

**MEETING**

**AUDIT COMMITTEE**

**DATE AND TIME**

**THURSDAY 31ST JANUARY, 2019**

**AT 7.00 PM**

**VENUE**

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

Chairman: Councillor Anthony Finn BSc (Econ) FCA

Vice Chairman: Councillor Peter Zinkin

Councillor Laithe Jajeh

Councillor Alison Moore

Councillor Kathy Levine

Councillor Alex Prager

Councillor Arjun Mittra

**Independent Members**

Geraldine Chadwick

Richard Harbord

**Substitute Members**

Councillor Melvin Cohen

Councillor Reema Patel

Councillor Lachhya Gurung

Councillor Lisa Rutter

Councillor Anne Hutton

Councillor Alan Schneiderman

In line with the Constitution's Public Participation and Engagement Rules, requests to submit public questions or comments must be submitted by 10AM on the third working day before the date of the committee meeting. Therefore, the deadline for this meeting is Monday, 28 January 2019 at 10AM. Requests must be submitted to Maria Lugangira [maria.lugangira@barnet.gov.uk](mailto:maria.lugangira@barnet.gov.uk)

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

**Andrew Charlwood – Head of Governance**

Governance Service contact: Maria Lugangira 020 8359 2761

Media Relations Contact: Gareth Greene 020 8359 7039

**ASSURANCE GROUP**

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## ORDER OF BUSINESS

Item No	Title of Report	Pages
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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.	Improvements to Financial Controls - Progress report on the Grant Thornton Recommendations and Action Plan	11 - 26
8.	Internal Audit Exception Recommendations Report and Q3 Progress Report 1st October to 31st December 2018	27 - 58
9.	Corporate Anti-Fraud Team (CAFT) Q3 Progress Report 2018-19	59 - 72
10.	External Audit Plan 2018/19	73 - 120
11.	Annual Audit Letter 2017/18	121 - 138
12.	Committee Work Programme - May 2019	139 - 142
13.	Any item(s) the Chairman decides are urgent	

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## Decisions of the Audit Committee

22 November 2018

Members Present:-

AGENDA ITEM 1

Councillor Anthony Finn (Chairman)  
Councillor Peter Zinkin (Vice-Chairman)

Councillor Laithe Jajeh  
Councillor Kathy Levine  
Councillor Arjun Mittra

Councillor Prager  
Councillor Alison Moore

### Independent Members

Geraldine Chadwick  
Richard Harbord

### Also in attendance

Guy Clifton – Grant Thornton  
Tom Foster – Grant Thornton

## 1. MINUTES OF LAST MEETING

**RESOLVED that subject to the following clarification the minutes of the meeting held on 17th July 2018 be agreed as a correct record.**

Item 10 (last sentence page 7) reads “The External Auditor also reported on the work undertaken to support his Value for Money opinion, which he confirmed would be an unmodified opinion...”

Amend to read;

The External Auditor also reported they would issue an unmodified opinion on the financial statements but were required to issue a modified opinion on value for money due to the Ofsted assessment on children’s services.

## 2. ABSENCE OF MEMBERS (IF ANY)

None.

## 3. DECLARATION OF MEMBERS' DISCLOSABLE PECUNIARY INTERESTS AND NON PECUNIARY INTERESTS (IF ANY)

Member	Item	Interest Declared
Councillor Alison Moore	Item 8 - Internal Audit Exception Recommendations Report	Non pecuniary – in that Councillor Moore is a governor at the Squires

	and Q2 Progress Report 1 <sup>st</sup> July to 30 <sup>th</sup> September 2018	Lane Learning Federation which covered Tudor School.
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**4. REPORT OF THE MONITORING OFFICER (IF ANY)**

None.

**5. PUBLIC QUESTION AND COMMENTS (IF ANY)**

Details of the questions asked and the published answers were provided with the agenda papers for the meeting. Verbal responses were given to supplementary questions at the meeting.

Public comments were made by the following:

- Mr Roger Tichborne – Item 7, Report of the Chief Executive
- Mr John Dix, Item 8 - Internal Audit Exception Recommendations Report and Q2 Progress Report 1st July to 30th September 2018
- Ms Barbara Jacobson - Item 7, Report of the Chief Executive
- Ms Theresa Musgrove - – Item 7, Report of the Chief Executive
- Ms Jenny Brown - Item 7, Report of the Chief Executive
- Mr Fred Leplat - Item 7, Report of the Chief Executive
- Mr Nicholas Dixon - Item 7, Report of the Chief Executive

**6. MEMBERS' ITEMS (IF ANY)**

None.

**7. REPORT OF THE CHIEF EXECUTIVE**

Before the introduction of the report by the Chief Executive, Councillor Barry Rawlings addressed the Committee. He raised concerns regarding the redacted information on pages 147 – 161, 'Evidence and Observation'. For the Committee to have full reassurances that the contractual obligations were being met and complied with, Councillor Rawlings suggested that the Committee should be provided with the redacted information and supporting evidence.

The Chief Executive clarified that of the 150 pages of the report, only 14 were redacted. He confirmed that the redacted information could be shared with the Audit Committee but would be considered in private session. With regards to releasing the information into the public domain, he confirmed an assessment of commercial confidentiality would need to take place.

Councillor Moore proposed (barring any personal or commercially sensitive information) that the information should be published and made publicly available. Duly seconded by Councillor Mittra she moved the following motion;

*“That the redacted information set out in Item 7, Report of the Chief Executive is published and made available to the public in due course.”*

Upon being put to the vote the additional recommendation was agreed and became new substantive recommendation 4. The vote was recorded as follows:

For	4
Against	2
Abstentions	1

The Chief Executive introduced the report which provided the Committee with an update on the progress against the key priorities that were set out in the report considered by the Committee on 17th July 2018 – Item 7, Report of the Chief Executive. The report also provided a detailed update on the progress made on the Grant Thornton action plan developed from their independent report - Review of Financial Management Relating to CPO Fraud, following a substantial fraud committed by a former Re (Regional Enterprise) employee.

The Director of Assurance provided the Committee with a detailed briefing of the criminal investigation that was undertaken by the council's Corporate Anti-Fraud Team, the subsequent arrest and conviction of the individual who'd committed the fraud. She confirmed that the proceeds of crimes confiscation were currently still ongoing and that the order was for the full amount that had been restrained.

The Director of Finance provided a brief explanation of the work undertaken following the discovery of the fraud, (i) the financial work, (ii) the independent review by Grant Thornton which primarily focused on the CPO fraud aspect and (iii) the internal subsequent controls. He further explained that 3 enhancement procedures were put in place relating to;

1. Enhancement of Chaps payments, which were tightened up substantially and put in place immediately
2. Enhancement of separation of duty controls
3. Enhancement to schemes of Financial delegation

Mr Guy Clifton Engagement, Grant Thornton's lead for the Review of Financial Management Relating to CPO Fraud and Mr Tom Foster, Grant Thornton's lead on the work on the internal controls environment, provided the Committee with detailed summaries of the work they had undertaken as part of the review and the key findings. The full details of which are set out in the appendices to main report, Item 7.

Mr Clifton explained that the core part of the scope was to look at the control environment and the circumstances that enabled the fraud to take place. He referred to the following 2 workstreams:

- Forensic Fraud and Accounting Analysis
- Contract Review

With regards to Appendix 2, GT Action tracker, Mr Clifton clarified this was put in place by the council to monitor the response to, and implantation of, the GT recommendations.

Mr Foster explained to the Committee that had 5 broad themes been identified (referred to in the review as the 5 Pillars) and provided a brief summary on each Pillar. The Committee were also provided with a further detailed summary of the work undertaken on the Forensic Fraud and Accounting Analysis and the CSG and RE contract review.

Marion Kelly, Finance, set out in detail the work undertaken by officers and the governance process put in place to ensure the GT recommendations were (i) re-written as part of procedures (ii) implemented and (iii) imbedded. She explained a Project Board was set up, chaired by the Director of Finance (Section 151) and met monthly, its membership consisted of officers from across the council, Grant Thornton and CSG and RE. This ensured that anyone with a stake in delivering the recommendations was involved. To support the project board a weekly task force was also set up chaired by herself and included, Mr Tom Foster GT, council officers and anyone responsible for delivering the required actions. The task force's work focused on the GT Action planner (Appendix 2), reviewing it and checking progress.

The Head of Internal Audit provided the Committee with a detailed summary of the work undertaken by Internal Audit (IA) to confirm implementation of the GT actions. Alongside that work she explained they were eight separate IA reviews taking place which incorporated all the testing required by IA to confirm that the GT actions were implemented and embedded, as well as other testing relevant to the area under review. She explained the RAG rating IA applied to the status of the testing of the GT actions. She confirmed the reviews would be followed up and reported back in the next quarter.

With regards to the remedy notices the Commercial Director clarified that these are triggered when there's evidence of a contractual breach. Following the breach, the contractor is obliged to put forward a remedy plan which is acceptable to the authority. He explained that in this case the remedy plan was the Grant Thornton action plan that has been and agreed between Capita and the authority.

Councillor Moore raised concerns around the possibility of financial failings similar to those identified by the review occurring in other services across the council. Duly seconded by Councillor Mittra she proposed and moved the following motion;

*“That an independent audit (either by Grant Thornton or an alternative auditor) is agreed, so that a full external audit of both contract can be carried out.”*

Upon being put the vote the motion declared lost. The vote was recorded as follows:

For	3
Against	4
Abstentions	0

**RESOLVED –**

- 1. That the Audit Committee notes progress against the Chief Executive priorities as set out above;**
- 2. That the Audit Committee notes the progress that has been made towards the completion of the GT Action Plan; and**
- 3. That the Audit Committee notes that relevant follow ups to Internal Audit Reviews will be reported to the Committee as part of Q3 and Q4 Internal Audit Progress Reports.**
- 4. That the redacted information set out in Item 7, Report of the Chief Executive is published and made available to the public in due course.**



**8. INTERNAL AUDIT EXCEPTION RECOMMENDATIONS REPORT AND Q2 PROGRESS REPORT 1ST JULY TO 30TH SEPTEMBER 2018**

The Head of Internal Audit presented the Internal Audit Exception Recommendations Report and Q2 Progress Report (1st July to 30<sup>th</sup> September 2018).

She explained the high priority actions, 49 in total followed up this quarter 33 of which have been implemented (67%) and 16 have been partially or not implemented (33%).

She provided further details on each of the following that had received no assurance of limited assurance;

- **Temporary and Interim Workforce** – No Assurance
- **Tudor School** – Limited Assurance
- **All Saints' Primary School NW2** – Limited Assurance

She drew the Committee's attention to pages 200 onwards which set out the summary of the actions that hadn't been fully implemented and advised that progress was ongoing.

**RESOLVED - That the Committee note the work completed to date on Internal Audit Q2 progress report - 1st July to 30th September 2018.**

**9. CORPORATE ANTI-FRAUD TEAM (CAFT) Q2 PROGRESS REPORT 2018-19**

The Director of Assurance introduced the report which provided the Committee with update on the work undertaken by the Corporate Anti-Fraud Team during the period 1st July 2018 – 30th September 2018.

**RESOLVED - That the Committee note the CAFT Progress Report covering the period 1st July – 30th September 2018.**

**10. COMMITTEE FORWARD WORK PROGRAMME**

The Committee noted the Forward Work Programme.

