforced completion of mandatory fields relevant to the contract register. We are yet to be provided with evidence to confirm this.</p>
<p>2b. Contract register data capture - Control design and operating effectiveness</p> <p>We will consider the current suite of compulsory fields and assess whether others, such as contract manager, should be included.</p>	<p>Procurement Transformation Lead, CSG</p>	<p>July 2017</p>	<p>Implemented</p>
<p>2c. Contract register data capture - Control design and operating effectiveness</p> <p>We will review the data fields currently captured. Discussions will be held between CSG Procurement, Commissioning and Commercial teams to assess what information would be useful to capture in the contract register to assist with commissioning activity. This will include considering whether the classification of contracts in line with the SCOT framework is captured in the register.</p>	<p>Procurement Transformation Lead, CSG</p>	<p>July 2017</p>	<p>Implemented</p>

Appendices

Appendix A: Key performance indicators (KPIs)



Fully Achieved

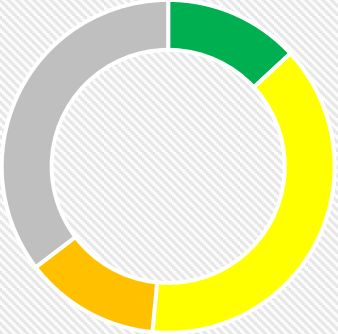
Partially Achieved

Not Achieved



KPI	Target	Results	Comment										
1. % of Plan delivered	66% Based on 95% complete of those due in quarter	67%	<p>In Q2 we proposed a change to how performance against this target is measured, in that now work in progress is incorporated as follows:</p> <table border="1"> <tr> <td>Not Started</td> <td>0%</td> </tr> <tr> <td>Planning</td> <td>20%</td> </tr> <tr> <td>Fieldwork</td> <td>50%</td> </tr> <tr> <td>Draft Report</td> <td>90%</td> </tr> <tr> <td>Complete</td> <td>100%</td> </tr> </table> <p>Applying these %s to work in progress shows that we have delivered 67% of our plan.</p> <p>For comparison, under the previous method of measurement (completed reports / total planned audits) performance would have been stated as being at 46% against the 66% target.</p> <p>0-24% = Not Achieved 25-47% = Partially Achieved 48% = Fully Achieved</p>	Not Started	0%	Planning	20%	Fieldwork	50%	Draft Report	90%	Complete	100%
Not Started	0%												
Planning	20%												
Fieldwork	50%												
Draft Report	90%												
Complete	100%												
2. Verification that at least 90% of Critical and High Risks have been mitigated by management at the time of follow up	90%	33%	<p>0-49% = Not Achieved 50-89% = Partially Achieved 90% = Fully Achieved</p>										
3. Average customer satisfaction score for year to meet or	85%	100%	<p>0-49% = Not Achieved 50-84% = Partially Achieved</p>										

Assurance Ratings



- Substantial
- Reasonable
- Limited
- No
- N/A

<p>exceed acceptable level for at least 85% of completed surveys</p>			<p>85% = Fully Achieved</p>
<p>4. % of reports year to date achieving:</p> <ul style="list-style-type: none"> •Substantial •Reasonable •Limited •No Assurance •N/A 	<p>N/A</p>	<p>13%</p> <p>38%</p> <p>13%</p> <p>0%</p> <p>35%</p>	

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	<h2>Audit Committee</h2> <h3>31st January 2018</h3>
Title	Corporate Anti-Fraud Team (CAFT) Q3 Progress Report: 1st October – 31st December 2017
Report of	Assurance Director
Wards	All
Status	Public
KEY	No
URGENT	No
Enclosures	Appendix 1: - CAFT Q3 Progress Report: 1st October – 31st December 2017.
Officer Contact Details	Clair Green clair.green@barnet.gov.uk 0208 359 7791

Summary

This report covers the period 1st October 2017 – 31st December 2017 and represents an up-to-date picture of the work undertaken by Corporate Anti-Fraud Team (CAFT) during that time.

Recommendations

- 1. That the Committee note the CAFT Progress Report covering the period 1st October 2017 – 31st December 2017**

1. WHY THIS REPORT IS NEEDED

- 1.1 The Audit Committee included in the work programme for 2017/18 that quarterly progress reports on the work of the Corporate Anti- Fraud Team are produced to this meeting.

2. REASONS FOR RECOMMENDATIONS

- 2.1 N/A

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 None

4. POST DECISION IMPLEMENTATION

- 4.1 None

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

- 5.1.1 The Council has a responsibility to protect the public purse through proper administration and control of the public funds and assets to which it has been entrusted. The work of the Corporate Anti-Fraud Team (CAFT) supports this by continuing to provide an efficient value for money anti-fraud activity, that is able to investigate all referrals that are passed to us to an appropriate outcome, whilst continuing to offer support, advice and assistance on all matters of fraud risks including prevention, fraud detection, money laundering, other criminal activity, and deterrent measures, policies and procedures, whilst delivering a cohesive approach that reflects best practice and supports all the new corporate priorities and principles.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

- 5.2.1 The structure and budget that CAFT operate within has proven successful and provides sufficient resource and commitment that is required to carry out an effective anti-fraud service and deliver the key objectives as set out within the strategy.

5.3 Legal and Constitutional References

- 5.3.1 Under Section 151 of the Local Government Act 1972 the Council has a statutory obligation to ensure the protection of public funds and to have an effective system of prevention and detection of fraud and corruption.

- 5.3.2 The Council's Constitution under Responsibility for Functions - The Audit Committee's terms of reference, details the functions of the Audit Committee including:-

- To monitor the effective development and operation of the Council's

Corporate Anti-Fraud Team; and

- To consider regular anti-fraud progress reports and summaries of specific fraud issues and investigation outcomes.

5.3.3 There are no Legal issues in the context of this report.

5.4 **Risk Management**

5.4.1 The on-going work of the CAFT supports the council's risk management strategy and processes. Where appropriate, outcomes from our investigations are reported to both Internal Audit and Risk Management to support their on-going work and to assist in either confirming effective anti-fraud controls and or suggested areas for improvement.

Equalities and Diversity

5.5.1 Pursuant to section 149 of the Equality Act, 2010, the council has a public sector duty to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between those with a protected characteristic and those without; promoting good relations between those with a protected characteristic and those without. The, relevant, 'protected characteristics' are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. It also covers marriage and civil partnership with regard to elimination of discrimination

5.5.2 Effective systems of anti-fraud provide assurance on the effective allocation of resources and quality of service provision for the benefit of the entire community.

5.5.3 There are no particular equalities issues arising from this report.

5.5 **Consultation and Engagement**

5.1 None

6. **BACKGROUND PAPERS**

6.1 Delegated Powers Report (ref: BT/2004-05 -2 March 2004) - The Corporate Anti-Fraud Team (CAFT) was launched on 7th May 2004

6.2 Audit Committee 20 April 2017 (Decision Item 12) – the Audit committee approved the Internal Audit and Anti-Fraud Strategy and Annual Plan 2017-18

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Appendix 1

Corporate Anti-Fraud Team (CAFT) Q3 Progress Report 1st October – 31st December 2017

1. Introduction
2. Pro-Active Fraud Plan
3. Performance Indicators
4. Noteworthy Investigations summaries

1. Introduction

This report covers the period 1st October – 31st December 2017 and represents an up-to-date picture of the work undertaken by Corporate Anti-Fraud Team (CAFT) during that time.

All CAFT work is conducted within the appropriate legislation and through the powers and responsibilities as set out within the financial regulations section of the Council’s constitution. Under section 151 of the Local Government Act 1972 the council has a responsibility to ensure the protection of public funds and to have an effective system of prevention and detection of fraud and corruption, this function is delegated to the Assurance Director through the work of CAFT. It supports the Council’s commitment to a zero-tolerance approach to fraud, corruption, bribery and other irregularity including any Money Laundering activity.

Work processes in the team are designed for maximum efficiency and as such all functions are intrinsically linked and are dependent on each other to ensure CAFT continue to provide an efficient value for money counter fraud service and that is able to investigate all referrals or data matches to an appropriate outcome. CAFT provide advice and support on every aspect of the organisation including its partners and contractors. This advice varies between fraud risk, prevention and detection, money laundering and other criminal activity as well as misconduct and misuse of public funds. Some of the matters will progress to criminal investigation and others will not, but in all cases appropriate sanctions or action is taken. It is this element of the work of CAFT that is hard to quantify statistically.

In the last quarter CAFT led a co-ordinated programme of activity for ‘International Fraud Awareness Week’ which ran between November 13th – 17th and was an opportunity for the council to raise fraud awareness around the borough both internally and externally and to raise the visibility and profile of the CAFT alongside increasing awareness of how people can report their suspicions of fraud against the council and its partners. Further details relating to this week of activity can be found in Section 2 (Pro-Active Fraud – Table 2) of the report.

CAFT investigators have dealt with a high level of work during this last quarter; there have been a total of **556** investigations in quarter 3 as detailed in **Table 1** below further detail on these investigations is provided in Table 3.

Table 1

Investigation Types	Q1	Q2	Q3
Total number of Corporate Fraud cases investigated	48	40	35
<i>Total number of Corporate Fraud cases closed</i>	22	18	15
<hr/>			
Total number of Blue Badge cases investigated	91	143	232
<i>Total number of Blue Badge cases closed</i>	44	49	83
<hr/>			
Total number of Financial Fraud cases investigated	12	14	16
<i>Total number of Financial Fraud cases closed</i>	3	1	1
<hr/>			
Total number of Tenancy Fraud cases investigated	206	244	273
<i>Total number of Tenancy Fraud cases closed</i>	91	115	116
<hr/>			
Overall Total to date cases investigated	357	441	556
<i>Total number of cases closed</i>	160	183	215

2. Pro-active fraud plan

Table 2 provides an update against any CAFT pro-active activity undertaken in this period as set out within the 2017/18 plan

CAFT Pro-active review	Outcome
<p>Disabled Blue Badge Street Operation.</p> <p>Disabled Blue Badges must only be used by the named badge holder, or by a person who has dropped off or is collecting the badge holder from the place where the vehicle is parked. It is a criminal offence for anyone else to use a blue badge in any other circumstances.</p>	<p>CAFT have conducted intelligence led pro-active ‘street’ Operations in Q3 – during these exercises CAFT officers are accompanied by NSL Parking Enforcement Officers and Barnet Police.</p> <p>The first Operation was carried out on 24th October 2017 in the Hendon Area. <i>14 cases were identified as possible Fraud or Misuse and referred for further investigation. 8 badges were seized during this operation. 3 of these badges were found to be lost/stolen or cancelled, the remaining 11 cases were confirmed as being misuse.</i></p>
<p>International Fraud Awareness Week <i>13th to 17th November 2017</i></p> <p>Each year, fraud fighters around the world use International Fraud Awareness Week as an opportunity to come together to raise fraud awareness in their communities.</p>	<p>The week saw the Corporate-Anti Fraud Team come together with colleagues from other council enforcement teams including Trading Standards, Licencing, NSL Street Enforcement, Re Noise Reduction Teams, Community Protection Teams and the Police.</p> <p>The purpose of the week-long operation was to have a High Visibility presence in the Edgware and Burnt Oak areas and to carry out anti-fraud exercises such as Blue Badge Fraud and Tenancy Fraud as well as to tackle some of the anti-social behaviour issues in the area, such as littering, fly-tipping and unauthorised street trading.</p> <p>Stalls were also set up at Middlesex University in Hendon, The Boardwalk Centre in Edgware and the Housing Needs reception in Barnet House where members of the public could receive advice on reporting fraud, doorstep and telephone scams as well as anti-social behaviour issues.</p> <p>There was also a ‘Drop in Lunch and Learn’ session over the lunch period at the North London Business Park where staff had the opportunity to find out more about the work of the CAFT. At this session staff could test their skills in spotting fake identity documents that had been seized during criminal investigations carried out by our Fraud Officers.</p> <p>In addition to this Officers from the Councils Insurance department were also on hand to give advice.</p> <p>In line with our Communications strategy this week was published internally and externally.</p>