**11. ANY ITEM(S) THE CHAIRMAN DECIDES ARE URGENT**

None

**12. MOTION TO EXCLUDE THE PRESS AND PUBLIC**

**RESOLVED that under Section 100A (4) of the Local Government Act 1972 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraphs 2 and 7 of Part 1 of Schedule 12A of the Act (as amended)**

**13. ANY EXEMPT ITEM(S) THE CHAIRMAN DECIDES ARE URGENT**

The Committee considered the unredacted Annex 2: Review of Financial Management Relation to CPO Fraud appended to Item 7, Report of the Chief Executive.

The meeting finished at 10.00 pm

**AUDIT COMMITTEE****Date 31st January 2019**

<b>Title</b>	<b>Improvements to financial controls; Progress report on the Grant Thornton recommendations and action plan</b>
<b>Report of</b>	Director of Finance (Section 151 Officer)
<b>Wards</b>	N/A
<b>Status</b>	Public
<b>Urgent</b>	No
<b>Key</b>	No
<b>Enclosures</b>	Appendix 1 - GT Recommendations Tracker
<b>Officer Contact Details</b>	Kevin Bartle, Director of Finance, <a href="mailto:Kevin.bartle@barnet.gov.uk">Kevin.bartle@barnet.gov.uk</a> 020 8359 4676

**Summary**

This report provides a detailed update on the progress made on the action plan set out by GT LLP (UK) as part of their independent report called Review of Financial Management Relating to CPO Fraud, following a substantial fraud committed by a former Re (Regional Enterprise) employee.

**Officers Recommendations**

1. That the Audit Committee notes the progress that has been made towards the completion of the GT Action Plan

## 1. WHY THIS REPORT IS NEEDED

- 1.1 Over the last 14 months, the Council, working in partnership with Re and CSG, has undertaken significant activity to strengthen the financial control environment following the discovery of a significant fraud in December 2017. Grant Thornton were commissioned to carry out a detailed independent review of financial controls. As has been previously reported in at both the July 2018 and November 2018 Audit Committee meetings, this work, including that by Re and CSG colleagues, has led to an improvement in the robustness of the financial control environment, as a result of strengthened processes within CSG finance and greater oversight, review and sign off by senior Council officers.
- 1.2 However, more work needed to be done to ensure that all recommendations are fully embedded and this report provides an update on the action tracker that was set up in response to the 32 recommendations contained in the GT report called Review of Financial Management Relating to CPO Fraud Finding and lessons learned (CPO stands for Compulsory Purchase Orders) dated 18<sup>th</sup> September 2018.
- 1.3 The approach taken by the Council and agreed with GT and Capita was that all the new process and other work would be “verified” prior to implementation. Once implemented, it was agreed that testing would take place to ensure that the changes had been embedded. The verification process was reported as complete in all instances, apart from one recommendation, GT 32 which relates to the forensic accounting work undertaken relating to the fraud. This recommendation has now been actioned. There are eight separate Internal Audit (IA) reviews taking place, which incorporate all the testing of the GT recommendations, along with other testing relevant to the area under review. Internal Audit are testing 27 recommendations as 4 are already completed and testing was not required, making 31 recommendations in total. GT32 is not a recommendation, but listed by GT separately as “further work” (now actioned). The status of the IA testing is as follows:

Table 1 – Status

Rating	Number of recommendations as at Jan 2019
Green (implemented)	19
Amber (partly implemented)	3
Red (not implemented)	1
To be confirmed	4
Completed~	4
Total (excluding GT32)	31

~Internal Audit testing not required as GT reviewed the actions

- 1.4 There are 4 recommendations that are marked “to be confirmed”. Further work is being carried out and there will be a verbal update at Committee. Further commentary on the status of each action can be found within Appendix 1, GT Recommendations Tracker. Members will note that only 1 recommendation is marked as red and not implemented, GT25. There will be a verbal update on this at Committee.

## **2. REASONS FOR RECOMMENDATIONS**

- 2.1 Member will note that significant progress has been made towards successfully completing the embeddedness of all the new process and other action, but that there is still more work to do. A further report will be made to the May Audit Committee

## **3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED**

- 3.1 Not applicable

## **4. POST DECISION IMPLEMENTATION**

- 4.1 Not applicable

## **5. IMPLICATIONS OF DECISION**

### **5.1 Corporate Priorities and Performance**

- 5.1.1 Not applicable

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

- 5.2.1 The cost of the GT report and interim financial resource to support the delivery of the work programme has been met by Capita. Funding for Barnet auditing of Capita is agreed annually.

### **5.3 Social Value**

- 5.3.1 None in the context of this decision

### **5.4 Legal and Constitutional References**

- 5.4.1 Article 7 sets out the Audit Committee’s terms of reference, which include independent assurance 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.

## 5.5 Risk Management

5.5.1 This work has contributed to a significant reduction of risk in a key area

## 5.6 Equalities and Diversity

5.6.1 None in the context of this decision

## 5.7 Corporate Parenting

5.7.1 None in the context of this decision

## 5.8 Consultation and Engagement

5.8.1 None in the context of this decision

## 5.8 Insight

5.8.1 None in the context of this decision

## 6. BACKGROUND PAPERS

6.1 Report of the Chief Executive 17<sup>th</sup> July 2018:

<http://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=144&MId=9493&Ver=4>

6.2 Report of the Chief Executive 22<sup>nd</sup> November 2018:

<http://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=144&MId=9494&Ver=4>

## Appendix 1 - GT Recommendations tracker

Action Plan ( appendix A GT report)

GT Rec No	Recomm	Recommendation detail	Priority	Action	31st Jan Audit Committee comments	31st Jan Audit Committee Testing Status
1	Scheme of Delegation for Growth and Development	We recommend that the Scheme of Delegation for Growth and Development is updated to reflect current role descriptions and specifically to include Regeneration team members currently omitted. Current definitions of financial roles and responsibilities across the organisation should be revisited to make sure they remain fit for purpose and provide for robust governance	High, immediate	Re to provide proposal on delegations/authorisations for agreement by S151 officer/LBB. CSG to update financial delegations (see GT8 and 9).	Implementation confirmed and recommendation closed at November Audit Committee.	Implemented
2	Integra system authorisers	We recommend that the listed budget holder authorisers on the Integra system be reviewed and controls put in place to ensure the list is kept up to date.	High, immediate	Review and validate listed budget holders and budget managers on Integra, making changes where required based on updated Schemes of financial delegation/authorisation (see GT9). Put in place controls to ensure the lists of financial authorisers and Integra are kept up-to-date.	Testing completed and recommendation closed - no significant issues noted.	Implemented

GT Rec No	Recomm	Recommendation detail	Priority	Action	31st Jan Audit Committee comments	31st Jan Audit Committee Testing Status
4	Managing access and authorisation rights on IT systems	IT system controls have been set up on Integra and supporting systems such as Bankline, that determine the level of access that individual users can have to financial systems and the ability to authorise transactions. These permissions have also historically been used for manual processes, such as a CHAPs payment request, to determine if the individual is the budget holder. The effectiveness of these controls is dependent on systems being kept up to date for starters/leavers and transfers. A failure in this control could lead to inappropriate individuals having control of budgets and authorisation to request or authorise journals and payments. We noted a potential weakness in controls to ensure that any changes made to access rights and authorisation levels for IT systems, are appropriate to the individual's role, e.g. following a change in role or for starters and leavers. We recommend that additional controls be introduced to mitigate this risk.	High, immediate	CSG to develop and implement additional control measures to ensure access rights and authorisation levels on Integra are correct for all staff, include for starters, leavers and movers.	An updated access and authorisation rights procedures document went live on 18 July 2018, however as reported to November Audit Committee, this had not been widely embedded into normal business operations for Integra at the time of testing.  As proposed to the November Audit Committee, further audit follow-up work will be completed in Q4 to confirm compliance within Integra against the new 'Managing Access and Authorisation Rights for IT systems v1.02' and to confirm that the process for removing Leavers from Integra has been effectively re-designed.	Partly Implemented
10	Master schedule of CPO payments in progress	Re should provide evidence that a master schedule of CPOs is in place for all regeneration projects, which should be used for cross checking payments made.	High, immediate	Re to provide monthly schedule of CPO transactions to CSG Finance, along with formal supporting documentation (such as final valuation report) and ensure this process is documented.	Testing completed and recommendation closed - no significant issues noted.	Implemented
11	Process for reclaiming cost of CPO	We recommend that Re are asked to provide explanation of the process for reclaiming the cost of CPO payments from developers and matching these to payments made.	High, immediate	as per recommendation	Testing completed and recommendation closed - no significant issues noted.	Implemented



GT Rec No	Recomm	Recommendation detail	Priority	Action	31st Jan Audit Committee comments	31st Jan Audit Committee Testing Status
12	Potentially fraudulent transactions and invoices to Developers	There is a significant risk that invoices raised to developers from cost centres 11541 and 11362 include costs that are associated with the potentially fraudulent transactions identified. We recommend a detailed investigation of these cost centres to ascertain if inappropriate amounts have been invoiced and potentially reimbursed by developers.	High, immediate	CSG to reconcile the fraudulent transactions against developer invoices. Significant risk, but small chance.	Implementation confirmed and recommendation closed at November Audit Committee.	Implemented
15	BACS Process for new suppliers	We recommend that the BACS process be reviewed for the adequacy of controls over new suppliers where there is no purchase order (such as E-form payments).	High, immediate	CSG to review process for one time vendors, propose improvements and implement.	This action is currently rated as Not Implemented due to no assurance having yet been obtained over the operating effectiveness of the associated controls in place. Transaction listings were requested from Accounts Payable to allow Internal Audit to verify the operating effectiveness of new controls in place for one time vendors, however there were delays in the appropriate listings being provided and as a result it has not yet been possible to carry out the planned testing. Prior to Audit Committee Internal Audit will undertake testing against the agreed processes in place, review evidence and discuss with Capita; subject to the outcome of that testing, the rating will be reviewed. Verbal update to be provided.	Not implemented
17	Process note for Journals	We recommend that a the development of a process note for Journal processing and its dissemination to staff. This should include a checklist for the officer processing the journal, to ensure that adequate explanation for the journal has been provided along with robust, preferably supporting evidence, preferably from 3 <sup>rd</sup> parties.	High, immediate	Expand journal template to include a guidance note and communicate to all CSG finance staff and other relevant officers. Remind CSG staff of the supporting documentation and approval that must be in place before journals are entered and approved.	Implementation confirmed and recommendation closed at November Audit Committee.	Implemented

GT Rec No	Recomm	Recommendation detail	Priority	Action	31st Jan Audit Committee comments	31st Jan Audit Committee Testing Status
21	Capital budgets	We recommend that all capital budgets are recorded on the Integra general ledger system and that opportunities are explored to use the BDM system to improve the ability of budget holders to access up to date information on capital budgets.	High, immediate	Record all capital budgets on the General Ledger in Integra and determine a process to keep them up-to-date. Propose and subsequently implement a budget monitoring solution (which may be Integra) that provides budgets holders and managers with up-to-date information on capital budgets and supports effective budget monitoring.	While cost centres for capital budgets are on Integra, capital budgets are not held on BDM and discussions are ongoing around how to improve the ability of budget holders to access up to date information on capital budgets.  This action, GT21, was previously reported as green when Regeneration was reviewed. Upon review of other capital budgets across the Council and partners, this has now been changed to partly implemented.	Partly Implemented
27	Documented procedures for regeneration projects.	Part A Clarification should be sought and evidence provided from Re management on the existence of: a) formal documented processes and controls that apply to all regeneration projects (including but not limited to CPO related aspects), and the extent to which these vary for each project. In addition: Part B Re management should provide information on and evidence that training of staff in regard to these procedures at induction and Part C in terms of ongoing CPD and risk management has taken place, and the means by which they ensure that project managers are adhering to the agreed processes.	High, immediate	A) and B) Re to produce documents detailing the monthly process of managing and reporting the finances of regeneration projects. Re to ensure that the updated CHAPS and BACS payments introduced into the finance processes are referenced in any process changes and in the flowchart. C)Re to provide evidence that procedures outlined in GT1a are incorporated into ongoing CPD.	Testing completed and recommendation closed - no significant issues noted.	Implemented