Table 2 below details the successful actions/outcomes that took place throughout the International Fraud Awareness Week	Outcome	Comments
Disabled Blue Badge Misuse and Fraud this details the investigation of Blue Badge Misuse as well as Blue Badge fraud. Blue badges can only be used by the named badge holder, or by a person who has dropped off or is collecting the badge holder from the place where the vehicle is parked. It is a criminal offence for anyone else to use a blue badge in any other circumstances.		
Number of Blue Badges verified throughout the week-long operation	494	
Number of Fraud / misuse cases identified	38	All 38 cases are being considered for caution or formal prosecution
Number of badges seized	23	15 re misuse, 8 re Fraud i.e. stolen/ forged
Number of badges remaining at the scene	15	14 re misuse, 1 re Fraud i.e. stolen/ forged
No. of PCN's issued relating to BB fraud /misuse	23	Were evidence of misuse/ fraud is obtained PCNs are issued immediately
No of PCN's issued not relating to BB fraud /misuse	13	During Blue Badge operations, other parking offences come to light and are dealt with accordingly
Tenancy Fraud - prevent, identify, investigate, deter and sanction or prosecute persons that commit tenancy fraud in Barnet, ensuring maximising properties back to the council where Tenancy Fraud has been proven.		
Number of properties visited to verify tenancy	500	Tenancy Fraud officers visited these properties many times throughout the week to verify that the correct tenants were resident.
Number of properties verified as housing the correct lawful tenants	427	
Number of properties recovered	1	Keys voluntarily surrendered
Number of properties requiring further investigation due to unconfirmed tenant details at residence	72	Officers are continuing to investigate these cases to ascertain if the lawful resident is occupying the property.
Enforcement Teams - prevent, identify, investigate, deter and sanction or prosecute persons that commit anti-social behaviour / street crime in Barnet, ensuring that the matter is dealt with appropriately.		
Number of vehicles seized by police for having no insurance or MOT	1	During these actions 2 persons were arrested and 1 weapon was seized as well as an individual issued with a warning for begging
Number of individuals dealt with by police for anti-social behaviour (drunkenness etc)	4	
Number of FPNs issued by NSL Enforcement for Fly-tipping	3	These related cases where enforcement officers identified the owners of quantities of rubbish that had been dumped in public space
Number of FPNs issued by NSL Enforcement for littering	10	These related to instances where enforcement officers witnessed dropping litter (e.g. cigarettes) in public spaces
Number of businesses being prosecuted by Trading Standards for unlawful street trading	3	These cases related to shop owners accepting payment for good on the street without processing through a till and situations where goods on display for sale encroach onto the public footpaths.

3. Performance Indicators

Table 3 provides an update against all performance indicators as set out within the 2017/18 fraud plan. (No targets are set against these indicators; they are purely the results of CAFT re-active and continuous investigation work – with the exception of Tenancy Fraud ‘Properties Recovered’ which is agreed with Barnet Homes as an annual figure of 60 properties).

Performance Indicator	Q3 2017-18	Comments
Corporate Fraud Team deal with the investigation of any criminal and fraud matters (except Tenancy related fraud) attempted or committed within or against Barnet such as internal employee frauds, frauds by service recipients and any external frauds. They work in partnership with partners, other organisations and law enforcement agencies to ensure that the public purse is adequately protected		
Number of carried forward Fraud investigations from Q2	22	
Number of new fraud investigations	13	
Total number of Cases dealt with in Q3	35	
Total Number of closed fraud investigations	15	6 closed No Fraud identified 7 closed insufficient evidence 1 closed advice and assistance given to the department 1 closed resulting in an employee being dismissed (see noteworthy cases – Case 3)
Total number of on-going fraud investigations	20	5 relate to Assisted Travel (Application fraud) 1 relates to Adult Care 2 relates to Family Services 1 relates to Parking 3 relate to Schools & Learning 5 relate to Waste & Recycling 1 Relates to Property Services 1 Relates to Barnet Homes 1 Relates to Customer financial affairs
Total number of cases carried into Q4	20	
Disabled Blue Badge Misuse and Fraud this details the investigation of Blue Badge Misuse as well as Blue Badge fraud. Blue badges can only be used by the named badge holder, or by a person who has dropped off or is collecting the badge holder from the place where the vehicle is parked. It is a criminal offence for anyone else to use a blue badge in any other circumstances.		
Number of carried forward Fraud investigations from Q2	86	
Number of new referrals received	146	As a result of these referrals 14 badges have been seized.
Total number of BB cases in Q3	232	
Number of cases that were closed after successful prosecution in Q3	2	These cases were put before the courts in this third quarter and resulted in 2 guilty verdicts (refer to noteworthy cases 1 & 2) At the end of Q3 there has been 15 successful prosecutions relating to Blue Badge Misuse this year
Number of cases closed with Cautions being	37	Please refer to noteworthy investigations

Administered in Q3		sections of the report for some further details relating to cautions being issued - At the end of Q3 there has been 62 cautions issued for Blue Badge Misuse this year
Number of cases closed with a warning letter sent to badge holder in Q3	14	Warning letters* are issued where there is a strong suspicion that a holder's badge is being misused but the evidence or circumstances does not support a further sanction *some relate to Barnet badges seized by other local authorities
Number of cases closed resulting in a dismissal	1	See noteworthy cases – ref case 4
Number of cases closed with no further action	29	5 were closed as no fraud identified, 24 were closed due to insufficient evidence.
Total number of BB cases closed in Q3	83	
Number of On-going BB investigations	142	
Number of cases with legal awaiting court action	7	These cases are already with our legal team pending prosecution
Total number of BB cases Carried into Q4	149	
Financial Investigations - a Financial Investigation under the Proceeds of Crime Act 2002 ensures that any person/s subject to a criminal investigation by Barnet do not profit from their criminal action		
Number of carried forward Financial investigations from Q2	12	
Number of new Financial investigations in Q3	4	
Total number of Financial investigation in Q3	16	
Total number of closed Financial investigations cases in Q3	1	This case was closed due to insufficient evidence
Total Number of on-going Financial investigations	15	Of these ongoing investigations: - 6 relate to Planning 3 relate to Tenancy Fraud 1 relates to direct payments 4 relate to investigations undertaken on behalf of L.B Haringey 1 relates to Re Details of cases are reported on closure if fraud is proven or another sanction given.
Total number of Financials investigations carried into Q4	15	

Tenancy Fraud Team prevent, identify, investigate, deter and sanction or prosecute persons that commit tenancy fraud in Barnet, ensuring maximising properties back to the council where Tenancy Fraud has been proven.

CAFT provide a detailed monthly statistical report, along with a more comprehensive half year and year-end report to Barnet Homes outlining how many properties have been recovered, along with a list of all referrals from the neighbourhood officers and the status of the cases referred.

Number of carried forward Tenancy Fraud investigations from Q2	96	
Number of new Tenancy Fraud Cases in Q3	102	
Number of Right to Buy cases carried over from Q2	33	As from April 2017 CAFT took on the responsibility for vetting all Right to Buy Applications submitted to Barnet Homes
Number of new Right to Buy Cases in Q3	42	
Total number of cases in Q3	273	
Number of Tenancy cases closed due to property being recovered	16	13 relate to standard tenancies where 4 were recovered via civil court action due to subletting and 9 were voluntarily surrendered as a result of the CAFT investigation 1 relates to a succession application where the property was voluntarily surrendered 2 relate to emergency accommodation where 1 was recovered via civil court action due to subletting and 1 was voluntarily surrendered <i>At the end of Q3 there has been 49 properties recovered</i>
Number of Tenancy cases closed with no fraud being identified	63	These cases were all investigated. All 63 were closed due to no fraud being identified
Number of Housing Applications refused because of CAFT verification process	5	CAFT work closely with the Housing Options Team and carry out verification exercises for identifying inaccurate information being submitted on housing application forms. These exercises allow us to reserve the housing waiting list for only those who have a legitimate need for social housing
Number of mutual exchanges prevented because of CAFT intervention	1	Since April 2017 all mutual exchange applications are validated by CAFT to prevent unlawful house swapping.
Number of Right to Buy cases closed due to applications being denied	14	In Q3 a saving of £1,468,600 in discounts on 14 properties was achieved by preventing the sale of the properties due to the application being withdrawn as a result of CAFT involvement. At the end of Q3 there has been 26 right to buy applications denied because of CAFT intervention
Number of initial Right to Buy cases closed as validated by CAFT as being genuine	17	All Right to Buy cases are validated by CAFT. These cases were validated as having

		no issues and so allowed to progress through the Right to Buy Process with Barnet Homes
Total number of cases closed in Q3	116	
Total number of on-going Tenancy Fraud Investigations.	113	
Number of cases with legal awaiting court action	11	Of these 11 cases 6 are with legal awaiting criminal action and 5 are with legal awaiting civil action.
Total number of on-going right to buy Investigations.	33	
Number of Tenancy Fraud cases carried over into Q4	157	
Other information reported as per requirements of policy.		
Number of requests authorised for surveillance in accordance with Regulation of Investigatory Powers Act 2000 (RIPA).	Nil this quarter. This statistic is reported for information purposes in accordance with our policy and statistical return to the Office of Surveillance Commissioners.	
Number of referrals received under the council's whistleblowing policy	One this quarter. This is reported in accordance with Policy and details will be provided as appropriate once investigations have been completed.	

4. Noteworthy investigation summaries: -

Tenancy Fraud Investigations

Ms A had a two-bedroom flat in Barnet. CAFT look at all right to buy applications and do initial investigations. These showed that Ms A had links to another property. A visit was made to this property and Ms A was present. She was subsequently interviewed under caution regarding the matter and voluntarily handed the keys back. The case is currently with our legal team for criminal proceedings.

Mr B had a two-bedroom flat in Barnet. This property was considered as part of a pro-active exercise conducted during Fraud awareness week. A visit was made to a property where it. Mr B immediately got in touch with CAFT and voluntarily handed the keys back.

Mrs C had a two-bedroom flat in Barnet. A data matching exercise at the beginning of the year where information indicated that someone else may be living in the property. The investigation revealed that the tenant was rarely in the country and her son was occupying the premises. Notices to quit the property were served and the matter was passed to our legal team and an outright possession order was granted by the civil courts. Bailiff's subsequently recovered the property.

Ms D had a three-bedroom property in Barnet. A referral was received from the neighbourhood team who had concerns that the tenant was not resident and was sub-letting to other members of her family. The investigation showed that Ms D was very rarely in the country and notices to quit were served. The matter was passed to our legal team and an outright possession order was granted by the civil courts. The tenant then agreed a date to vacate the property rather than bailiff's costs being incurred and the property y has now been recovered.

Mr E applied to succeed the late tenant in a three-bedroom house in Barnet. CAFT received a referral from the neighbourhood team who had concerns regarding the entitlement to succeed. The CAFT investigation confirmed

that there was in fact no entitlement and notices to quit were issued to Mr E. Following this, Mr E voluntarily agreed to hand the keys back.