GT Rec No	Recomm	Recommendation detail	Priority	Action	31st Jan Audit Committee comments	31st Jan Audit Committee Testing Status
3	Specific levels for authorisers on Integra	It is not clear that budget holders with authority to request payments held on the Integra General Ledger system, have been set authorisation limits for the value of transactions that are fully consistent with their role. This could lead to individuals being able to authorise payment for inappropriately large sums. We recommend that the list of individual authorisation levels for the value of transactions, be reviewed for appropriateness.	Medium	Review authorisation levels and provide proposed Financial Scheme of Delegation/ Financial Authorisation Schemes to the S151 officer, working closely with LBB and strategic partners. Ensure this is implemented on Integra (links to GT8).	Implementation confirmed and recommendation closed at November Audit Committee.	Implemented
5	Compliance with new Treasury Payment Procedure	We recommend that the new Treasury Payment Procedure be tested for compliance after a suitable period	Medium	LBB Internal Audit to test revised process in September 2018.	Testing completed and recommendation closed - no significant issues noted.	Implemented
6	Direct requests for payment from legal advisors	We note that the process for the West Hendon regeneration project indicates that the instruction to make the CHAPS payment should come directly from the solicitors to the Barnet CSG Treasury Team. In some cases these requests appear to have been forwarded by the Regeneration Manager. We recommend that this separation of duties be considered for all CPO transactions.	Medium	Re to document proposed process for CHAPS instructions (including documents to be sent) and agree with CSG and LBB. This action incorporates GT5.	Implementation confirmed and recommendation closed at November Audit Committee.	Implemented
7	Adequate evidence for transactions	We recommend the development of a guidance note or checklist for Re managers, to help them ensure that the required evidence is included with a CHAPS payment request	Medium	Re to produce guidance note. Links to GT1.	Testing completed and recommendation closed - no significant issues noted.	Implemented

GT Rec No	Recomm	Recommendation detail	Priority	Action	31st Jan Audit Committee comments	31st Jan Audit Committee Testing Status
8	Supervisory checks within Re	We recommend that appropriate supervisory checks be put in place by Re for all projects, prior to the issue of requests for payment by CHAPs being issued to the CSG Treasury Team.	Medium	Re to document management oversight within Re for all projects prior to CHAPs being issued.	Testing completed and recommendation closed - no significant issues noted.	Implemented
9	Dual signatories for Authorisation	Under the new Treasury Payment Procedure the approved authorisers have been reviewed and defined, however we note that the new requirement for a dual signature for all Payments includes provision that 'best endeavour' will be made to make sure that there is one signatory from each of Barnet Council and CSG. In our view, this creates uncertainty which could undermine the control and it may be better to base this requirement on specific authorisation levels for all payments.	Medium	Best endeavours' to be removed from Treasury Payment Procedure which will be amended to require one signatory from each of Barnet Council and CSG;	Implementation confirmed and recommendation closed at November Audit Committee.	Implemented

GT Rec No	Recomm	Recommendation detail	Priority	Action	31st Jan Audit Committee comments	31st Jan Audit Committee Testing Status
13	Accounting for Private Treaty Acquisitions (PTA) and Compulsory Purchase Orders (CPO)	a) The accounting implications of PTA/CPO transactions managed through regeneration related control accounts should be reviewed to ensure that transactions associated with PTA/CPO purchases are appropriately accounted for in the Council's financial statements, particularly in regard to capital accounting and the balance sheet. b) In addition, we recommend the CSG Finance team reconciles the Authority's Asset Register with the Atrium valuation system to ensure all acquired assets have been accounted for in line with the recommended value where title has passed to the Authority.	Medium	a) IA to review use of control accounts and IA to review 17/18 accounts b) CSG to propose alternative response to the GT proposal to reconcile the asset register with the Atrium Valuation system, which will be reviewed for acceptability by LBB/GT	Testing completed and recommendation closed - no significant issues noted.	Implemented
14	CIL, S106 Payments and Private Treaty Agreements	We recommend that the process for processing CIL, S106 payments and Private Treaty Agreements be reviewed for the adequacy of controls and the prevention of fraud, including scrutiny of specific transactions.	Medium	Carry out recommendations from the Internal audit review of CIL and S106. Internal Audit to include coverage of PTAs when conducting follow-up review of CIL and S106	PTAs audit exit meeting 17/1/19, once report is agreed and issued as final this will move to Green.	Implemented

GT Rec No	Recomm	Recommendation detail	Priority	Action	31st Jan Audit Committee comments	31st Jan Audit Committee Testing Status
16	Duplicate banking details	The Masterfile supporting the BACS payment process does not automatically identify and flag payments made to different suppliers/recipients that had the same bank account number. There was also no manual control in place to identify BACS and CHAPS payments made to different suppliers which had the same bank accounts. We recommend that this control be considered as an addition to the new Treasury Payment Procedure.	Medium	Put in place controls to identify BACS and CHAPS payments made to different suppliers with the same bank accounts and update the Treasury Payment Procedure accordingly. Any exceptions need to be clearly documented and assurance provided around the controls relating to those processes.	<p>The recommendation as written does not reflect the fact that CHAPS and BACS payments are processed differently. CHAPS payees are not set up as suppliers within Integra, whereas BACS payees should be set up as suppliers unless they are processed as one-time vendors.</p> <p>We have completed testing for CHAPS payments and are satisfied that the action is Implemented for these types of payments. However, for BACS payments our testing is still ongoing (see also GT15). Audit will review further evidence and discuss with Capita.</p>	Partly Implemented
18	Journal request templates	We recommend that journal processing be reviewed further to ensure that Integra journal request templates are properly completed and that there is evidence of a robust review and approval process.	Medium	Review ongoing implementation of actions from GT31.	Implementation confirmed and recommendation closed at November Audit Committee.	Implemented
19	Role of finance business partners	We found that in a number of cases, finance business partners supporting Re had not challenged a number of unusual balances on control accounts and movements on cost centres. This could be due to the level of knowledge they had around the service and the activity that was being reviewed, for example, new costs accumulating on the control account for a project that was substantially complete. We recommend that finance business partners be equipped to take a more active role in confirming that movements on budgets and control accounts are consistent with the underlying activity, ensuring that appropriate monthly monitoring reports are being sent to budget holders.	Medium	<p>a) Clearly document the role and expectations of Finance Business Partners (including levels of support and challenge to service areas) and the level of skills, knowledge and experience required. Agree this with LBB.</p> <p>b) Develop and implement learning and development plans for Finance Business Partners as individuals and a group to equip them to take a more active role in line with the agreed role/expectations, ensuring they have an understanding of the business that enables them to effectively support and challenge</p> <p>c) Ensure Finance Business Partners are providing levels of support and challenge in line with agreed role/expectations</p>	Internal Audit work ongoing, outcome to be reported to next Audit Committee	TBC

GT Rec No	Recomm	Recommendation detail	Priority	Action	31st Jan Audit Committee comments	31st Jan Audit Committee Testing Status
20	Capital budget review	We recommend that the budget monitoring process for capital schemes be reviewed to determine if additional and proportionate review controls could be implemented to improve the ability of finance business partners and senior management to detect unexpected variations.	Medium	Review and revise current capital budget monitoring process (to include frequency and detail of reporting see GT16).	Internal Audit work ongoing, outcome to be reported to next Audit Committee	TBC
22	Capital budget monitoring information	We recommend that more regular and detailed capital monitoring reports be made available to budget holders to improve their ability to detect unexpected variances.	Medium	Provide more regular and detailed capital monitoring reports (links to GT14).	Internal Audit work ongoing, outcome to be reported to next Audit Committee	TBC
23	Roles and responsibilities for capital budget monitoring	We recommend that the respective responsibilities of Re, CSG and Barnet Council in regard to Capital budget monitoring are reviewed and more clearly defined.	Medium	CSG to propose respective responsibilities for capital budget monitoring (working with LBB and strategic partners to develop and agree) and document these.	Internal Audit work ongoing, outcome to be reported to next Audit Committee	TBC
24	Monitoring of Control accounts	We recommend that balances held on control accounts under the indemnity agreements, are included in the budget monitoring information and in the GROB highlight report. This should include narrative on variances against a zero budget provided by budget holders and validated by business partners.	Medium	Enhance monthly reporting to include control account balances and accounting treatment, and ensure this is understood by Finance Business Partners and budget managers and holders.	Implementation confirmed and recommendation closed at November Audit Committee.	Implemented

GT Rec No	Recomm	Recommendation detail	Priority	Action	31st Jan Audit Committee comments	31st Jan Audit Committee Testing Status
25	Control accounts	The policy of using of control accounts for recording PTA/CPO transactions should be reviewed. We recognise that this can be a legitimate and useful method of accounting in some circumstances, but there is a risk that comparatively large income and expenditure transactions are not accounted for with sufficient transparency. The lack of a specific budget against which accumulated costs and income can be measured can also serve to reduce the organisation's ability to monitor transactions.	Medium	Policy of using control accounts for recording PTA/CPO transactions to be reviewed	Implementation confirmed and recommendation closed at November Audit Committee.	Implemented
26	Principle Development Agreement (PDA) Caps and Budget Monitoring	In order to manage the risk of accumulating unbudgeted liabilities on Regeneration cost centres, we recommend that expenditure against the PDA cap is reflected in the budget monitoring process for relevant cost centres, and forecast overspends against the cap are reported to business partners as part of the monthly cycle, and to GROB if the balances become significant an may require an adjustment to the budget.	Medium	Re to provide documentation about what is to be reported to Business partners and GROB going forward in respect of PDA caps and subsequently implement.	Implementation confirmed and recommendation closed at November Audit Committee.	Implemented
28	Supervision of regeneration managers	We recommend that Re take steps to ensure that Regeneration Managers are subject to closer supervision within Re to ensure that projects are being properly executed and to provide assurance on business continuity. Specifically, we recommend that Re re-reinstates a Head of Regeneration Role or a satisfactory equivalent, to whom all regeneration managers report, and who has overall responsibility for all regeneration schemes within Re.	Medium	Re to provide management oversight proposal to ensure that projects are being properly executed and to provide assurance on business continuity.	Implementation confirmed and recommendation closed at November Audit Committee.	Implemented