Ms F obtained a two-bedroom emergency accommodation based on being a single parent with one daughter. A referral was received from the housing needs team stating that there were suspicions that the daughter was not resident with Ms F. The investigation confirmed that the daughter had not been living with Ms F prior to the application being made. Ms F was asked to attend an interview under caution. She initially maintained that her daughter was resident, but when questioned further, admitted this was not correct. Notices to quit were issued and the matter was passed to our legal team and an outright possession order was granted by the civil courts. Bailiff's subsequently recovered the property. The case is currently with our legal team for criminal proceedings concerning the housing application.

Ms G had a three-bedroom house in Barnet. A referral was received from the neighbourhood team who had concerns that the property was unoccupied. Numerous visits were made to the property without any response and neighbours confirmed that the tenant had not been seen for a long time. Investigations identified that Ms G was also linked to another address in a neighbouring borough. Notices to quit were issued and the tenant made contact saying she was unwell and was resident in the property. The matter was passed to our legal team who confirmed that we should proceed with action to recover the property through civil action. Shortly before the court hearing, Ms G voluntarily agreed to hand the keys back.

Mr H had a two-bedroom flat in Barnet. A referral was received from the gas safety team as they had concerns the tenant and his family were not resident. The investigation identified that the children had been taken out of school in April 2017 and the family had moved abroad. Notice to quit were served and the matter was passed to our legal team and an outright possession order was granted by the civil courts. As Barnet Homes were already in possession of the keys following the gas safety team having to force entry, the property was recovered.

The keys from a further **8** properties were recovered by consent as the tenant was not residing at that property. There was no need for any legal action in these cases.

Blue Badges & Corporate Fraud Investigations

Case 1 – Relates to the misuse of a stolen blue badge, the defendant failed to attend interview appointments to discuss the offence. The suspect was subsequently prosecuted and received a fine of £65, ordered to pay costs of £700 and a victim surcharge of £30.

Case 2 – relates to the misuse of disabled child's blue badge, the defendant, who is the child's mother was found to have been using the badge whilst the child was at school, despite attempts to deceive investigation officers with false explanations she was prosecuted for the offence and received a fine of £100 and a victim surcharge of £30

Case 3 – relates to a staff member within the Street Scene Delivery Unit, Waste & Recycling who was observed by Civil Enforcement Officers collecting traders waste illegitimately. He was subsequently interviewed by CAFT Officers. Whilst evidence of fraud was obtained the financial gain was below the threshold required for formal prosecution through the courts. The Delivery Unit was informed of the evidence obtained and the subject was immediately dismissed from his employment as a temporary member of staff.

Case 4 – relates to the misuse of a blue badge by a member of NSL staff who was contracted to provide environmental enforcement within the borough. The staff member was suspected of misusing a badge belonging to a relative to park close to his place of work. The case relied heavily on strong circumstantial evidence which was insufficient to meet the burden of proof required in a Magistrates court. However, the evidence was passed to NSL who carried out a disciplinary hearing which resulted in the employee being dismissed.

Simple Cautions (previously known as Formal or Police Cautions)

The aims of the simple caution scheme are:

To offer a proportionate response to low-level offending where the offender has admitted the offence;
To deliver swift, simple and effective justice that carries a deterrent effect;
To record an individual's criminal conduct for possible reference in future criminal proceedings or in criminal record or other similar checks;
To reduce the likelihood of re-offending;
To increase the amount of time police/investigation officers spend dealing with more serious crime and reduce the amount of time officers spend completing paperwork and attending court, whilst simultaneously reducing the burden on the courts.

Thirty-seven cautions were administered by CAFT in Q3 where disabled blue badges were found being misused. Following investigative interviews under caution, the circumstances of these cases allowed CAFT to consider them to be dealt with by way of the administration of a formal caution.

Twenty-Three of these cases related to instances where errands were being run by family members on behalf of the badge holder. These errands related to the collection of items such as medication. The offenders stated that they believed that the badge could be used for such action but when the Blue badge scheme was explained to them they realised that their actions fell outside of what was permitted.

Three cases related to a situation where the offender used the badge to allow them to park close to a school where they were due to collect a child who was not the Badge holder.

Four cases relate to badges being misused by the offenders to allow them to park near their places of work

One case relates to misuse due the fact that the badge was placed on a broken-down vehicle belonging to the offender

Five Cases relate to the offender forgetting to remove the badge after being with the badge holder earlier on the same day

One case relates to the offender misusing a badge to attend an urgent medical appointment

	<p>Audit Committee</p> <p>31 January 2018</p>
<p style="text-align: right;">Title</p>	<p>Accounts Closure Improvement Plan – Progress Report</p>
<p style="text-align: right;">Report of</p>	<p>Director of Finance</p>
<p style="text-align: right;">Wards</p>	<p>All</p>
<p style="text-align: right;">Status</p>	<p>Public</p>
<p style="text-align: right;">Urgent</p>	<p>No</p>
<p style="text-align: right;">Key</p>	<p>No</p>
<p style="text-align: right;">Enclosures</p>	<p>Appendix A – Accounts Closure Improvement Plan</p>
<p style="text-align: right;">Officer Contact Details</p>	<p>Paul Clarke – Paul.Clarke@barnet.gov.uk, 0208 359 2800 Gillian Clelland – Gillian.clelland@barnet.gov.uk, 0208 359 5310</p>

Summary

At its meeting on 2 November 2017, the Committee considered an accounts closure improvement plan which was developed to address the misstatements and weaknesses in the 2016/17 accounts preparation process.

Progress against the plan is updated and monitored on a fortnightly basis in conjunction with the Director of Finance and Head of Finance. However, given that the new (interim) Director of Finance has only recently joined the Council, it is too early for him to form a view on the progress achieved to date toward a successful and timely closure of accounts. This report, nevertheless, provides the Committee with an update on CSG’s reported progress against the key actions in the improvement plan.

Whilst some of the originally planned delivery dates have had to be revised, overall there is not at this stage any significant concern that the plan will not be delivered and support delivery of a set of accounts to the required deadline and of the necessary quality.

Recommendations

1. The Audit Committee are asked to note progress against the accounts closure improvement plan.

1. WHY THIS REPORT IS NEEDED

1.1 At its meeting on 2 November 2017, the Committee considered an accounts closure improvement plan which was developed to address the misstatements and weaknesses in the 2016/17 accounts preparation process. The Committee requested that a progress report be brought to its next meeting.

1.2 The improvement plan focuses on the following themes:

- Resourcing issues;
- End to end management of the accounts and audit process;
- Changes in the presentation of the financial statements;
- Specific issues raised in the Audit Completion Report;
- Pension Fund accounts;
- External audit process.

1.3 Progress against the improvement plan is updated and monitored on a fortnightly basis in conjunction with the Council's Director of Finance and Head of Finance. However, given that the new (interim) Director of Finance has only recently joined the Council, it is too early for him to form a view on the progress achieved to date toward a successful and timely closure of accounts. This report, nevertheless, provides the Committee with an update on CSG's reported progress against the key actions in the improvement plan. Whilst some of the originally planned delivery dates have had to be revised, overall there is not at this stage any significant concern that the plan will not be delivered and will support delivery of a set of accounts to the required deadline and of the necessary quality. Progress against the key actions is reported below.

Resourcing

1.4 Additional resources have been invested in the CSG closing and monitoring team for the period leading up to year end and through the accounts closure period. This includes two additional posts, one on a CIPFA graduate trainee rotation and one seconded from the client side, as well as interim cover while a recently vacated post is being permanently recruited to. These additional resources are being funded by CSG.

1.5 In addition, responsibility for certain notes to the accounts has been allocated to members of the wider CSG finance team in order to further increase capacity and reduce over reliance on a small number of people. Training and guidance has been provided to CSG finance to ensure that responsibilities and expectations are clear and understood. The closure process is also discussed as a standing agenda item at each CSG senior management team meeting.

End to end management of the accounts and audit process

1.6 The closing timetable previously ended at the point of delivering a set of accounts to the auditors and did not take into consideration the management and conclusion of the audit process.

- 1.7 The closing timetable has been critically reviewed and comprehensively revised to ensure it is fit for purpose as a tool to manage the entire end to end process from pre year-end preparation to conclusion of the external audit. The timetable is updated on a daily basis and is accessible to all of CSG finance and the S151 Officer and deputy. Weekly meetings of the CSG finance team are scheduled from January to May to monitor delivery of the timetable.

Changes in the presentation of the financial statements

- 1.8 The changes in the format of the Comprehensive Income and Expenditure Statement (CIES) and the new Expenditure Funding Analysis (EFA) note were the cause of a number of the issues experienced in 2016/17. The actions proposed to address these issues included re-performing the 2016/17 CIES, documenting the reasons for the errors that occurred in order to identify an appropriate control and reviewing the structure of the ledger to reduce the number of manual adjustments needed.
- 1.9 This task has been extended to fundamentally recreate the CIES in preparation for future automation of the statement. This is a greater piece of work than was originally envisaged and therefore the original planned delivery date has had to be extended. This exercise also incorporates the other actions relating to the CIES. The CIES related actions will be completed as part of the month 9 'soft close' which will include preparation of a CIES and EFA.

Specific issues raised in the Audit Completion Report

- 1.10 28 actions were identified in response to issues reported by BDO in their Audit Completion Report. The majority of these actions have been completed or are expected to be completed by the end of January. Four areas are brought to the attention of the Committee.
- 1.11 BDO recommended that process notes and/or system diagrams should be drawn up for key transaction streams, setting out the key control activities in each place, who has responsibility for their operation, and how their effectiveness is monitored. This project is currently being scoped and will be supported by the new newly appointed Capita Local Government internal controls manager. The action has been RAG rated as red as a completion date is yet to be confirmed.
- 1.12 Work is ongoing on validating and resolving historical developer deposits on the Balance Sheet and putting in place processes to manage these going forward. CSG finance have been working with the service area to finalise outstanding actions, following which any historical corrections needed will be processed. A written procedure for managing developer deposits going forward is in draft and will be finalised after historical issues are resolved. Both actions will be completed by 31 January.
- 1.13 Work is ongoing on re-performing the 2016/17 Collection Fund in order to provide assurance on the robustness of opening balances. Due to work on the CIES being prioritised, the target date for this task has been extended to 28 February.

- 1.14 The 2016/17 audit identified issues with a number of disclosure notes and, to address this, a full set of 'skeleton accounts' and disclosures was to be prepared. These accounts are partially completed however this action has been superseded by the month 9 'soft close' which will produce accounts by 31 January that are substantially complete. This action, in its original form, will not therefore now be implemented.

Pension Fund Accounts

- 1.15 Preparation for the Pension Fund accounts is well underway. A month 9 close is in progress and the Head of Treasury and Pensions has engaged with colleagues in Capita Employee Benefits, who provide pensions administration services, to agree information requirements and year end arrangements. The specific issues raised in the Pension Fund Audit Completion Report are complete and a separate project to address the quality of underlying membership data is ongoing.

Audit Process

- 1.16 Improved liaison arrangements have now been put in place with the external auditors, BDO. Regular meetings are being held with the audit manager and details of the audit team and interim audit work have been received. CSG finance have worked with BDO to agree which items of audit work can be brought forward in order to enable them to issue their audit opinion by the required deadline.

Overall Assessment

These actions mean that CSG are confident of achieving the deadlines set within the Closure of Accounts year end timetable and that a robust set of accounts, free of significant errors, will be produced.

2. REASONS FOR RECOMMENDATIONS

- 2.1 To ensure that the Audit Committee has appropriate oversight and assurance of the actions being taken to improve the timeliness and quality of the Statement of Accounts and Pension Fund Accounts.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 None.

4. POST DECISION IMPLEMENTATION

- 4.1 The Director of Finance (S151 officer) and Head of Finance (Deputy S151 officer) will continue to monitor delivery of the improvement plan by CSG Finance.

5. IMPLICATIONS OF DECISION

- 5.1 **Corporate Priorities and Performance**

5.1.1 The Audit Committee provides the Council with independent assurance and effective challenge and, therefore, the Committee is central to the provision of effective governance that supports delivery of all corporate priorities.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 The improvement plan will be delivered by CSG finance with support from elsewhere in Capita Local Government Services. Additional resources have been added to the CSG closing team, funded by Capita.

5.3 Legal and Constitutional References

5.3.1 In accordance with the Council's Constitution, the Audit Committee oversees the financial reporting process. It reviews and approves the annual statement of accounts and considers the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

5.4 Risk Management

5.4.1 Close monitoring and delivery of the improvement plan will help to mitigate the risk of similar issues reoccurring in 2017/18 and future years.

5.5 Equalities and Diversity

5.5.1 None in the context of this report.

5.6 Consultation and Engagement

5.6.1 N/A.

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Accounts Closure Improvement Plan

Theme	Issue Identified	Ref	Action (taken or to be taken)	Deliverable Date	Revised Deliverable Date	Status	RAG (Blue is complete)	Responsible	Update as at 11/1/18
STATEMENT OF ACCOUNTS									
Resourcing issues leading to lack of capacity to review	The accounts preparation has historically relied heavily on a small team which for 2016/17 included an interim resource in a key post. Changes to the Statement of Accounts and difficulties encountered meant that the team had insufficient capacity to undertake sufficient review and quality control as part of the process.	1.1	Closing team to be fully recruited to with appropriately experienced and able staff.	N/A		In progress	A	Assistant Director of Finance (CSG)	Recruitment to the vacant Financial Accountant post (on both a permanent and temporary basis) has commenced. One of the CIPFA trainees has started a rotation in the closing team until 31 May and a Senior Management Accountant from the client side started a secondment to the CSG closing team on 15 January.
		1.2	Prepare a resourcing plan for the closing team which identifies and allocates responsibility for review and quality control processes and demonstrates that there is capacity within the team for these processes to be adequate	31/10/2017	31/01/2018	In progress	A	Head of Finance (closing)	Plan to be updated to reflect additional resources referred to at 1.1 above.
		1.3	Allocate responsibility for each note to the accounts to members of the wider CSG finance team including Senior Business Partners and Business Partners	30/11/2017		Completed	B	Head of Finance (closing)	Responsibility for notes to the accounts was allocated and circulated to CSG Finance on 1/11/17 together with this improvement plan and working paper templates. Meetings have been held with each individual to agree responsibilities and provide any training/knowledge transfer required. The closing improvement plan is a standing item on each senior finance team meeting agenda.
		1.4	Deliver training sessions / workshops to CSG finance staff, clearly setting out roles and responsibilities and expectations and other key messages arising from the audit and lessons learned review	29/12/2017	18/01/2018	Completed	B	Assistant Director of Finance (CSG)	Initial launch meeting took place in October. Individual sessions have also been held with Senior Business Partners and finance training sessions were delivered on 18 January.
End to end management of process	The closure timetable currently finishes at the date the draft accounts are presented for audit therefore it did not provide a proactive and managed mechanism to manage the audit process and other workstreams such as Whole of Government Accounts and Government returns.	1.5	Undertake a critical review of the existing timetable in conjunction with finance business partners and develop a comprehensive closure timetable that is structured to meet the new timescales. Expand the timetable to 31 July and include all accounts related workstreams and audit liaison.	30/11/2017	07/12/2017	Completed	B	Finance manager - Accountancy, Closing and Monitoring (with deputy 151 officer)	The final closing timetable was circulated on 7 December.
Changes in the presentation of the Financial Statements	The format of the Comprehensive Income and Expenditure Statement (CIES) changed in 2016/17 and a new note was required - the Expenditure Funding Analysis (EFA). The audit identified a number of issues with the CIES, EFA and associated notes including 'grossing' up errors, whereby income and expenditure were overstated, classification errors and some analysis omitted from the notes to the accounts. The issues arose partly due to the amount of manual intervention required to create the CIES from the Trial Balance.	1.6	Review and re-perform 2016/17 CIES and validate compliance with the Code	30/11/2017	31/01/2018	In progress	A	Finance manager - Accountancy, Closing and Monitoring	This is ongoing but completion will slip to 31/1/18 as the task has been extended to fundamentally recreate the CIES in preparation for future automation. Thus, the task is greater than originally envisaged but will deliver greater benefits going forward.
		1.7	Review the structure of the ledger and as far as possible make changes necessary to support the preparation of the Statement of Accounts	29/12/2017	31/01/2018	In progress	A	Finance manager - Accountancy, Closing and Monitoring	1.7 is part of the same exercise referred to under 1.6.
		1.8	Document any manual, off-ledger adjustments that are required and ensure that these adjustments are subject to a review and authorisation process in line with the process for approval of journal entries	29/12/2017	31/01/2018	In progress	A	Finance manager - Accountancy, Closing and Monitoring	Dependent on completion of 1.6.
		1.9	As part of the accounts preparation process, undertake analytical review of CIES and other statements and notes at gross expenditure and income level	30/04/2018		Not started	G	Head of Finance (closing)	
		1.10	Undertake a review of the errors that occurred in 2016/17 and identify the reasons for each in order that a control can be put in place to avoid such errors reoccurring	30/11/2017	31/01/2018	In progress	A	Head of Finance (closing)	This is being done in conjunction with the preparation of the month 9 CIES. Revised completion date 31/1/18.
		Specific issues raised in the ISA 260	The auditors identified that many of the control activities which provide assurance over the completeness and accuracy of the Statement of Accounts take place outside of the finance team and raised concerns about a lack of high level understanding and oversight of the complete control framework, and how this provides management with the required level of assurance that the internal control system, as a whole, is suitable for the Council's needs.	1.11	A review of process notes and/or system diagrams should be drawn up for key transaction streams, setting out the key control activities in each place, who has responsibility for their operation, and how their effectiveness is monitored.	29/12/2017	31/01/2018	In progress	R
1.12	All control account reconciliations (including bank reconciliations) are prepared and reviewed at an appropriate level on a timely basis throughout the year, and any differences arising are appropriately explained and cleared in a timely manner. Evidence of this process will be documented and retained.			31/10/2017		Completed (but ongoing)	G	Assistant Director of Finance (CSG)	A summary of control accounts is maintained and updated evidencing completion of reconciliations by whom and when. A standardised front sheet has been implemented for each control account; this plus the detailed reconciliation is provided to the closing team for review every month.
1.13	The audit recommended that a review of CIPFA guidance is undertaken in advance of preparing the 2017/18 Narrative Statement, to identify areas for improvement going forward.			29/12/2017	22/01/2017	In progress	A	Assistant Director of Finance (CSG)	
1.14	The audit identified that the Council is accounting for Community Infrastructure Levy (CIL) income on the basis of when cash is received, not at the point that a chargeable development commences (as required by the Code).			17/11/2017		Completed	B	Head of Finance (closing)	CIL is now reconciled with planning on a monthly basis. As part of this process planning provide additional details on when the CIL is due and any applications for relief which may result in a reduction. The closing team have put a process in place to ensure the income and income due are accounted for, using the reconciliation as back up.
1.15	The audit identified developer deposits which were more than 1 year old at the balance sheet date which indicates a risk that there are some balances which should either be repaid to developers, or recognised as income to the Council.			30/11/2017	31/01/2018	In progress	A	Senior business partner (Environment)	The Re business partner is working with the service to finalise outstanding actions, following which any corrections needed will be processed. Revised deadline 31/1/18.
		1.16	Review, document and communicate the process for accounting for developer deposits, including periodic and regular review of old deposit balances to ensure that these are repaid or recognised as income on a timely basis.	15/12/2017	31/01/2018	In progress	A	Senior business partner (Environment) with Head of Finance (closing)	New processes are being put in place with the service to improve management of deposits going forward. A draft process note has been prepared and, following completion of 1.15, will be finalised and implemented. Revised deadline 31/1/18.

Theme	Issue Identified	Ref	Action (taken or to be taken)	Deliverable Date	Revised Deliverable Date	Status	RAG (Blue is complete)	Responsible	Update as at 11/1/18
Specific issues raised in the ISA 250 (cont.)	The audit identified that there had been delays in receiving related party transactions declarations and that the disclosure note was not complete and accurate	1.17	Document the escalation process for non returns	31/10/2017		Completed	B	Finance manager - Accountancy, Closing and Monitoring	
		1.18	Review the disclosure note for compliance with the Code	17/11/2017		Completed	G	Finance manager - Accountancy, Closing and Monitoring	Disclosure note has been reviewed and the final version in the 2016/17 accounts complies with the Code. The layout will however be slightly restructured to make it easier to read.
	The audit identified classification errors between cash and cash equivalents	1.19	Document the process for classifying investments as cash or cash equivalents, and ensure this is implemented in practice with the necessary checks in place.	30/11/2017		Completed	B	Head of Treasury and Pensions	Process note circulated 27/11/17
		1.20	Re-perform 2016/17 Collection Fund and develop an improved and fit for purpose process for 2017/18	29/12/2017	28/02/2018	In progress	A	Finance manager - Accountancy, Closing and Monitoring	This has been started. The toolkits are now being used and the opening balances in 2017/18 are being tracked back to the expected position from the toolkits.
	The audit identified a number of issues in respect of accounting for Collection Fund balances within the Council's Balance Sheet	1.21	Review methodologies and working papers and specifically the bad debt provision methodology for the Collection Fund	29/12/2017	16/05/2018	Not started	A	Finance manager - Accountancy, Closing and Monitoring	Reallocated to AD Finance - has slipped to February due to competing priorities.
		1.22	Review the Collection Fund account and notes for compliance with the Code	29/12/2017		Completed	B	Finance manager - Accountancy, Closing and Monitoring	Areas of non compliance were resolved in the final version of the 2016/17 Statement of Accounts.
	The audit identified that the disclosure note on officers' remuneration - exit packages had been prepared on the basis of payments made during the year, rather than exit packages agreed in the year as required by the Code.	1.23	Issue clear instructions to HR / payroll setting out the requirements for the information required and effective dates	31/01/2018		In progress	G	Head of Finance (closing)	Two meetings have been held with HR and they have been provided with information requests / templates for all remuneration related notes. A draft remuneration note and details of agreed exit packages have been received and are being reviewed. As an additional check, the April and May payrolls will be reviewed to identify potentially missing exit packages.
		1.24	Review the 2016/17 note against the Code requirements and set up a framework for a fully compliant note	31/01/2018		Not started	G	Finance manager - Accountancy, Closing and Monitoring	Reallocated to Head of Treasury and Pensions
	The Statement of Accounts includes some notes that are immaterial	1.25	Review 2016/17 notes to the accounts for materiality and remove unnecessary or immaterial notes from the 2017/18 accounts (unless Audit Committee have asked for them not to be removed)	31/01/2018		Completed	B	Finance manager - Accountancy, Closing and Monitoring	A number of notes were identified by the auditors and, with a small number of exceptions, these have been agreed to be removed.
		1.26	Identify how the Integra asset register module is used elsewhere to identify whether unnecessary transactions for acquisitions can be removed from assets under construction. If possible in the application, this split will be implemented.	31/01/2018		In progress	G	Head of Finance (closing)	Unnecessary transactions will be removed as part of the accounting process. The asset register upgrade is being tested but there are unlikely to be material changes to the module.
	The audit identified that the Council had not recognised income (or a debtor) for recoverable housing benefit overpayments held within the housing benefits system	1.27	Work with the revenues and benefits team to assess the recoverability of housing benefit overpayments being recovered from ongoing benefit and ensure that the debtor and impairment provision are reflected in the 2017/18 accounts	31/01/2018		In progress	G	Senior business partner (corporate) with Head of Finance (closing)	
		1.28	Review the entire Statement of Accounts and produce skeleton accounts and disclosures, including prior year comparatives. Compare with the model accounts in the Code and with other high performing authorities to ensure best practice is being followed. Share an early copy of the skeleton accounts and disclosures with the auditors to allow opportunity for review of updated disclosures and prior year information in advance of the year end.	29/12/2017	31/01/2018	In progress	A	Head of Finance (closing)	Skeleton accounts partially complete but action now superseded by M9 'soft close' which will produce accounts which will be substantially complete by 31/1/18.
The audit identified a number of issues relating to the completeness, accuracy and compliance with the Code of various notes including: - Grants - Pension Schemes - Provisions - Earmarked reserves - Pooled budgets - Dedicated Schools Grant (DSG) - Private Finance Initiative (PFI) - Group accounts	1.28	Review the entire Statement of Accounts and produce skeleton accounts and disclosures, including prior year comparatives. Compare with the model accounts in the Code and with other high performing authorities to ensure best practice is being followed. Share an early copy of the skeleton accounts and disclosures with the auditors to allow opportunity for review of updated disclosures and prior year information in advance of the year end.	29/12/2017	31/01/2018	In progress	A	Head of Finance (closing)	Skeleton accounts partially complete but action now superseded by M9 'soft close' which will produce accounts which will be substantially complete by 31/1/18.	