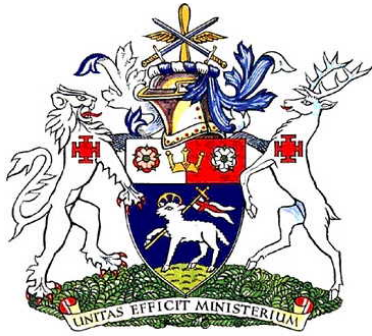


GT Rec No	Recomm	Recommendation detail	Priority	Action	31st Jan Audit Committee comments	31st Jan Audit Committee Testing Status
29	Communication and training of staff	We recommend that key lessons learned from this review be communicated to relevant staff involved in financial processing across Re, CSG and Barnet Council and incorporated into existing training programmes. This should emphasise the importance of meeting standards of professional ethics and behaviour set out by the professional accountancy bodies, particularly in regard to fraud prevention and cover financial skills for budget holders.	Medium	Develop communications and training plan across CSG, RE and LBB, with particular focus on ethics and professional standards and financial skills, and rollout.	Implementation confirmed and recommendation closed at November Audit Committee.	Implemented
30	Developing the ToR	We recommend that during the stakeholder engagement to develop the ToR for the Key Financial Systems review, greater rigour should be applied to: <ul style="list-style-type: none"> <li>• making sure that all required stakeholders engage fully in the process</li> <li>• understanding the process to be tested, in order to identify key risks</li> <li>• ensuring that the design of controls mitigates all key risks identified</li> <li>• ensuring that planned audit tests adequately interrogate the controls</li> </ul>	Medium	a) Obtain explicit agreement from S151 Officer to updated audit approach b) year 1 - full review/systems documentation to be completed for all KFS	Implementation confirmed and recommendation closed at November Audit Committee.	Implemented
31	Weighting Risks in testing	We recommend that, during internal audit sample selection, greater consideration is given to weighting the sample towards those transactions that are potentially higher risk, either inherently (such as unusual or high value items) or as a result of a more complex process, for example, CHAPs payments requested from outside of the Treasury Team.	Medium	a) Incorporate approach immediately on all audits e.g. 'Integra - GL' and 'Banking and Payment Arrangements' b) Update Audit Manual to better reflect this requirement c) provide training to team on this point at next IA meeting	Implementation confirmed and recommendation closed at November Audit Committee.	Implemented

GT Rec No	Recomm	Recommendation detail	Priority	Action	31st Jan Audit Committee comments	31st Jan Audit Committee Testing Status
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GT Further Work Appendix B

32	Review of cost centres and fraudulent transactions	Further work will be required to confirm the destination of the fraud within the Council's accounts. The proposed next steps are as follows : a) investigation of the cost centres to which elements of the fraud from year 1 might have been transferred, including a review of year end reconciliations for these cost centres b) Review of transaction reports provided for the whole of year 2 for cost centre 3 and cost centred 4 in order to ascertain whether fraudulent payments remained ion these cost centres or have been reallocated c) interrogations of transactions within cost centre 2 during years 1 and 2, using information provided by Re	High, immediate	Agreed per recommendation - CSG to perform the analyses and GT to review on completion	Director of Finance response: It was reported previously that the way in which the fraudulent transactions for which the Individual has been successfully prosecuted have been successfully traced through the Council's books and records but that some further limited work remained to be carried out on a line by line basis. The recommendation has now been actioned and a detailed working paper drawn up that evidences the audit trail of the fraud. In my view as Section 151 officer, there remains no work that has not been carried out that poses an additional risk to the Council in excess of any risks that remain even within a control frame work that is fit for purpose. GT response: We can confirm that additional work has been carried out by CSG in line with our recommendation, to a level of detail that has enabled the Council to come to a view in regard to further risks	implemented
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**Audit Committee** AGENDA ITEM 8  
**31st January 2019**

<b>Title</b>	<b>Internal Audit Exception Recommendations Report and Q3 Progress Report 1st October to 31st December 2018</b>
<b>Report of</b>	Head of Internal Audit
<b>Wards</b>	Not applicable
<b>Status</b>	Public
<b>Urgent</b>	No
<b>Key</b>	No
<b>Enclosures</b>	<b>Appendix 1</b> - Internal Audit Q3 progress report (1st October to 31st December 2018)
<b>Officer Contact Details</b>	Caroline Glitre, Head of Internal Audit <a href="mailto:caroline.glitre@barnet.gov.uk">caroline.glitre@barnet.gov.uk</a> 020 8359 3721

## Summary

Members are asked to note the progress against internal audit recommendations and work completed to date on the Internal Audit & Corporate Anti-Fraud Team (CAFT) Plan 2018-19 and high priority internal audit recommendations.

Detail has been presented within the report on audits that were given 'No' or 'Limited' assurance or management letters that included high priority recommendations:

		<b>Assurance rating</b>
1	Equalities Data - Quality and Analysis	Limited

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>

Follow-Up of Grant Thornton Review of Financial Management Relating to CPO Fraud ('the GT review')

During the quarter the priority for the Internal Audit team has been its work to confirm the implementation of the remaining actions arising from the GT review. The progress on this work is reported within the Report of the Director of Finance, agenda item 7.

## **Officers Recommendations**

- 1. That the Committee note the work completed to date on Internal Audit Q3 progress report - 1st October to 31<sup>st</sup> December 2018**

### **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 2018-19 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 2018-19 in April 2018 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 2018-19 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 2018-19 agreed by the Audit Committee is being achieved from Internal Audit's current budget.

### **5.3 Social Value**

5.3.1 None in the context of this decision

### **5.4 Legal and Constitutional References**

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

5.4.2 The Council's Constitution, Article 7 - the Audit Committee terms of reference paragraph 2 states that the Committee can consider summaries of specific internal audit reports as requested.

### **5.5 Risk Management**

5.5.1 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.

5.5.2 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

### **5.6 Equalities and Diversity**

5.6.1 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

## 5.7 Corporate Parenting

5.7.1 None in the context of this decision

## 5.8 Consultation and Engagement

5.8.1 None in context of this decision

## 5.9 Insight

5.9.1 None in the context of this decision.

## 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 19 April 2018 (Decision Item 9) – the Audit committee approved the Internal Audit and Anti-Fraud Strategy and Annual Plan 2018-19

<http://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=144&MId=8416&Ver=4>

# Internal Audit – London Borough of Barnet

Appendix 1



## ***Internal Audit Q3 Progress Report 1 October – 31 December 2018***



*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 2018/19 internal audit plan**

1.2.1 We have completed 17 reviews in the quarter and delivered 75% of our 2018/19 internal audit programme for the year, which is slightly below our target of 78% for Q3.

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:

- **Equalities Data – Quality and Analysis** – Limited Assurance

### **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 31<sup>st</sup> December 2018 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 39 high priority actions have been followed up this quarter. 19 actions have been confirmed as implemented (49%) and 20 have been partially or not implemented (51%). This performance is well below the target of 90% being implemented.

In light of recent poor performance against this target we have raised the risk rating against the following risk to 16 within the Assurance Group risk register:

AG020 - If audit actions are not implemented this could lead to a deterioration in the council's control environment and result in the Head of Internal Audit providing a Limited Assurance Annual Opinion.

Progress is summarised in Section 4.

### **1.4 Other Matters**

#### **1.4.1 Family Services audits**

As part of the 2018/19 audit plan agreed by the Audit Committee in April 2018, we proposed to continue the 'embedded assurance' approach adopted in 2017/18 after the Ofsted inspection in May 2017.



During Q3, due to the encouraging feedback obtained from the Ofsted monitoring visits, we have returned to a 'Business as Usual' approach regarding our audits within Family Services. As part of our remaining 2018/19 internal audit plan we will include coverage of Family Services activities through the following audits:

- Performance Management Framework
- Risk Management Framework
- Revenue Budget Monitoring
- Troubled Families
- Domestic Violence

### ***1.5 Recommendations***

- That the Audit Committee notes the progress made against our 2018/19 Internal Audit Programme.

## 2.0 No and Limited Assurance reports issued since the previous meeting

### 2.1 Equalities Data – Quality and Analysis – Limited Assurance

November 2018

#### Number of findings by risk rating

Critical	0
High	2
Medium	0
Low	2
Advisory	0

#### Summary

This audit looked at whether:

- Published equalities data is accurate, and appropriately reviewed and authorised prior to publication.
- Data analysis carried out over equality data is meaningful and informs ongoing strategy.

Significant issues were found in the design and operation of controls relating to the processing and interpretation of equalities data at the Council. Data analysis was not sufficiently in-depth to identify equalities issues and support the targeting of interventions to improve equalities performance. As such, this activity did not support the Council to demonstrate that it is meeting the requirements of the Public Sector Equalities Duty.

The audit identified 2 high risk and 2 low risk findings.

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

- **Data quality and analysis – staff performance reviews (finding 1, high)** – equalities data analysis was carried out relating to staff performance reviews at the end of 2017/18. However, this analysis did not identify potential issues relating to the performance ratings assigned to some groups of staff with protected characteristics under the Equality Act. This was exacerbated by a failure to act on high risk findings from a previous audit. CSG have subsequently undertaken further work to confirm there were no significant differences between groups. Data was published which might allow the outcomes of individuals' performance reviews to be identified. Some protected characteristics were omitted from the data analysis.
- **Data quality and analysis – mandatory gender pay gap reporting (finding 2, high)** – mandatory gender pay gap reporting published by the Council included an incorrectly calculated median gender pay gap: the published data stated that there was no median gender pay gap, but a median pay gap of -6.3% (women are paid more than men) should have been reported. Records of the approach taken to the calculation were not retained, and as such it is not possible to confirm that the national guidance was fully followed.

**Appropriate actions have been agreed to be implemented, in the majority of cases by the end of March 2019. We will confirm implementation of the high priority actions and report back to the April meeting of the Audit Committee.**

### 3.0 Progress against plan

The table below represents a summary of the work that we have completed during the quarter or that is currently underway.

\* During Q3 we have been testing compliance with the new processes introduced as a result of the Grant Thornton Review of the Financial Management Relating to CPO Fraud. A summary of the status against the 32 GT actions is included within the Audit Committee papers in the Report of the Director of Finance, agenda item 7. Our work on this has been incorporated into the eight audits marked below with an asterisk. During the quarter we have prioritised confirming the status against the GT actions as opposed to the other scope areas of these reviews.

Stage	Name of review	Report classification	Total findings	Ratings				
				Critical	High	Medium	Low	Advisory
<b>Quarter 3</b>								
Complete	Equalities Data Quality and Analysis	Limited	4	-	2	-	2	-
Complete	Integra Access and Program Change Management (“APCM”)*	Reasonable	6	-	1	2	1	2
Complete	Banking & Payment Arrangements – Treasury Management	Reasonable	9	-	1	1	3	4
Complete	S106 & CILS Follow-Up*	Reasonable	3	-	1	1	1	-
Complete	Private Treaty Agreements*	Reasonable	4	-	-	4	-	-
Complete	Highways DLO	Reasonable	5	-	-	4	1	-
Complete	Public Sector Equality Duty (PSED) Compliance	Reasonable	4	-	-	3	1	-
Complete	Troubled Families - Payment by Results – October submission	Claim verified						
Complete	St. John’s School N20	Reasonable	5	-	-	2	3	-

Complete	Menorah Primary School	Reasonable	6	-	-	4	2	-
Complete	Fairway	Reasonable (previous rating: Limited)	5	-	-	4	1	-
Complete	Northside	Reasonable	8	-	-	5	3	-
Complete	Beit Shvidler Primary School	Reasonable	5	-	-	4	1	-
Complete	All Saints' School N20	Substantial	4	-	-	1	3	-
Complete	Garden Suburb Infant School	Substantial	1	-	-	-	1	-
Complete	Our Lady of Lourdes School	Substantial	3	-	-	-	3	-
Draft Report	Pensions Admin Follow-Up Phase 2	TBC						
Draft Report	Contract Management - Sport & Physical Activity (SPA)	TBC						
Draft Report	Schools Payroll	TBC						
Fieldwork	Christ Church CE	TBC						
Fieldwork	Re Operational Review follow-up*	TBC						
Fieldwork	Follow-Up of CFO Financial Controls review*	TBC						
Fieldwork	Payments Data Analytics and Matching Exercises*	TBC						
Fieldwork	Banking & Payment Arrangements – Accounts Payable	TBC						
Fieldwork	Highways Programme	TBC						
Fieldwork	Disabled Facilities Grant	TBC						
Fieldwork	Domestic Violence	TBC						
Planning	Banking & Payment Arrangements – Cash & Bank	TBC						
Planning	Portfolio and Project Management (IT Management)	TBC						

	Note: to incorporate the placeholder review of Mosaic included within the Audit Plan for Q4							
<b>Planning</b>	<b>Pension Fund Finance and Investment</b>	<b>TBC</b>						
<b>Planning</b>	<b>Treasury Management</b> Note: scope areas that were outside of the Banking & Payment Arrangements review	<b>TBC</b>						
<b>Planning</b>	<b>Revenue Budget Setting and Monitoring</b>	<b>TBC</b>						
<b>Deferred</b>	<b>Elections Quality Assurance (Advisory)</b> Deferred to 2019/20 as agreed that Advisory review of Geographical Information Systems more useful and only transferred to Assurance Group at beginning of Q4							
<b>Deferred</b>	<b>Conduct Standards Compliance</b> Deferred to 2019/20 due to post-Grant Thornton report work taking priority							
<b>Deferred</b>	<b>Better Care Fund</b> Deferred to 2019/20 to enable new governance arrangements to have embedded							

## Quarter 2

<b>Complete</b>	<b>Temporary and Interim Workforce</b>	<b>No</b>	<b>15</b>	<b>-</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>1</b>
<b>Complete</b>	<b>Tudor School</b>	<b>Limited</b>	<b>7</b>	<b>-</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>-</b>
<b>Complete</b>	<b>All Saints' Primary School NW2</b>	<b>Limited</b>	<b>7</b>	<b>-</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>-</b>
<b>Complete</b>	<b>St. Andrew's School</b>	<b>Reasonable</b>	<b>6</b>	<b>-</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>-</b>
<b>Complete</b>	<b>Teachers Pensions – Phase 2</b>	<b>Reasonable</b>	<b>4</b>	<b>-</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>-</b>
<b>Complete</b>	<b>General Ledger*</b>	<b>Reasonable</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>5</b>	<b>1</b>	<b>-</b>
<b>Complete</b>	<b>Disabled Persons Freedom Passes</b>	<b>Reasonable</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>1</b>	<b>1</b>
<b>Complete</b>	<b>Business Continuity</b>	<b>Reasonable</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>1</b>	<b>-</b>

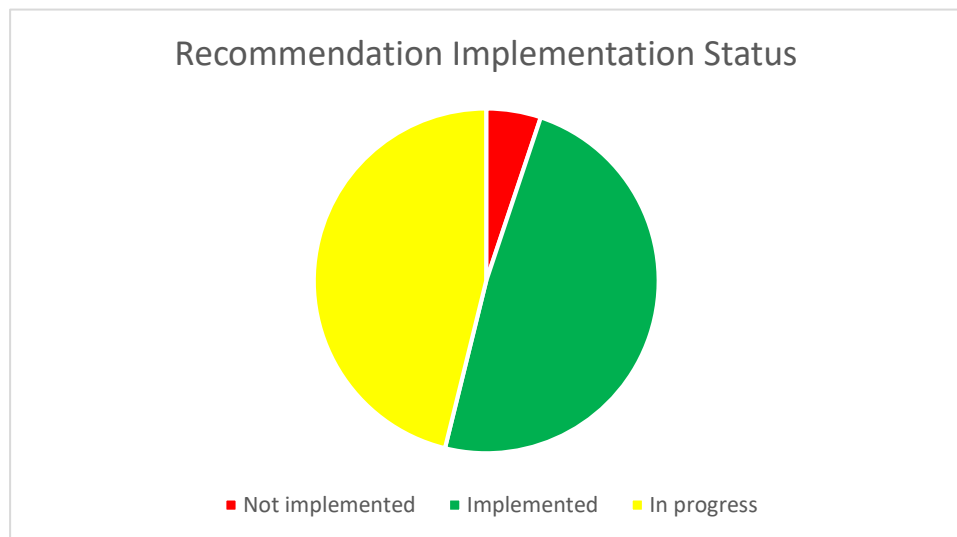
Complete	Moss Hall Infant School	Reasonable	7	-	-	5	2	-
Complete	Brookland Junior School	Reasonable	6	-	-	2	4	-
Complete	IT Governance – Strategic Decision Making	Reasonable	6	-	-	5	1	-
Complete	Review of use of the Project Management Toolkit, including consideration of Health and Safety Risks, for six projects	Substantial	3	-	-	1	2	-
Complete	Customer Transformation Programme - Content Management System workstream	Substantial	4	-	-	-	4	-
Complete	Courtland School	Substantial	3	-	-	1	2	-
Complete	Local Transport Capital Block Funding (Pothole Action Fund)	Claim verified	-	-	-	-	-	-
Complete	Troubled Families - Payment by Results – July submission	Claim verified	-	-	-	-	-	-
Complete	Troubled Families - Payment by Results – September submission	Claim verified	1	-	-	1	-	-
Combined	Accounts Payable Merged into Banking & Payments Arrangements							
Combined	Cash & Bank Merged into Banking & Payment Arrangements							
Combined	Capital Programme Merged into Follow-Up of CFO Financial Controls review							
Combined	Schemes of Financial Delegation Merged into Follow-Up of CFO Financial Controls review							
<b>Quarter 1</b>								
Complete	Non-Schools Payroll	Limited	11	-	1	8	2	-
Complete	Onboarding	Limited	5	-	1	3	-	1

Complete	Facilities Management	Limited	6	-	2	2	2	-
Complete	Housing Benefit	Reasonable	6	-	1	1	4	-
Complete	Review of new Depot arrangements	Reasonable	6	-	1	1	3	1
Complete	Emergency Planning	Reasonable	6	-	-	5	1	-
Complete	Pardes House School	Reasonable	8	-	-	2	6	-
Complete	St. Agnes Catholic School	Reasonable	7	-	-	2	5	-
Complete	Brookland Infant School	Reasonable	6	-	-	2	4	-
Complete	Teachers Pensions – Statutory returns	Management letter issued (see section 3.0)						
Complete	Income Generation – benchmarking report (Advisory)	Management letter issued						
Complete	Live Unlimited Charity – Financial Controls (Advisory)	Management letter issued						
Complete	Pensions Admin follow-up (Phase 1)	Management letter issued, progress against high priority actions due was reported to Audit Committee in April						
Complete	Troubled Families - Payment by Results – June submission	Claim verified						
Cancelled	Transformation Q1 Cancelled as the Transformation portfolio has reduced compared to previous years, therefore one review in Q3 considered sufficient. Outline Business Cases for the Priorities and Spending review will be ready at start of 2019/20, to conduct further reviews of Transformation then	N/A						

## 4.0 Follow Up

### 4.1 Summary

4.1.1 The wheel below demonstrates how many high priority actions due this period have been confirmed as being implemented, in progress or not implemented.



### 4.2 Outstanding actions

4.2.1 During this period we followed up 20 high priority actions which were found to be outstanding. These high priority actions are summarised below.

\* At the request of the Audit Committee a column has been added to show how many times the action has slipped i.e. not been implemented within the agreed timeframe. The colour key is as follows:

White = 1 (i.e. first time non-implementation being reported)

Amber = 2 (i.e. second time non-implementation being reported)

Red = 3+ (i.e. at least third time non-implementation being reported)



Name of report	Agreed Action	Status (Not Implemented / In Progress)	Owner	Due Date	Slippage*
<p><b>1. Teachers Pensions</b></p> <p><b>November 2018</b></p>	<p><b>Statutory Returns</b></p> <p><b>Reconciliation</b> Key responsible officers in Council and CSG Payroll will consider and agree a protocol to ensure that non-CSG Schools which use their own independent payroll providers submit their monthly contribution schedules to CSG in a timely manner.</p>	<p><b>In Progress</b></p> <p>CSG Management confirmed that a communication protocol has been agreed to deal with non-compliant schools, follow-up letters are being sent by CSG Payroll (an example of which was provided), and that in cases of continued non-compliance, these will be escalated to the Council. It was stated that no cases have been escalated thus far.</p> <p><b>Further action needed:</b></p> <p>Evidence to be provided that the communication protocol is documented and has been formally agreed between CSG, LBB's Director of Finance and Cambridge Education.</p>	<p>Payroll Manager, Capita Employee Solutions</p> <p>Director of Education &amp; Skills, Cambridge Education (only once CSG have escalated schools that are not complying)</p> <p>Director of Finance, LBB</p>	<p><b>Target date:</b> 1 November 2018</p> <p><b>Revised date:</b> 31 March 2019</p>	<p><b>1</b></p>
<p><b>2. Teachers Pensions</b></p> <p><b>November 2018</b></p>	<p><b>Statutory Returns</b></p> <p>CSG Payroll will develop a complete list of schools who use their own external payroll providers and will ensure that it is kept up to date.</p>	<p><b>In Progress</b></p> <p>CSG management confirmed that a list is being maintained of Barnet schools who are not on CSG payroll and that this is being maintained on a best endeavours basis using market intelligence. At time of writing this report a list has been provided to internal audit. This will be reviewed for completeness and if found to be complete this action will be considered implemented.</p>	<p>Payroll Manager, Capita Employee Solutions</p>	<p><b>Target date:</b> 1 November 2018</p> <p><b>Revised date:</b> 31 March 2019</p>	<p><b>1</b></p>
<p><b>3. All Saints' School (NW2)</b></p> <p><b>October 2018</b></p>	<p><b>Contracts</b></p> <p>For procurement exercises, quotes will be obtained and evaluated in line with 'Contract standing order for schools.' Records of quotes and evaluations will be retained for referral and scrutiny. Minutes of</p>	<p><b>In Progress</b></p> <p>Follow-up visit not yet completed to confirm full implementation to evidence, verbal update to be given to Audit Committee</p>	<p>Head Teacher / Finance Support Officer</p>	<p><b>Target date:</b> Autumn term 2018</p>	<p><b>1</b></p>

	<p>meetings will include consideration by governors of quotations for the renewal/procurement of any relevant contract, to ensure that there is clear and visible evidence of a fair and transparent selection process.</p> <p>Signed contracts for services procured will be held by schools for referral where necessary.</p>				
<p><b>4. Onboarding</b></p> <p><b>June 2018</b></p>	<p><b>New Starter Induction</b></p> <p><b><u>Recruitment and Selection Training:</u></b></p> <p>The Learning and Development Officer will build a segment into the quarterly Managerial recruitment &amp; selection training which specifies that managers are responsible for ensuring that employees attend the corporate induction and should monitor attendance.</p>	<p><b>In Progress</b></p> <p>The Recruitment and Selection training was scaled back for 2018 but is currently being planned in for 2019 (and there is one scheduled to take place in the next few weeks). It has also undergone an overhaul to incorporate training on the new e-recruitment system (Vacancy Filler) as well as the audit findings. The reason for not meeting the original revised date of 30 November 2018 is due to Vacancy Filler going live that month (which was a delay from September) and the team being heavily involved in the roll out of training for that new system.</p> <p>In terms of scheduling the training events themselves the team have only been able to schedule up until May 2019 due to uncertainty of room availability and physical location of staff in view of the impending move to Colindale.</p>	<p><b>Responsible officer:</b></p> <p>Strategic HR Lead, LBB</p> <p>Learning and Development Officer, LBB</p>	<p><b>Target Date:</b> 31/07/2018</p> <p><b>Revised date:</b> 30 November 2018</p> <p><b>2<sup>nd</sup> Revised date:</b> 31 March 2019</p>	<b>2</b>
<p><b>5. Onboarding</b></p> <p><b>June 2018</b></p>	<p><b>New Starter Induction</b></p> <p><b><u>Welcome Site Pack:</u></b></p>	<p><b><u>In Progress</u></b></p> <p>a) A link to the Welcome Pack is sent by Belfast to all new starters as part of the new starter process that they manage.</p>	<p><b>Responsible officer:</b></p> <p>CSG HR Account Director</p>	<p><b>Target Date:</b> 31/07/2018</p> <p><b>Revised date:</b> 30</p>	<b>2</b>