Theme	Issue Identified	Ref	Action (taken or to be taken)	Deliverable Date	Revised Deliverable Date	Status	RAG (Blue is complete)	Responsible	Update as at 11/1/18
PENSION FUND									
Staff capacity and capability	Previous capacity and capability issues led to numerous historical issues and errors, some of which had not been resolved prior to 2016/17. While capacity was increased, there was still a lack of technical pensions knowledge which led to the accounts being delivered late and there being errors in the first draft.	2.1	A new Head of Treasury and Pensions is now in post who is experienced in the preparation of pension fund accounts and will lead on the preparation of the 2017/18 accounts with appropriate support from within the treasury and pensions team and the wider finance team.	11/05/2018		In progress	G	Head of Treasury and Pensions	Preparation work for the 2017/18 accounts has started and a month 9 close will be undertaken.
		2.2	All historical issues and errors in the accounts have been resolved.	N/A		Completed	B	Assistant Director of Finance (CSG)	
Quality of underlying membership data	Audit testing of contributions received (£58.6m) relies heavily on membership data held and maintained by Capita Employee Benefits (CEB). Data quality issues were identified as part of the 2016 triennial valuation and, whilst data cleansing is ongoing and a comprehensive pensions administration improvement plan is in place, the audit identified a significant number of queries and errors arising from the quality of membership data.	2.3	Implementation of the pension administration improvement plan relating to data quality will ensure that pension fund data is actively monitored and demonstrated as improving in quality.	29/12/2017	31/08/2018	Ongoing	A	Head of Business Assurance (CEB)	A project is currently ongoing to conduct a forensic analysis of Conditional Data held on the Pensions platform Hartlink in accordance with the Pensions Regulator (EPRI) requirements. This will be followed by a data cleansing project and address tracing and verification to improve the quality of Scheme data held. Full completion of all data cleansing projects is planned to be 31/8/18.
Delays in responding to auditor queries	A detailed analysis of transactions was not requested from CEB until the start of the audit and this was done on a code by code basis which meant that the auditors had to wait for information to be received before they could select samples. This led to delays in receiving responses to queries which in turn led to delay in the completion of the audit.	2.4	Provide early notification to CEB of audit dates and document key CEB contacts with roles and responsibilities, staff availability and holiday commitments.	28/02/2018		In progress	G	Head of Treasury and Pensions	The Head of Treasury and Pensions visited Capita Employee Benefits in Darlington and met with all key contacts and the actuary and discussed information requirements and year end arrangements.
		2.5	Agree an SLA with CEB for turnaround of audit queries.	28/02/2018		Not started	G	Head of Treasury and Pensions	
		2.6	Request a full transaction analysis and analysis of membership movements from CEB, to be provided by in early April, in order that this can inform the accounts preparation process and the auditors, if they wish, can select samples prior to the start of the audit.	31/03/2018		Not started	G	Head of Treasury and Pensions	
Specific issues raised in the ISA 260	There is no independent authorisation process for journal entries within the Pension Fund environment of Integra. The auditors recommend that this is implemented, in line with the L88 system enforced control environment.	2.7	Journal authorisation will be implemented within the Pension Fund environment of Integra.	31/10/2017		Completed	B	Assistant Director of Finance (CSG)	Implemented in 'live' environment.
		2.8	Engage with fund managers to ensure that they will be able to provide the information required to comply with the 2017/18 Code on 'hidden' investment management expenses	30/11/2017		Completed	B	Head of Treasury and Pensions	Head of Treasury and Pensions has engaged with fund managers.
AUDIT PROCESS									
Working effectively with the auditors	The audit process did not conclude in line with pre-agreed deadlines	3.1	Confirmation of new Audit Manager	31/10/2017		Completed	B	Leigh Lloyd Thomas	
		3.2	Confirmation of audit team and areas of responsibility	29/12/2017		Completed	B	Nick Bernstein	Notification of team received 21/12/17.
		3.3	Plan for interim audit including timeframes	29/12/2017		Completed	B	Nick Bernstein	A draft interim audit plan was received on 27/11/17 and feedback provided to the auditors on 28/11/17. A final plan was received on 22/12/17.
		3.4	Plan for final audit including timeframes	29/12/2017		Not started	A	Nick Bernstein	Dates have been agreed - no other detailed plans have been received.
		3.5	Agreement of triggers and parameters for escalation so CFO and Members are sighted on issues in order to put rectification plans in place	30/11/2017		Completed	B	Leigh Lloyd Thomas (with Anisa Darr)	
		3.6	Workshop with finance team to review which processes and testing can be brought forward to ensure a completion of audit by the end of July	30/11/2017		Completed	B	Nick Bernstein	Workshop held on 31/10/17. Draft plan received 27/11/17 and final plan received 22/12/17.

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	<p>Audit Committee 31st January 2018</p>
<p style="text-align: center;">Title</p>	<p>Annual Audit Letter 2016/17</p>
<p style="text-align: center;">Report of</p>	<p>Director of Finance</p>
<p style="text-align: center;">Wards</p>	<p>All</p>
<p style="text-align: center;">Status</p>	<p>Public</p>
<p style="text-align: center;">Urgent</p>	<p>No</p>
<p style="text-align: center;">Key</p>	<p>No</p>
<p style="text-align: center;">Enclosures</p>	<p>Appendix A – Annual Audit Letter 2016/17</p>
<p style="text-align: center;">Officer Contact Details</p>	<p>Gillian Clelland – Assistant Director of Finance, CSG gillian.clelland@barnet.gov.uk</p>

Summary

The purpose of the Annual Audit Letter is to summarise the key issues identified by the Council’s external auditor, BDO LLP, during their audit and inspection activity. The letter is designed to communicate messages to the Council and external stakeholders, including members of the public.

This covering report extracts the key messages from within the Annual Audit Letter 2016/17, which is attached to this report at Appendix A and is published on the Council’s website at the following link:

<https://barnet.gov.uk/dam/jcr:1afd8214-7100-4000-b9ee-af70e5ecebbb/LB%20Barnet%20Annual%20Audit%20Letter%202016-17.PDF>

The following points are drawn to the attention of the Committee:

An unmodified (formerly known as unqualified) opinion on the Statement of Accounts for 2016/17 was given by the external auditors, confirming that the accounts give a true and fair view of the Council’s financial position as at 31 March 2017 and its income and expenditure for the 2016/17 financial year. An unmodified opinion was also given on the pension fund’s financial statements. The unmodified audit opinions were issued on the Council’s and

pension fund's financial statements on 29 September 2017 which was within the statutory deadline.

The audit of the Whole of Government Accounts also concluded that, following the reclassification of a number of balances and the inclusion of amounts against counterparties where balances or transactions had not been reported, the Whole of Government Accounts submission was consistent with the audited financial statements.

The auditors are also required to issue an audit opinion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditors concluded that they were satisfied that the Council has adequate arrangements for setting and monitoring financial budgets, and that it has clearly identified its funding gap and savings requirements through to 2020. However, as a result of the Ofsted inspection rating the Council's children's services as inadequate, the auditors were unable to conclude that the Council has adequate arrangements for the delivery of safe and effective services for children. A qualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources was therefore issued on 29 September 2017.

The external auditors have completed the 2016/17 grant claim audit. Further details on this are provided within the grant claims and returns certification report, considered elsewhere on the Committee agenda.

The auditors have not yet completed their work on objections and concerns raised by local electors in respect of both the 2015/16 and 2016/17 financial years and are not able to issue the audit certificates to close the audits for 2015/16 or 2016/17 until this is complete.

The audit fee for 2016/17 was £170,025 (2015/16: £170,025). The fee for certification of the housing benefits subsidy was £20,310 compared with £21,617 for 2015/16. The fee for the audit of the pension fund accounts was £21,000 (2015/16: £31,000). The auditors had to undertake additional audit work on the Council's and the pension fund's financial statements and the impact of this work on proposed fees is yet to be concluded.

In addition the Council has also commissioned the services of BDO to audit the following claims which require external auditor approval.

- Teachers' pensions return
- Pooling of housing capital receipts return

The charge for these additional services is £7,750 compared with £7,500 in 2015/16.

Recommendations

- 1. That the external auditor's Annual Audit Letter for 2016/17 be received; and**
- 2. That the Committee consider whether there are any areas on which they require additional information.**

1. WHY THIS REPORT IS NEEDED

- 1.1 The National Audit Office's Code of Audit Practice requires auditors to prepare an Annual Audit Letter and issue it to each audited body.
- 1.2 The purpose of preparing and issuing Annual Audit Letters is to communicate to the audited body and key external stakeholders, including members of the public, the key issues arising from auditors' work, which auditors consider should be brought to the attention of the audited body. The Annual Audit Letter covers the work carried out by auditors since the previous Annual Audit Letter was issued.

2. REASONS FOR RECOMMENDATIONS

- 2.1 In order that the Council can consider the external auditor's Annual Audit Letter, be able to comment on the scope and depth of external audit work and to ensure it gives value for money.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 None

4. POST DECISION IMPLEMENTATION

- 4.1 None

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

- 5.1.1 The Annual Audit Letter summarises the key performance issues and achievements of the Council. Those areas of weakness must be addressed over the coming year; failure to do so carries the risk of adverse financial and/or reputational consequences. This supports the Council's corporate priorities as expressed through the Corporate Plan.

5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)

- 5.2.1 This report deals with the audit of the Council's accounts, financial performance, value for money and financial resilience. The external auditor provided an unmodified opinion with regard to the Council's financial statements and pension fund financial statements. A qualified conclusion was issued on the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources.
- 5.2.2 The audit fee for 2016/17 was £170,025 (2015/16: £170,025). The fee for certification of the housing benefits subsidy was £20,310 compared with £21,617 for 2015/16. The fee for the audit of the pension fund accounts was

£21,000 (2015/16: £31,000). Additional services provided by the auditors totalled £7,750 and consisted of audit work on the Teachers' Pensions return and the pooling of housing capital receipts return.