	LBB will agree a protocol in conjunction with CSG for ensuring that new employees are made aware of the relevant Site Welcome Pack (created and managed by CSG Estates- Facilities Management) when commencing their employment with the Council	b) In addition, the site welcome pack is being reviewed in light of the move to Colindale. This work is being taken forward by the TW3 Programme working with the Place workstream and supported by the People workstream. It is anticipated that the new Welcome Pack will be completed by the beginning of May 2019.	Head of Estates, LBB, TW3 Place Workstream Lead	November 2018 <b>2<sup>nd</sup> Revised date:</b> 31 May 2019	
<b>6. Review of Depot Arrangements</b>  <b>June 2018</b>	<b>Vehicle inspection checks</b>  d) Vehicle inspection checks on refuse vehicles will be undertaken daily and will also cover all trade waste crews each week. The inspection sheets will confirm the correct position of the cameras on the vehicles.	<b>In Progress</b>  Internal Audit were informed by Street Scene management that vehicle inspection checks are carried out, at the start & end of each shift, by drivers. Vehicles are also inspected by the fleet department on a 6-weekly schedule. Evidence of inspection checks are held by operations & the Fleet department. These are also carried out with any vehicle change over.  At time of writing we had not received evidence to confirm the above due to competing priorities at the Depot.	<b>Responsible officer:</b>  Operations Manager (East) Recycling Waste and Street Cleaning Services, Street Scene  Operations Manager (West/Harrow) Recycling Waste and Street Cleaning Services, Street Scene  Street Scene Director	<b>Target date:</b> 1 July 2018  1 <sup>st</sup> Revised date: 31 December 2018  2 <sup>nd</sup> Revised date: 30 April 2019	<b>2</b>
<b>7. Temporary and Interim Workforce</b>  <b>May 2018</b>	<b>Performance information and roles &amp; responsibilities</b>  LBB HR, CSG HR and CSG Procurement Management will, working together, assess what performance information is necessary to	<b>In Progress</b>  <u>Note: regarding all Temporary and Interim Workforce actions, the progress that is reported is in the context of Human Resources having a number of key priorities including preparing for the return to the Council, recruiting Social Workers, equalities work and restructures.</u>	Strategic HR Lead;  HR Business Partner, CSG;  Procurement Lead and Procurement	31 October 2018  Revised date: June 2019	<b>1</b>

	<p>fully monitor the agency contract and support agency spend reduction measures. This review will be used as the basis for defining performance reporting requirements for the new agency staff contract which commences 1 October 2018.</p>	<p>Internal Audit has reviewed the new supplier contract and noted that contract management information requirements have been rolled forward from the previous contract with no changes. As such, it is not possible to evidence that performance reporting requirements within the new contract were appropriately tailored to the Council's needs in advance of finalisation of the contract. However, management provided evidence to show that discussions about management information took place during the mobilisation period prior to contract start to help ensure performance reporting of the new contract was tailored to the council's requirements. Management have also provided evidence that performance reporting is being carried out on a monthly/quarterly basis as appropriate and that there are monthly monitoring meetings which review performance based on management information provided by Matrix. We have reviewed this information and confirmed that it covers key areas and that improvements to the content and quality of information are being raised and actioned through monitoring meetings.</p> <p>However, we compared the contractual performance information requirements within Schedule 7 of the contract to the most recent Quarterly Business Review (QBR) provided by Matrix and noted that some elements of the contractually required monitoring information are not included within the QBR or supporting management information. These elements have been highlighted to the provider and data will be provided in future quarterly reporting information.</p> <p>Management have stated that the content of monthly and quarterly performance reporting is still being refined to ensure that all of the information (particularly financial information) needed by the Council is presented in an accessible and comprehensive way.</p>	<p>Contract Manager, CSG</p>		
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		<p><b>Revised recommendation:</b></p> <p>Once the monthly/quarterly monitoring approach and outputs have been finalised with Matrix, key reporting requirements should be documented and any variation from the contractual indicators should be formally agreed with the provider. This will ensure that performance information is sufficient to allow the Council to fully monitor the agency contract and target agency spend reduction measures throughout the life of the contract.</p>			
<p><b>8. Temporary and Interim Workforce</b></p> <p><b>May 2018</b></p>	<p><b>Performance monitoring - assignment extension monitoring and assignment length</b></p> <p>The Council will create a policy on temporary workers, which will include limits on initial assignment length and a workflow for assignment approvals and extension approvals to ensure that inappropriate assignments and extensions can be challenged in a timely manner.</p>	<p><b>In Progress</b></p> <p>Management has confirmed that the Council has a number of HR policies that are a priority for reviewing and updating. The suite of policies are those which need to be updated to enable the Council to take forward work arising from the strategic contract review, and to reflect current legislation. In addition, a new policy has been written in response to the audit on temporary worker hiring and it is included with the suite of policies for priority adoption and implementation. All of the priority policies are currently being consulted with staff representatives prior to roll out across the Council.</p> <p>The Council's Agency Workers Hiring Policy and Procedure has been drafted but not finalised. Internal Audit has reviewed this document and noted that the policy does not explicitly limit initial assignment length or include information on the workflow for extending assignments. Management has confirmed that once adopted this will be supported by a procedure which will describe assignment limits and workflows for extensions within the boundaries of the supplier system and will be documented.</p>	Strategic HR Lead	<p>31 October 2018</p> <p>Revised date: 1 May 2019</p>	1
<p><b>9. Temporary and Interim Workforce</b></p> <p><b>May 2018</b></p>	<p><b>Performance monitoring - assignment extension monitoring and assignment length</b></p> <p>CSG HR will work with management to implement a</p>	<p><b>In Progress</b></p> <p>Management have confirmed that any extensions to agency contracts now need to be signed off by HR and cross checked with the agency panel where relevant. There is a draft Agency Approval Process document which is in the process of being approved.</p>	<p>Strategic HR Lead;</p> <p>HR Business Partner, CSG;</p>	31 October 2018	1

	<p>workflow process within the agency supplier system and ensure that it is not possible to circumvent this process through use of the supplier's helpdesk to raise assignment or extension requests without appropriate approvals. For example, by requiring, where there are emergency assignments raised, formal retrospective approval within the system within 24 hours.</p>	<p>Contract and spend/assignment monitoring is in place as confirmed through our review of Performance information (see point 7 above).</p> <p>Internal Audit have recently received a listing of new assignments and assignment extensions to test a sample for appropriate sign off and are in the process of testing this.</p> <p>Management did provide email trails evidencing how an assignment request and an extension request raised through the helpdesk were processed in practice, but until completion of the sample testing, Internal Audit cannot confirm that the control is operating consistently.</p>		<p>Revised date: 31 March 2019</p>	
<p><b>10. Temporary and Interim Workforce</b></p> <p><b>May 2018</b></p>	<p><b>Performance monitoring - assignment extension monitoring and assignment length</b></p> <p>The policy and its requirements, along with details of any amended workflows within the agency supplier system, will be clearly documented in process notes and an end-to-end process map.</p>	<p><b>In Progress</b></p> <p>Management has confirmed that the Council has a number of HR policies that are a priority for reviewing and updating. The suite of policies are those which need to be updated to enable the Council to take forward work arising from the strategic contract review, and to reflect current legislation. In addition, a new policy has been written in response to the audit on temporary worker hiring and it is included with the suite of policies for priority adoption and implementation. All of the priority policies are currently being consulted with staff representatives prior to roll out across the Council.</p> <p>The Council's Agency Workers Hiring Policy and Procedure has been drafted but not finalised. The policy includes a procedure note at Appendix A, but a process maps covering key workflows has not yet been created.</p>	<p>Strategic HR Lead;</p> <p>HR Business Partner, CSG;</p> <p>Working with the new provider who will document the process.</p>	<p>31 October 2018</p> <p>Revised date: 1 May 2019</p>	1
<p><b>11. Temporary and Interim Workforce</b></p> <p><b>May 2018</b></p>	<p><b>Performance monitoring - assignment extension monitoring and assignment length</b></p> <p>The policy and process notes will be communicated to all hiring managers and any</p>	<p><b>In Progress</b></p> <p>Management has confirmed that the Council has a number of HR policies that are a priority for reviewing and updating. The suite of policies are those which need to be updated to enable the Council to take forward work arising from the strategic contract review, and to reflect current legislation. In addition, a new policy has been written in response to the audit on temporary worker</p>	<p><b>Responsible officer:</b></p> <p>Strategic HR Lead;</p> <p>HR Business Partner, CSG;</p>	<p>31 October 2018</p> <p>Revised date: 1 May 2019</p>	1

	required training will be provided.	<p>hiring and it is included with the suite of policies for priority adoption and implementation. All of the priority policies are currently being consulted with staff representatives prior to roll out across the Council. The Council's Agency Workers Hiring Policy and Procedure has been drafted but not finalised.</p> <p>Management provided evidence that an on-site assistance session was offered to staff, and that a handbook covering how to use the system has been made available to staff.</p>	Working with the new provider who will provide some of the training.		
<p><b>12. Temporary and Interim Workforce</b></p> <p><b>May 2018</b></p>	<p><b>Performance monitoring – DBS clearance</b></p> <p>CSG HR Business Partners will ensure that the recruiting officer clearly states DBS requirements in job descriptions so that only staff who will provide evidence of DBS clearance are hired.</p>	<p><b>Not Implemented</b></p> <p>Management have confirmed that all job descriptions were sent to the new supplier as part of contract implementation, but still need to be reviewed by CSG HR to ensure that they are up to standard and include key requirements including DBS. As such, it is not possible to say whether existing job descriptions are effectively mitigating the risk of hiring staff without appropriate clearances.</p> <p>Management have confirmed that any new job descriptions will clearly state DBS requirements.</p> <p>Verbal update will be provided to Audit Committee.</p>	<p><b>Responsible officer:</b></p> <p>CSG HR Director; HR Business Partner, CSG;</p>	<p>31 October 2018</p> <p>Revised date: 1 May 2019</p>	1
<p><b>13. Temporary and Interim Workforce</b></p> <p><b>May 2018</b></p>	<p><b>Performance monitoring – DBS clearance</b></p> <p>This evidence will be retained centrally within the agency staff management system to support review of the operation of the control.</p>	<p><b>In Progress</b></p> <p>Management have confirmed that DBS evidence is now retained within the agency staff management system. On the date of this report Internal Audit were provided with a listing of roles which require DBS to test a sample for appropriate retention of evidence and were given access to the Matrix system to enable the completion of sample testing.</p>	<p><b>Responsible officer:</b></p> <p>Strategic HR Lead;</p>	<p>31 October 2018</p> <p>Revised date: 30 April 2019</p>	1
<p><b>14. Temporary and Interim Workforce</b></p>	<p><b>Performance monitoring – DBS clearance</b></p>	<p><b>Not Implemented</b></p> <p>Management have confirmed that all job descriptions were sent to the new supplier as part of contract</p>	<p>HR Business Partner, CSG</p>	<p>30 September 2018 then annually by</p>	1