5.3 Legal and Constitutional References

5.3.1 Regulation 20 of the Accounts and Audit Regulations 2015 SI 2015/234 require that, as soon as reasonably practicable after receipt of the Annual Audit Letter from the auditor, a committee of the Authority must meet to consider it and, following that consideration, must:

- Publish (which must include publication on the authority's website) the annual audit letter received from the auditor; and
- Make copies available for purchase by any person on payment of such sum the Council may reasonably require. The Council does not currently charge for requested copies.

5.3.2 The Council's Constitution, Responsibility for Functions - the functions of the Audit Committee are detailed and include "To consider the external auditor's annual letter, relevant reports and the report to those charged with governance". and "to comment on the scope and depth of external audit work and to ensure it gives value for money"

5.4 Risk Management

5.4.1 The external auditors scope their audit work on the financial statements by obtaining an understanding of the Council and pension fund and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements. The audit of use of resources is scoped by the auditors' cumulative knowledge brought forward from previous audits, relevant findings from work undertaken in support of the opinion on the financial statements, reports from the Council including internal audit, information disclosed or available to support the governance statement and annual report, and information available from the risk registers and supporting arrangements.

The Annual Audit Letter sets out the risks that had the greatest effect on the audit strategy and how those risks were addressed by the audit and audit findings.

5.5 Equalities and Diversity

5.5.1 There are no matter of equalities and diversity arising from the content of this report.

5.6 Consultation and Engagement

There are no consultations or engagements relevant to this report

6. BACKGROUND PAPERS

6.1 None

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**LONDON BOROUGH OF BARNET COUNCIL AND
PENSION FUND**

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2017
30 October 2017



EXECUTIVE SUMMARY

PURPOSE OF THE LETTER

This annual audit letter summarises the key issues arising from the work that we have carried out in respect of the year ended 31 March 2017. It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public. It will be published on the website of Public Sector Audit Appointments Limited.

RESPONSIBILITIES OF AUDITORS AND THE COUNCIL

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice (the Code), and to review and report on:

- The Council's and pension fund's financial statements
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to report where we have exercised our statutory powers under the Local Audit and Accountability Act 2014 in any matter.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

BDO LLP
30 October 2017

AUDIT CONCLUSIONS

FINANCIAL STATEMENTS

We issued our unmodified true and fair opinions on the Council's and pension fund's financial statements on 29 September 2017.

We reported our interim findings to the Audit Committee on 27 July and our Audit Completion Report on 19 September 2017. We identified a number of material misstatements in the draft financial statements that were corrected by management. We also reported on unadjusted audit differences that, if corrected, would increase the Council's surplus on the provision of services and net assets by £5.894 million and increase the group surplus and net assets by £5.881 million.

We reported our detailed findings on the pension fund financial statements to the Pension Fund Committee on 6 September 2017. We did not identify any material misstatements although we reported unadjusted audit differences that, if corrected, would increase the net assets of the Fund by £0.883 million to £1.053 billion.

USE OF RESOURCES

We are satisfied that the Council has adequate arrangements for setting and monitoring financial budgets, and that it has clearly identified its funding gap and savings requirements through to 2020.

As a result of the Ofsted inspection rating the Council's Children's services as inadequate, we were unable to conclude that the Council has adequate arrangements for the delivery of safe and effective services for Children's services. We issued our qualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 29 September 2017.

EXERCISE OF STATUTORY POWERS

We received a number of objections regarding the lawfulness of certain decisions and transactions included in the financial statements. This work remains on going although we were satisfied that these matters do not have a material effect on the financial statements or on our value for money conclusion.

FINANCIAL STATEMENTS

OPINION

We issued our unmodified true and fair opinions on the Council's and pension fund's financial statements on 29 September 2017.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Council's and pension fund's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Our audit was scoped by obtaining an understanding of the Council and pension fund and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
There is a risk that revenue or capital grants that are subject to performance conditions may be inappropriately recognised as revenue before the condition have been met, revenue may not exist or be recognised in the wrong financial year.	<p>We tested an increased sample of revenue and capital grants subject to performance conditions to confirm that these were only recognised as revenue when the relevant conditions of the funding had been met.</p> <p>We found that some revenue grants that related to specific services were incorrectly classified within Taxation and non-specific grants in the Comprehensive Income and Expenditure Accounts and required reclassification as income to the relevant service areas.</p> <p>We also found the Council was incorrectly accounting for Community Infrastructure Levy (CIL) income on the basis of when cash is received, rather than at the point that a chargeable development commences. We estimated that income of £3.693 million recognised in the current year should have been recognised in a previous year and £1.958 million income should have been accrued in the current year. This error was not corrected by management.</p> <p>We tested an increased sample of fees and charges income throughout the year and confirmed that the amounts recorded agreed to underlying documentation for charges or services provided and that the revenue had been recorded in the correct period.</p>	We concluded that revenue was not materially misstatement but reported errors in the recognition of CIL income.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p>Local authorities are required to ensure that land, buildings and investment properties are regularly revalued.</p> <p>High value properties, and those which are expected to be subject to significant valuation movements, are revalued on an annual basis (covers approximately 90% of properties by value). Other properties are revalued on a rolling 5-year basis.</p> <p>We consider there to be a risk over the reasonableness of the valuations due to the estimation and judgments applied.</p>	<p>We responded to this risk by reviewing the instructions provided to the valuer to confirm that the planned scope of the valuation was appropriate and that the valuer was independent of the Council. We reviewed the valuer's skills and expertise and were satisfied that we could rely on this work.</p> <p>We checked whether accurate and complete data on assets held was provided to undertake the review and that the basis of valuation for assets was appropriate</p> <p>We reviewed valuation movements against indices of price movements for similar classes of assets and challenged valuations where the movement appeared unusual.</p> <p>Council dwellings increased by 5%. The overall housing price increases in the borough was 7.2% and the lower gain experienced by these dwellings reflects locality factors and the type of dwellings.</p> <p>Schools are valued using a modern equivalent asset basis and decreased by 2.7% to reflect the fall in pupil numbers. Rebuild costs applied were at the higher range of cost indices but within an acceptable range.</p> <p>Surplus assets increased significantly, particularly properties held in regeneration areas to reflect their development potential.</p> <p>Investment properties experienced small increases although there was some reduction in valuation for the Mill Hill Depot based on reduced gross development valuations provided by the development partners.</p> <p>Other land and buildings increased by 2.3% and is consistent with a blended general index for retail, office and development land.</p>	<p>We concluded that the valuations for land, buildings and investment properties were reasonable.</p>

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p>An estimate of the Council's pension fund liability is calculated by an actuary with specialist knowledge and experience.</p> <p>The estimate is based on the membership data used by the actuary for the 2016 triennial valuation and updated for local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>We considered there to be a risk that the valuation was not based on accurate membership data or used inappropriate assumptions to value the liability.</p>	<p>We received and reviewed a report from a consulting actuary, commissioned by the National Audit Office, that confirmed that the actuary was independent of the Council and suitably experienced and qualified.</p> <p>We reviewed the accuracy of the data recorded in the membership records and the information provided to the actuary. Our testing found a significant number of errors in the membership data at 31 March 2017. We discussed this with the actuary who confirmed that significant data cleansing was performed on these records when preparing the 2016 triennial valuation and that he was satisfied that the data used in the roll-forward valuation was materially accurate based on his cleansed dataset.</p> <p>We checked and confirmed that there had been no significant changes in employee numbers relating to the Council to be communicated to the actuary that could require amendment to the 2016 roll-forward data.</p> <p>We reviewed the reasonableness of the assumptions used by the actuary against other local government actuaries and other observable data. The actuary has applied a discount rate to future liabilities at the lower end of the range that tends to produce a 'strong' valuation that places a higher present value on those liabilities. Overall, we were satisfied that the assumptions used were within an acceptable range.</p> <p>Our audit procedures found that the estimate of the Council's share of fund assets used to calculate the net pension liability was based upon index returns, as the actuary had not been provided with actual investment return information at the time of drafting the report. We requested that management obtain an updated valuation report based upon actual returns that found that the initial estimate had understated the Council's net pension liability by £82.348 million. This was corrected by management.</p>	<p>We concluded that the actuarial valuation of the Council's pension fund liability was reasonable.</p>

FINANCIAL STATEMENTS

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the Council and group financial statements as a whole was set at £16 million. This was determined with reference to a benchmark of gross expenditure (of which it represents 1.5 per cent) which we consider to be one of the principal considerations for the Council in assessing the financial performance.

The materiality for the pension fund's financial statements as a whole was set at £10.5 million. This was determined with reference to a benchmark of net assets (of which it represents 1 per cent) which we consider to be one of the principal considerations for the pension fund in assessing the financial performance.

We agreed with the Audit Committee that we would report all individual audit differences in excess of £320,000. We agreed with the Pension Fund Committee that we would report all individual audit differences in excess of £210,000.

AUDIT DIFFERENCES - COUNCIL

We identified a number of material misstatements in the draft financial statements that were corrected by management. While these corrections did not impact on the Council or group surplus on the provision of services for the year, it reduced net assets and reserves of the Council by £82.348 million and the Group by £89.295 million.

In addition we found 10 audit differences not corrected in the final financial statements which would, if corrected, increase the Council's surplus on the provision of services and net assets by £5.894 million and increase the group surplus and net assets by £5.881 million.

We consider that these uncorrected misstatements did not have a material impact on our opinion on the Council's financial statements.

AUDIT DIFFERENCES - PENSION FUND

We did not identify any material misstatements impacting on the Fund Account or Net Assets Statement.

The fund performance for the year was an increase in net assets of £135.8 million. However, there were a significant number of prior year errors cleared through the 2016/17 Fund Account that resulted in net additional costs of £0.550 million relating to previous years being charged to the current year.

There were three remaining unadjusted audit differences identified by our audit work which, if corrected, would increase the net assets of the Fund by £0.883 million to £1.053 billion.

We consider that these uncorrected misstatements did not have a material impact on our opinion on the pension fund financial statements.

FINANCIAL STATEMENTS

OTHER MATTERS WE REPORT ON

Narrative report

The information given in the narrative report in the Statement of Accounts for the financial year was consistent with the financial statements.

Regulations require that this report should be fair, balanced and understandable. In our view, the non-financial performance section of the report focusses on the positive aspects of the Council's performance, which is in contrast to the significant issues identified in the Annual Governance Statement and our qualified use of resources opinion. In this context, we have reported that management should consider whether the narrative report is fair and sufficiently balanced in reporting on performance for the year.

Annual governance statement

We concluded that the annual governance statement was not misleading or inconsistent with other information we were aware of from our audit, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.

However, we noted that statement was prepared following the core principles of the CIPFA/SOLACE 2012 Framework Delivering Good Governance in Local Government but should have reported on the new CIPFA/SOLACE Framework 2016. Management intends to report under this new framework in 2017/18.

INTERNAL CONTROLS

We reported significant deficiencies in internal controls during the course of our audit covering:

- Accounts preparation and quality assurance review processes
- High level oversight of controls
- Bank and other control account reconciliations
- Accuracy of membership records for the pension scheme.

A number of other areas for improvement were identified which we have discussed with management.

WHOLE OF GOVERNMENT ACCOUNTS

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding certain non-current assets); liabilities (excluding pension liabilities); income or expenditure.

We have completed our review in accordance with the Group Audit Instructions issued by the National Audit Office. This requires that we compare the information in your Data Collection Tool (DCT) submission with the audited financial statements, undertake testing of completeness and accuracy of WGA counter party transactions and balances, and provide an assurance statement to the National Audit Office.

The DCT was amended as a result of the audit to reclassify a number of balances for consistency with the financial statements and to include amounts against counter-parties where balances or transactions had not been reported. Following these corrections, we were able to conclude that the revised DCT was consistent with the audited financial statements.