<p><b>May 2018</b></p>	<p>CSG HR will review all generic role profiles within the supplier system on an annual basis to ensure that roles which give employees access to vulnerable individuals require appropriate clearances.</p>	<p>implementation, but still need to be reviewed by CSG HR to ensure that they are up to standard and include key requirements including DBS. As such, it is not possible to say whether existing job descriptions are effectively mitigating the risk of hiring staff without appropriate clearances.</p> <p>Management have confirmed that any new job descriptions will clearly state DBS requirements.</p> <p>Verbal update will be provided to Audit Committee.</p>		<p>30 September thereafter</p> <p>Revised date: 1 May 2019</p>	
<p><b>15. Temporary and Interim Workforce</b></p> <p><b>May 2018</b></p>	<p><b>Performance monitoring – DBS clearance</b></p> <p>LBB HR will ask the supplier to ensure that it is not possible to fill these roles without adding relevant information (including DBS numbers) into the system.</p>	<p><b>In Progress</b></p> <p>Management have confirmed that DBS evidence is now retained within the agency staff management system. On the date of this report Internal Audit were provided with a listing of roles which require DBS to test a sample for appropriate retention of evidence and were given access to the Matrix system to enable the completion of sample testing.</p>	<p><b>Responsible officer:</b></p> <p>Strategic HR Lead;</p>	<p>Complete</p> <p>Revised date: 30 April 2019</p>	<p>1</p>
<p><b>16. Temporary and Interim Workforce</b></p> <p><b>May 2018</b></p>	<p><b>Performance monitoring – DBS clearance</b></p> <p>LBB HR will investigate whether it is possible to require verification of DBS numbers directly with the DBS Update Service as part of the new agency supplier contract.</p>	<p><b>In Progress</b></p> <p>Management confirmed that it has been investigated and it is possible to use the DBS update service. Management will develop guidelines for hiring managers as part of the Temporary Workers Policy and Procedure and will roll this out along with the policy once adopted. Using the update service will also be incorporated into training going forward.</p>	<p><b>Responsible officer:</b></p> <p>Strategic HR Lead;</p>	<p>Revised date: 30 June 2019</p>	<p>1</p>
<p><b>17. Temporary and Interim Workforce</b></p> <p><b>May 2018</b></p>	<p><b>Performance monitoring – Supplier compliance audits</b></p> <p>Management will request evidence of the six-monthly agency audit and any actions taken by the supplier as a result (e.g. agency suspension). Any issues arising from agency audits will be escalated by CSG</p>	<p><b>Deadline extended</b></p> <p>As the first six-monthly agency audit is not due until March 2019, the deadline for this action has been changed to 30 April 2019 to allow time for the audit to be reported and any issues arising to be escalated.</p>	<p>Strategic HR Lead (during contract mobilisation);</p> <p>CSG Contract Manager thereafter (to add as a standing agenda item to quarterly contract</p>	<p>31 October 2018 for mobilisation;</p> <p>31 December 2018 for quarterly contract monitoring</p>	<p>-</p>



	procurement to CSG HR and LBB HR.		monitoring meeting with Matrix)	meeting agenda Revised date: 30 April 2019	
<b>18. Temporary and Interim Workforce</b>  <b>May 2018</b>	<b>Performance monitoring – Supplier compliance audits</b>  The agency staff policy will outline preventative and detective controls around the compliance of agency staff with statutory requirements, including details of who is responsible for the operation of these controls.	<b>In Progress</b>  Management has confirmed that the Council has a number of HR policies that are a priority for reviewing and updating. The suite of policies are those which need to be updated to enable the Council to take forward work arising from the strategic contract review, and to reflect current legislation. In addition, a new policy has been written in response to the audit on temporary worker hiring and it is included with the suite of policies for priority adoption and implementation. All of the priority policies are currently being consulted with staff representatives prior to roll out across the Council.  The Council's Agency Workers Hiring Policy and Procedure has been drafted but not finalised. The draft policy adequately covers the agencies' responsibilities around verification of statutory requirements, so this action will be complete once the policy is finalised.	<b>Responsible officer:</b> Strategic HR Lead;	31 October 2018  Revised: 30 April 2019	1
<b>19. S106 and CILS Expenditure</b>  <b>January 2018</b>	<b>Specific development non-financial obligation tracking and verification</b>  A protocol will be developed (see action 1a) to clearly document the roles and responsibilities of parties in the monitoring and delivery of obligations, including where delivery is not in-line with the S106 agreement. Records of delivery will be maintained on file.	<b>In Progress</b>  Management confirmed that development of the protocol is ongoing. It is their intention that a meeting will be held in early 2019 with representation from all relevant teams involved in delivery of non-financial obligations.  The output of the meeting will be the development of a document which meets the requirements of this action which will then be approved by the Growth Manager, Re  <b>Further work for full implementation:</b> A protocol will be developed in line with the agreed action.	Head of Strategic Planning, RE Infrastructure Planning Manager, RE Service Director - Highways, RE Head of Business, Enterprise and Skills, RE	30 April 2018  <b>Revised:</b> 31 October 2018 <b>2<sup>nd</sup> revised:</b> 28 February 2019	2

<p><b>20. Accounts Payable</b></p> <p><b>December 2017</b></p>	<p><b>Potential Duplicate Payments</b></p> <p>a) Working with relevant stakeholders, including Commissioning Group Finance, CAFT, CSG procurement and delivery units, a data cleanse of Integra vendor data will be performed to ensure that the data is of an appropriate quality to successfully support the automated controls (1) and also the NFI and/or other data matching exercises- including in house exercises.</p>	<p><b>In Progress</b></p> <p>Management has confirmed to Internal Audit that while the work to identify duplicate suppliers has been undertaken the data cleanse of duplicate suppliers has not yet been completed. As such, this action remains partly completed at January 2019.</p>	<p><b>Responsible officer:</b></p> <p>Assistant Director of Finance, CSG</p>	<p>Target Date: <b>31/7/18</b></p> <p><b>Revised date:</b></p> <p>30 November 2018</p> <p><b>2<sup>nd</sup> Revised date:</b> 31 January 2019</p>	<p><b>2</b></p>
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### 4.3 Completed actions

4.3.1 During this period we followed up 19 high priority actions which are deemed to have been implemented, superseded or closed. These are listed below:

Name of report	Agreed Action and Due Date
<p><b>1. Elections Management – Annual Canvass Follow-Up Review</b></p> <p><b>March 2018</b></p>	<p><b>Completeness of property lists sent to canvassers for a face-to-face visit</b></p> <p>Management will update their annual canvass project plan to add in a step prior to the canvass process beginning. This step is to review the listing of properties which have not been included in the canvass process to assess whether or not any properties have a HEF recorded as received prior to the canvass start date and that if properties are excluded, there is a recorded reason for exclusion. Any properties where there is no reason recorded for exclusion will be manually added to canvassers' rounds. Where there are any late additions to canvassers' rounds, management will monitor that these properties are visited by canvassers in a timely manner.</p> <p>Target Date: 31 October 2018</p>
<p><b>2. Fixed Asset Register (FAR)</b></p> <p><b>March 2018</b></p>	<p><b>Atrium FAR Data Quality</b></p>

	<p>a) A data quality review process, for example, periodic related exception reporting, investigation and update, will be implemented to ensure the completeness and accuracy of Atrium data.</p> <p>Note: Atrium is the Council's non-housing property asset management system</p> <p><b>Target date:</b> 31 July 2018</p> <p><b>Revised:</b> 31 December 2018</p>
<p><b>3. Fixed Asset Register (FAR)</b></p> <p><b>March 2018</b></p>	<p><b>Atrium FAR Data Quality</b></p> <p>b) The backlog of valuation updates will be addressed.</p> <p><b>Target date:</b> 31 July 2018</p> <p><b>Revised:</b> 31 December 2018</p>
<p><b>4. Fixed Asset Register (FAR)</b></p> <p><b>March 2018</b></p>	<p><b>Atrium FAR Data Quality</b></p> <p>c) All Committee and DPR decisions impacting properties in Atrium will be reflected in Atrium. Criteria will be defined as to how information referred to or implicit in decision reports should be captured in Atrium at the various stages. For example, recording information in the property record as a note initially with the decision attached prior to further update on completion notification by Legal. All decision reports that impact properties in Atrium will be communicated to Property Services notwithstanding that they may not require the direct involvement of, or any activity by, Property Services, other than for the records within Atrium to be updated appropriately.</p> <p><b>Target date:</b> 31 July 2018</p> <p><b>Revised:</b> 31 December 2018</p>
<p><b>5. St. Andrews CE School</b></p> <p><b>July 2018</b></p>	<p><b>Lettings</b></p> <p>The Lettings procedures will be reviewed with reference to the Barnet Schools Financial Guide, section 7.9 (Lettings Policy and Administration). Insurance arrangements will be checked for those hirers stating that they hold their own insurance, and procedures will be confirmed to record and pay premiums to school insurers for those hirers requiring cover via the school.</p> <p>Arrangements will be made with the Treasurer of Governor's funds to regularly confirm receipt of lettings income paid direct to the Governor's account.</p>

	<p>The calculation for reimbursement of identifiable costs associated with lettings income banked to Governor's funds will be reviewed on an annual basis to accurately calculate a sum which is agreed by both parties.</p> <p>Target date: Autumn Term 2018</p>
<p><b>6. Tudor School</b></p> <p><b>June 2018</b></p>	<p><b>Budget Monitoring</b></p> <p>The school will refer to the Financial Guide for schools section 2.5 (Budget monitoring and control) for guidance. Monthly monitoring reports will be completed and evidence retained of Head of School and Governor review and approval. Finance committee minutes will be retained. Where a lack of financial skills is identified in the governing body, action will be taken to recruit or obtain skills to fulfil its role of challenge and support in the field of budget management and value for money.</p> <p>Target date: Autumn Term 2018</p>
<p><b>7. Facilities Management</b></p> <p><b>June 2018</b></p>	<p><b>Data Quality – KPI CSG 25: Incident Resolution</b></p> <p>The KPI will be updated as a result</p> <p>Target date: 30 September 2018</p> <p>Revised: 31 December 2018</p>
<p><b>8. Facilities Management</b></p> <p><b>June 2018</b></p>	<p><b>External Contractors</b></p> <p>Management will:</p> <ul style="list-style-type: none"> <li>- Ensure there is an effective and full audit trail from Hornbill through to purchase orders, invoices and payments made for incident responses.</li> <li>- Ensure there are sample checks completed on jobs under £250 by the Facilities Management Team to ensure the jobs are completed correctly and have not been paid for previously.</li> <li>- Ensure there is a schedule in place which states named Officers which can request work as well as approve invoices of certain values.</li> <li>- Ensure that there is there is oversight of work costing £250 before an invoice is raised by the contractor. The approach will be documented and held on file.</li> </ul> <p>Target date: 22 June 2018</p> <p>Revised: 31 July 2018</p>