USE OF RESOURCES

CONCLUSION

As a result of the Ofsted inspection rating the Council's Children's services as inadequate, we were unable to conclude that the Council has adequate arrangements for the delivery of safe and effective services for Children's services. We issued our qualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 29 September 2017.

SCOPE OF THE AUDIT OF USE OF RESOURCES

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources based on the following reporting criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

OUR ASSESSMENT OF SIGNIFICANT RISKS

Our audit was scoped by our cumulative knowledge brought forward from previous audits, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Council including internal audit, information disclosed or available to support the governance statement and annual report, and information available from the risk registers and supporting arrangements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and direction of the efforts of the audit team.

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p>The required level of savings in the coming years will be a significant challenge and is likely to require difficult decisions around service provision and delivery models. There is a risk that savings may not be delivered as planned, placing additional pressures on reserves and sustainable finances in the medium term.</p>	<p>We reviewed the Medium Term Financial Strategy (MTFS), the key assumptions and savings schemes required to address reduced Government funding.</p> <p>The MTFS was updated in March 2017 and forecasts a budget gap of £54 million over the 3 year period from 2017/18 to 2019/20. The Council has delivered on savings plans to date and has developed fully identified savings plans for 2017/18. However, the savings targets remain significant and achievement of these will be challenging.</p> <p>Net expenditure in 2016/17 was overspent by £8.3 million mainly on Adults and communities (£5.43 million) and Housing needs (£1.8 million). These overspends were funded from draw down of earmarked reserves and from the General Fund balance.</p> <p>The 2017/18 budget has provided additional funds for Adults social care. It draws £9.5 million support from earmarked reserves and includes a savings programme of £19.8 million. Savings required in 2018/19 and 2019/10 are £16.7 million and £17.4 million.</p> <p>While the Council currently has healthy levels of reserves, many of these are earmarked for major capital and regeneration schemes. Management intend to undertake a fundamental review of the MTFS and Council Plan from 2020 as it is acknowledged that continued support from reserves after this will not be viable.</p>	<p>We are satisfied that the Council has adequate arrangements for setting and monitoring financial budgets, and that it has clearly identified its funding gap and savings requirements through to 2020.</p> <p>We acknowledge that management intend to undertake a fundamental review of its corporate and financial plans ahead of the 2020 refresh and note that continued support of revenue expenditure from reserves is unlikely to be available from this date.</p>

USE OF RESOURCES

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p>Ofsted completed a review of the Council's services for children in need of help and protection, children looked after and care leavers and reported concerns over these services.</p>	<p>We reviewed the findings of the report and the action plan to address weaknesses in governance, policies and processes.</p> <p>The Ofsted inspection assessed services as follows:</p> <ul style="list-style-type: none"> • Children who need help and protection - Inadequate • Children looked after and achieving permanence - Inadequate • Leadership, management and governance - Inadequate <p>The inspection was critical of the Council and found widespread poor practice and failures in arrangements to ensure the safety of children and young people. Ineffective risk assessments resulted in poor care planning and case notes were poor.</p> <p>There was also inadequate information sharing across the multi-agency safeguarding hub.</p> <p>We recognise that management were aware of some deterioration in performance for the service and the Children's Services director had commissioned a review of the service in January 2016.</p> <p>As a result of this initial diagnostic review, the Council has provided additional funding and is committed to improving the service. A Family Services Improvement action plan has been developed to drive improvements required. However, improving services will take time.</p>	<p>Due to these significant failings we were unable to conclude that the Council has adequate arrangements for the delivery of safe and effective services for Children's services.</p>

EXERCISE OF STATUTORY POWERS

REPORT BY EXCEPTION

We received objections from local taxpayers regarding the lawfulness of certain decisions and transactions included in the financial statements.

OBJECTIONS RECEIVED FROM TAXPAYERS

We received the following objections from local taxpayers regarding the lawfulness of certain decisions and transactions included in the financial statements:

- Legal authority for the sale of Victoria Park Lodge (carried from 2015/16)
- Lawfulness of income raised from parking charges on housing land (carried from 2015/16)
- Basis of accounting for parking income
- Lawfulness of the gain share payments made to Capita
- Lawfulness of decision to take borrowing in the form of Lender Option Borrower Option (LOBO) loans.

This work remains on going on these objections although we were satisfied that these matters do not have a material effect on the financial statements or on our value for money conclusion.

We will formally respond to the objectors upon completion of our work.

AUDIT CERTIFICATE

We are unable to issue the audit certificate to close the audit until we have completed our investigations and responded to objectors for the matters raised.

APPENDIX

REPORTS ISSUED

We issued the following reports since our previous annual audit letter.

REPORT	DATE
Audit plan - Council	3 April 2017
Audit plan - pension fund	3 March 2017
Audit completion report - Council	29 September 2017
Audit completion report - pension fund	29 September 2017
Annual audit letter	30 October 2017

FEES

We reported our original fee proposals in our audit plans.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Council audit - scale fees	⁽¹⁾ 170,025	170,025
Pension fund audit - scale fees	⁽¹⁾ 21,000	21,000
Housing benefits subsidy certification fees	20,310	20,310
Fees relating to investigating objections	⁽²⁾ TBC	-
Total audit fees	211,335	211,355
Pooled housing receipts certification	2,750	2,750
Teachers pensions return	5,000	5,000
Audit related services fees	7,750	7,750
Other non-audit services	-	-
Total assurance services	219,085	219,085

⁽¹⁾ Additional audit work was required to complete the audit of the Council's financial statements and pension fund financial statements. We will review the impact of this work on proposed fees.

⁽²⁾ Work remains on-going dealing with objections and these will be billed upon completion of this work.



FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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	<p>Audit Committee 31st January 2018</p>
<p style="text-align: center;">Title</p>	<p>Grant Claims and Returns Certification Report 2016/17</p>
<p style="text-align: center;">Report of</p>	<p>Director of Finance</p>
<p style="text-align: center;">Wards</p>	<p>All</p>
<p style="text-align: center;">Status</p>	<p>Public</p>
<p style="text-align: center;">Urgent</p>	<p>No</p>
<p style="text-align: center;">Key</p>	<p>No</p>
<p style="text-align: center;">Enclosures</p>	<p>Appendix A – Grant Claims and Returns Certification Report 2016/17</p>
<p style="text-align: center;">Officer Contact Details</p>	<p>Gillian Clelland – Assistant Director of Finance, CSG gillian.clelland@barnet.gov.uk</p>

Summary

The purpose of the report is to consider the report from the external auditors on the Council's management arrangements in respect of the certification process for grants.

Housing benefit subsidy

Public Sector Audit Appointments Ltd (PSAA) has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim. BDO undertake the grant claim certification as an agent of PSAA, in accordance with the Certification Instruction (CI) issued by them after consultation with the Department for Work and Pensions (DWP). After completion of the tests contained within the CI, the grant claim can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified as a result of the testing completed.

The value of the housing benefit subsidy claim for 2016/17 was £271.8m compared with £267.8m in 2015/16. The audit found that the Council's processes for administering benefits and preparing the subsidy return are generally sound; however a small number of errors were identified in the auditors' initial sample testing which meant that, in four areas, further samples had to be selected and tested. The audit process identified amendments which reduced the total subsidy claim by £15,490 (0.006% of the total claim).

The audit certificate was qualified due to errors and misclassifications in non-HRA rent rebates, errors in the calculation of childcare disregards and incorrect tax credits used in the calculation of rent rebates. The claim was adjusted for all errors and misstatements identified however, due to the size of the population and the variation in the errors found, the audit was not able to conclude that the claim was fairly stated, regardless of the adjustments made. It is extremely common for benefit subsidy claims to be amended and/or qualified as they are very complex and, unlike non-grant related audit work, there is no materiality threshold.

Other certification work

Government departments also require external assurance on two other grant claims and returns, however these assurance reviews are not covered by BDO's appointment by PSAA. The Council has therefore separately engaged BDO to undertake a 'reasonable assurance' review, based on the instructions and guidance provided by the relevant departments, of the pooling of housing capital receipts return and the teachers' pensions return for the year ended 31 March 2017.

Some amendments were made to the pooling of capital receipts return, however the return received an unmodified audit opinion.

The auditors noted that there had been some improvement in the preparation of the teachers' pensions return for 2016/17 compared with the previous year. However, a number of issues were identified which resulted in the return receiving a qualified audit opinion. The return was not amended to reflect the errors found as the auditors were unable to assess the impact of the errors. The auditors have made four recommendations in relation to the preparation of the teachers' pensions return. Management responses to these recommendations, together with responsible officers and implementation dates are included in the report at Appendix A.

Audit fees

The fee paid to the auditors for certification work for 2016/17 was £28,060, which is a reduction of £3,066 from 2015/16. The 2015/16 fee includes supplementary fees of £2,009 for additional work requested by the DWP.

Recommendations

- 1. That the Committee note the report;**
- 2. That the matters raised by the external auditors relating to the grant submission and certification process are noted by the Committee; and**
- 3. That the Committee consider whether there are any areas on which they require additional information.**

1. WHY THIS REPORT IS NEEDED

- 1.1 PSAA has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim. Government departments also require external assurance on two other grant claims and

returns – the pooling of capital receipts return and the teachers’ pensions return.

2. REASONS FOR RECOMMENDATIONS

- 2.1 In order that the Council can consider the external auditor’s certification report, be able to comment on the scope and depth of external audit work and to ensure it gives value for money.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 None

4. POST DECISION IMPLEMENTATION

- 4.1 None

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

- 5.1.1 The Grant Claims and Returns Certification Work Report addresses fundamental aspects of the Council’s management arrangements which support the Council’s corporate priorities as expressed through the Corporate Plan.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

- 5.2.1 The grants submission process is the final stage in the process for receiving external funds from third parties. If there are weaknesses in the systems for monitoring and claiming monies, these funds could potentially be at risk.
- 5.2.2 The audit fee for 2016/17 £28,060, which is a reduction of £3,066 from 2015/16. The 2015/16 fee includes supplementary fees of £2,009 for additional work requested by the DWP.

5.3 Legal and Constitutional References

- 5.3.1 The recommendations of this report do not give rise to any specific legal issues.
- 5.3.2 In accordance with the Constitution the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority’s financial and non-financial performance to the extent that it affects the authority’s exposure to risk and weakens the control environment, and to oversee the financial reporting process.

5.4 Risk Management

- 5.4.1 The Grants Certification Work Report summarises BDO’s overall assessment

of the Council's management arrangements in respect of the certification process of grant claims, however it also draws attention to significant matters in relation to individual claims. Failure to address these matters can place at risk the receipt of external funding that the Council is entitled to and has budgeted for.

5.5 Equalities and Diversity

5.5.1 The Grants Certification Work Report covers the arrangements in place for securing grants across services within the Authority. This in turn impacts on all members of the community.

5.6 Consultation and Engagement

5.6.1 There are no consultations or engagements relevant to this report.

6. BACKGROUND PAPERS

None



LONDON BOROUGH OF BARNET

GRANT CLAIMS AND RETURNS CERTIFICATION

In respect of claims and returns for the year ended 31 March 2017

15 January 2018



INTRODUCTION

Purpose of the report

This report summarises the main issues arising from our certification of grant claims and returns for the financial year ended 31 March 2017.

Public Sector Audit Appointments Ltd (PSAA) regime

PSAA has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

We undertake the grant claim certification as an agent of PSAA, in accordance with the Certification Instruction (CI) issued by them after consultation with the Department for Work and Pensions (DWP).

After completion of the tests contained within the CI the grant claim can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified as a result of the testing completed.

Other certification work

A number of grant claims and returns that were previously included within the scope of the audit have since been removed, but Departments may still seek external assurance over the accuracy of the claim or return.

These assurance reviews are undertaken outside of our appointment by PSAA and are covered by tripartite agreements between the Council, sponsoring Department and the auditor.

The Council has requested that we undertake a review, based on the instructions and guidance provided by the relevant Departments, of the Pooling of housing capital receipts return and the Teachers' pensions return for the year ended 31 March 2017.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during our certification work.

Fees

We reported our planned fees in our Audit Plan. The indicative Housing benefits subsidy claim fee is set by PSAA.

We have not had to amend our planned fees.

AUDIT AREA	PLANNED FEES (£)	FINAL FEES (£)
PSAA regime		
Housing benefits subsidy claim	20,310	20,310
Total PSAA regime fees	20,310	20,310
Other certification work		
Pooling of housing capital receipts return	2,750	2,750
Teachers' pensions return	5,000	5,000
Total certification fees	28,060	28,060

In respect of the prior year (2015/16) Housing benefits subsidy claim, we were asked by DWP to undertake additional work in response to issues raised that year. We have since raised supplement fees of £2,009.

KEY FINDINGS

Below are details of each grant claim and return subject to certification by us for the financial year ended 31 March 2017. Where our work identified issues which resulted in either an amendment or a qualification, further information is provided. An action plan is included at the Appendix of this report.

CLAIM OR RETURN	VALUE	QUALIFIED	AMENDED?	IMPACT OF AMENDMENTS
Housing benefit subsidy	£271,841,415	YES	YES	(£15,490)
Pooling of housing capital receipts	£12,049,814	NO	YES	(£843)
Teachers' pensions	£18,877,139	YES	NO	Unable to assess impact of errors

HOUSING BENEFIT SUBSIDY

FINDINGS AND IMPACT ON RETURN

Local authorities responsible for managing housing benefit are able to claim subsidies towards the cost of these benefits from central government. The final value of subsidy to be claimed by the Council for the financial year is submitted on form MPF720A, which is subject to certification.

Our work on this claim includes verifying that the Council is using the correct version of its benefits software and that this software has been updated with the correct parameters. We also agree the entries in the claim to underlying records and test a sample of cases from each benefit type to confirm that benefit has been awarded in accordance with the relevant legislation and is shown in the correct cell on form MPF720A.

The methodology and sample sizes are prescribed by PSAA and DWP. We have no discretion over how this methodology is applied.

The draft subsidy return provided for audit recorded amounts claimed as subsidy of £271,856,905.

The Council's processes for administering benefits and preparing the subsidy return are generally sound.

However, our audit of an initial 60 individual claimant files across different benefit types highlighted a small number of errors in calculating subsidy entitlement or in the preparation of the form.

Where errors in calculating benefit awarded suggests that benefit has been overpaid or amounts allocated to too high a subsidy recovery cell, guidance requires auditors to undertake extended 40+ testing of cases with similar characteristics or all cases in a small population.

Errors in the initial testing resulted in four areas of 40+ testing (non-HRA self employed earnings, classification of non-HRA eligible overpayments, HRA child care costs, HRA tax credits) and one area where all similar cases in the population were reviewed (HRA extended payments). We prepared an extrapolation of the potential errors in the population based on this 40+ testing and the final claim has been amended for these. We also noted that modified scheme entries had been duplicated in one section of the claim but this did not impact on subsidy claimed.

A summary of these issues can be found on the next page.

The overall impact has been to reduce subsidy claimed by £15,490.

The claim was certified on 29 November 2017 referring to the corrections made.

KEY FINDINGS

BENEFIT TYPE	ERRORS	IMPACT
Self-employed earnings (non-HRA)	Due to errors in self-employed earnings calculations in previous years, we completed 40+ testing and found one case with an error that created an overpayment of benefit. The extrapolation of the error rate over all non-HRA rent rebate cases with self employed earnings suggested that the Council may have overpaid £621 of benefit.	Claim form adjusted resulting in reduced subsidy of £621. However, as the Council remains below the lower threshold for overpayments made it has been able to recover this through the allowance for Local Authority and Administrative delays.
Misclassified overpayments (non-HRA)	Initial testing identified one claim where eligible overpayments should be been recorded as technical overpayments. 40+ testing identified a further 5 misclassified overpayments. The extrapolation of the error rate over all non-HRA rent rebate eligible overpayment cases suggested that the Council may have misclassified £38,570 of overpayments.	Claim form adjusted resulting in reduced subsidy of £15,428, as eligible overpayments attract subsidy at 40% of payments whereas technical overpayments do not attract subsidy.
Childcare disregards (HRA)	Due to errors in processing child care disregards in previous years, we completed 40+ testing and found 12 cases with an error, where 10 resulted in overpayment of benefit. The extrapolation of the error rate over all HRA rent rebate childcare disregards cases suggested that the Council may have overpaid £19,939 of benefit.	Claim form adjusted resulting in reduced subsidy of £19,939. However, as the Council remains below the lower threshold for overpayments made it has been able to recover this through the allowance for Local Authority and Administrative delays.
Tax credits (HRA)	Initial testing identified one claim where tax credits had been calculated on outdated information resulting in a underpayment. 40+ testing identified one further error creating an overpayment of benefit. The extrapolation of the error rate over all HRA rent rebate tax credit cases suggested that the Council may have overpaid £866 of benefit.	Claim form adjusted resulting in reduced subsidy of £866. However, as the Council remains below the lower threshold for overpayments made it has been able to recover this through the allowance for Local Authority and Administrative delays.
Extended payments (HRA)	Due to errors in extended payments in previous years all cases were tested this year. This found one case where the extended payment should have been reported as an eligible overpayment.	Claim form adjusted resulting in reduced subsidy of £62, as eligible overpayments attract subsidy at a reduced 40% of payments.

KEY FINDINGS

POOLING OF HOUSING CAPITAL RECEIPTS

Local authorities are required to pay a portion of any housing capital receipt (usually 75%) they receive into a national pool administered by central government. The Council is required to submit quarterly returns notifying central government of the value of capital receipts received.

The return provided for audit recorded total receipts of £12,050,657 for 66 disposals. A significant amount of sales receipts were transferred into 1-4-1 new build budgets that are time limited to remain exempt from pooling.

FINDINGS AND IMPACT ON RETURN

Our review found the following errors in the draft return that were corrected:

- The quarterly returns had failed to apply the correct local authority field so that all attributable debt amounts assigned to each sale were incorrect. This increased the attributable debt on sales from £567,153 to £2,201,165 and also reduced the amount of retained receipts that need to be used to fund 1-4-1 new build housing before this would be subject to pooling to DCLG.
- Transaction costs for disposals in Quarter 4 of £34,200 had also been incorrectly included as costs of buying back previously disposals.
- Mortgage repayment receipts in Quarter 1 of £2,531 had been incorrectly entered as £3,374.

Further updates were also required in respect of amendments made in previous years to the amount of 1-4-1 new build expenditure that had not been carried forward correctly into this year's returns.

While the impact of these adjustments for receipts payable to DCLG reduced by only £843, the cumulative amounts required to be spent on 1-4-1 new build housing by 2020 reduced by £5.4 million to £108 million.

Management has stated that it has plans in place to ensure that this retained funding is applied by each required date so that it does not become subject to pooling in future years.

We provided an unmodified report on the return on 8 November 2017.

KEY FINDINGS

TEACHERS' PENSIONS

Local authorities which employ teachers are required to deduct pension contributions and send them, along with employer's contributions, to the Teachers' Pensions office (the body which administers the Teachers' Pension Scheme on behalf of the Department for Education). These contributions are summarised on form EOYC, which the Council is required to submit to Teachers' Pensions.

The return provided for audit recorded total pensions payable at £18,877,139 on payroll costs of £73.5 million.

FINDINGS AND IMPACT ON RETURN

We are pleased to report that there have been some improvement in preparing the return this year. In the previous year, we reported that the Council had failed to include maintained schools that operated or outsourced their own payrolls and this year this information has been captured and included in the Council's return. However, we found the following errors and inconsistencies in this year's return.

Preparation of the return:

- The pensionable pay information and contributions deducted are allocated to each tiered pay banding and the deductions are checked in total to the expected percentage deductions. We noted some differences where deductions appeared to be £88,295 lower from teachers and £200,095 lower from the Council than expected based on this information. The majority of the differences had occurred on information provided by schools that had outsourced their payroll.
- Teachers' Pension provided incorrect information on the total amount of contributions that its records suggested had been paid and we were unable to reconcile amounts to information retained by the Council.
- All amounts for Career Average Flexibilities and for Additional Pension Payments had been incorrectly included in the section for Additional Contributions from teachers.
- We were unable to confirm that all schools had provided complete information as records suggest that there are 15 schools that had outsourced their payroll, but only 10 returns were provided for April 2017, 11 for May 2017 and between June 2017 and March 2018 we received only aggregated information and could not check the information for individual schools. There was also a difference of £82,883 between the amounts included in the return and the underlying payroll records reviewed for these schools.

Testing of a sample of 20 teachers to underlying information:

- Two teachers had opted out of the scheme in the previous year but deductions continued to be made on their monthly salaries.

We reported these issue in our report on the return on 21 December 2017.

APPENDICES

APPENDIX: 2016/17 ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
Teachers' Pensions					
<p>We were unable to confirm that all schools had provided complete information as records suggest that there are 15 schools that had outsourced their payroll, but only 10 returns were provided for April 2017, 11 for May 2017 and between June 2017 and March 2018 we received only aggregated information and could not check the information for individual schools. There was also a difference of £82,883 between the amounts included in the return and the underlying payroll records reviewed for these schools.</p>	<p>Obtain and retain on record the monthly payroll reports for each school the has outsourced its payroll.</p>	<p>Medium</p>	<p>The third-party payroll providers are responsible for processing the payroll accurately and deducting the correct contributions from employees. Capita have no control or influence over these schools in any way.</p> <p>They are also responsible for preparing the monthly contribution slip figures to be passed over to Capita for submission. As Capita do not process the payroll for these schools, they are unable to verify the accuracy of the payroll reports if they were to be provided. On this basis we do not feel that it is possible for Capita to receive the payroll reports from third-party payroll providers and carry out any reconciliations.</p> <p>Capita will of course contact the schools to make them aware of the compliance required and it is suggested that Barnet Council impress on the third-party payroll providers the importance of accurate data and payments for Teachers' Pensions.</p>	<p>John Kirkpatrick, Payroll Manager, Capita HR Solutions</p>	<p>31 March 2018</p>

APPENDIX: 2016/17 ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
Teachers' Pensions					
Teachers' Pension provided incorrect information on the total amount of contributions that its records suggested had been paid and we were unable to reconcile amounts to information retained by the Council	<p>Obtain information on payments made to Teachers' Pension directly by schools that have outsourced its payroll.</p> <p>Reconcile total Council and outsourced payroll provider payments made to Teachers' Pensions to the notification of receipted amounts provided by Teachers' Pensions.</p>	Medium	<p>The figure provided to Capita by Teachers' Pensions was human error on the email they sent, due to incorrect calculations of the 12 monthly payments. This was spotted, and recalculated correctly.</p> <p>A reconciliation is carried out by Capita to ensure that the monthly contribution slip completed and submitted for the third-party payroll providers matches the funds received by Barnet Finance team.</p>	John Kirkpatrick Payroll Manager, Capita HR Solutions	Ongoing
All amounts for Career Average Flexibilities and for Additional Pension Payments had been incorrectly included in the section for Additional Contributions from teachers.	Ensure that all different types of deductions are reported in the correct sections of the return.	Medium	This issue will be addressed through further training.	John Kirkpatrick, Payroll Manager, Capita HR Solutions	Immediate

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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