	2 <sup>nd</sup> Revised: 31 December 2018
<b>9. Onboarding</b>  <b>June 2018</b>	<p><b>New Starter Induction</b></p> <p><b><u>Corporate Induction Training:</u></b></p> <p>A protocol will be agreed between CSG HR and LBB so that HR BPs will follow up non-attendance. The data will be provided by LBB LDO.</p> <p><b>Target Date:</b> 31/07/2018</p> <p><b>1<sup>st</sup> Revised date:</b> 30 November 2018 to be applied from the next Corporate Induction in Jan 2019</p>
<b>10. Temporary and Interim Workforce</b>  <b>May 2018</b>	<p><b>Performance information and roles &amp; responsibilities</b></p> <p>LBB HR, CSG HR and CSG Procurement will agree a RACI matrix to support the management of the agency staff contract being tendered during 2018.</p> <p>Target date: 30 November 2018</p>
<b>11. Temporary and Interim Workforce</b>  <b>May 2018</b>	<p><b>Performance monitoring – DBS clearance</b></p> <p>LBB HR will ask the new provider to review all existing agency staff in roles who work with vulnerable individuals and seek confirmation from Matrix and the supply chain provider that a DBS check is in place for those individuals.</p> <p>Target date: 31 October 2018</p>
<b>12. Temporary and Interim Workforce</b>  <b>May 2018</b>	<p><b>Performance monitoring – DBS clearance</b></p> <p>This requirement will be reflected in the agency staff policy and hiring managers will receive any training as required.</p> <p>Target date: 31 October 2018</p>
<b>13. Temporary and Interim Workforce</b>  <b>May 2018</b>	<p><b>Performance monitoring – DBS clearance</b></p> <p>LBB HR and CSG HR management will decide on a process for checks on the validity of agency staff DBS clearance and this will be incorporated into the temporary workers policy.</p> <p>Target date: 31 October 2018</p>
<b>14. Temporary and Interim Workforce</b>  <b>May 2018</b>	<p><b>Performance monitoring – Supplier compliance audits</b></p>

	<p>Management will request evidence that social care agency compliance is being reviewed by the supplier on a three-monthly basis. Any issues arising from agency audits will be escalated by CSG procurement to CSG HR and LBB HR.</p> <p><b>Action superseded</b></p> <p>As three-monthly social care audits are not a contractual requirement under the new agency and interim worker contract, social care agency compliance will be reviewed as part of the six-monthly agency audit process and followed up under action 15 above.</p>
<p><b>15. Temporary and Interim Workforce</b></p> <p><b>May 2018</b></p>	<p><b>Performance monitoring – baselining of costs</b></p> <p>The baselining of costs and savings within the new contract will be agreed with LBB Commercial prior to contract award. Costs will be reviewed on an annual basis during the contract.</p>
<p><b>16. Non-Schools Payroll</b></p> <p><b>March 2018</b></p>	<p><b>Standing Data Form</b></p> <p>Written guidance around changes to standing data will be developed (see finding P13), which will highlight that no changes can be made to bank or address details without the explicit, written agreement of the individual concerned, or their legal proxy. The process of drafting the guidance will include consideration of whether the existing controls are sufficiently robust. If control weaknesses are noted, additional controls will be put in place to strengthen the process.</p> <p><b>Target date:</b> 31 August 2018</p> <p><b>Revised:</b> 31 December 2018</p>
<p><b>17. St. Paul’s School, N11</b></p> <p><b>March 2018</b></p>	<p><b>Voluntary Funds</b></p> <p>The school will continue investigations with the support of the Schools Finance Support Service and Governors to locate missing paperwork. If the accounting records are located by the school, then the school will submit audited accounts to Governors in accordance with the Financial Guide for schools section 10. If the accounting records cannot be located by current staff, then the school will obtain records from the school bankers to establish that the Amenities account was closed, and the destination of the final balance. This information will be presented to Governors</p>
<p><b>18. S106 and CILS Expenditure</b></p> <p><b>January 2018</b></p>	<p><b>Specific development non-financial obligation tracking and verification</b></p> <p>RE Management will complete their historic reconciliation of non-financial obligations and start to take any action necessary as a result of this reconciliation.</p>

**19. S106 and CILS Expenditure**

**January 2018**

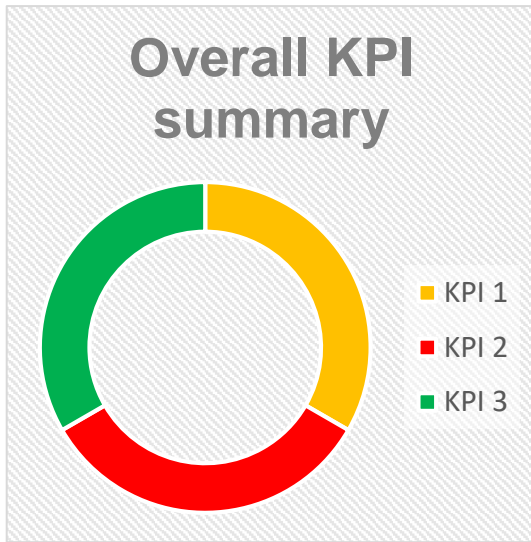
Where planning obligations are found not to have been met without prior agreement, RE management will pursue an appropriate remedy with the developer.

# *Appendices*





## Appendix A: Key performance indicators (KPIs)



Fully Achieved

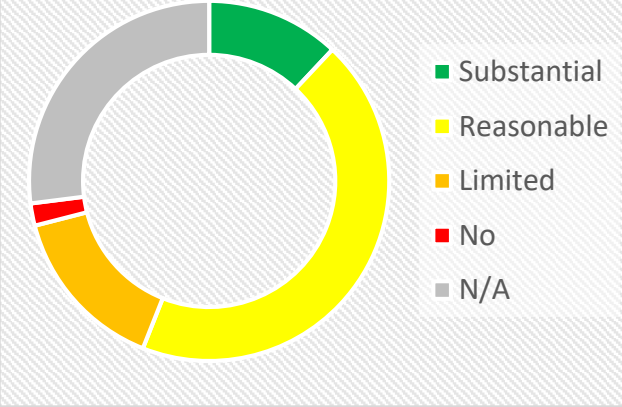
Partially Achieved

Not Achieved

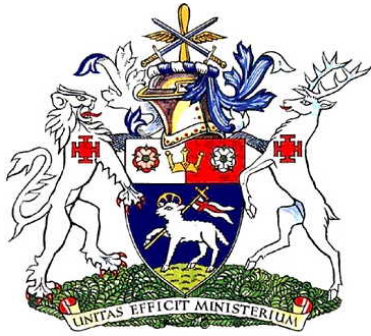


KPI	Target	Results	Comment										
1. % of Plan delivered	78%	75%	Work in progress is incorporated as follows: <table border="1" style="margin-top: 10px;"> <tr> <td>Not Started</td> <td>0%</td> </tr> <tr> <td>Planning</td> <td>20%</td> </tr> <tr> <td>Fieldwork</td> <td>50%</td> </tr> <tr> <td>Draft Report</td> <td>90%</td> </tr> <tr> <td>Complete</td> <td>100%</td> </tr> </table> Applying these %s to work in progress show that we have delivered 75% of our plan.  <b>0-50% = Not Achieved</b> <b>51-77% = Partially Achieved</b> <b>78% = Fully Achieved</b>	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%	49%	<b>0-49% = Not Achieved</b> <b>50-89% = Partially Achieved</b> <b>90% = Fully Achieved</b>										
3. Average customer satisfaction score for year to meet or exceed acceptable level for at least 85% of completed surveys	85%	100%	<b>0-49% = Not Achieved</b> <b>50-84% = Partially Achieved</b> <b>85% = Fully Achieved</b>										
4. % of reports year to date achieving:	N/A												

# Assurance Ratings



<ul style="list-style-type: none"> <li>•Substantial</li> <li>•Reasonable</li> <li>•Limited</li> <li>•No Assurance</li> <li>•N/A</li> </ul>		<p>12%</p> <p>44%</p> <p>15%</p> <p>2%</p> <p>27%</p>	
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**Audit Committee**  
**31st January 2019**

<b>Title</b>	<b>Corporate Anti-Fraud Team (CAFT) Q3 Progress Report 2018-19</b>
<b>Report of</b>	Director of Assurance
<b>Wards</b>	All
<b>Status</b>	Public
<b>Urgent</b>	No
<b>Key</b>	No
<b>Enclosures</b>	Appendix 1 - CAFT Q3 Progress Report 1st October – 31st December 2018
<b>Officer Contact Details</b>	Clair Green – Director of Assurance <a href="mailto:clair.green@barnet.gov.uk">clair.green@barnet.gov.uk</a> 0208 359 7791

### Summary

This report covers the period 1st October to 31st December 2018 and represents an up-to-date picture of the work undertaken by Corporate Anti-Fraud Team (CAFT) during that time

### Officers Recommendations

1. That the Committee note the CAFT Progress Report covering the period 1st October – 31st December 2018

## **1. WHY THIS REPORT IS NEEDED**

- 1.1 The Audit Committee included in the work programme for 2018/19 that a Quarterly Report on the work of the Corporate Anti-Fraud Team is produced to this meeting

## **2. REASONS FOR RECOMMENDATIONS**

- 2.1 Not Applicable

## **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 them to an appropriate outcome. They 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. The aim of the team is to deliver a cohesive approach that reflects best practice and supports all council's 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.

### **4.2 Social Value**

- 4.2.1 None if the context of this decision.

### **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.

#### 5.5 **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 discrimination

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

#### 5.6 **Corporate Parenting**

5.6.1 None in the context of this decision

#### 5.7 **Consultation and Engagement**

5.7.1 None in the context of this decision

#### 5.8 **Insight**

5.8.1 None in the context of this decision

## **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 19<sup>th</sup> April 2018 (Decision item 13) the Audit committee included in the Committee Forward Work Programme that quarterly progress report on the work of the Corporate Anti-Fraud Team be produced to this meeting.
  - 6.3 Audit Committee 16<sup>th</sup> April 2016 (Decision item 11) the Audit committee delegate to the Assurance Assistant Director (now Assurance Director) the authority to make necessary amendments to the policies, and report any changes to the next meeting of the Audit Committee.
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**Corporate Anti-Fraud Team (CAFT)  
Progress Report: 1<sup>st</sup> October – 31<sup>st</sup> December  
2018**

## Contents

1. Introduction
2. Pro-active Fraud Plan
3. Performance Information
4. Noteworthy investigations summaries

### 1. Introduction

This report covers the period 1st October 2018 – 31st December 2018 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. CAFT supports the Chief Finance Officer in fulfilling their statutory obligation under section 151 of the Local Government Act 1972 to ensure the protection of public funds and to have an effective system of prevention and detection of fraud and corruption. 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 to 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 actions, such as disciplinary or civil are taken. It is this element of the work of CAFT that is hard to quantify statistically.

Q3 saw the return of activities linked to 'International Fraud Awareness Week' which ran from 11<sup>th</sup> – 17<sup>th</sup> November 2018. As with previous years the purpose of this week was to raise fraud awareness and give advice on how to report concerns both internally, for members of staff and externally for members of the public. It was also used as an opportunity to increase awareness and visibility, as well as the profile of the CAFT team and the work they do in relation to Blue Badge Fraud, Tenancy Fraud and General internal and external Fraud. There was also a rebranding of the CAFT logo to invigorate and focus on the issues. Details of these activities are reported in section 2 - CAFT Proactive review.

**International Fraud Awareness Week** 11-17 November 2018

Find out more about how you can help stop fraud.

**Help protect the public purse**  
Report all suspicions of fraud against the council and its partners to the **Corporate Anti-Fraud Team**.  
Call the Fraud Hotline on **020 8359 2007** or email **CAFT@barnet.gov.uk**

[www.barnet.gov.uk/anti-fraud](http://www.barnet.gov.uk/anti-fraud)

**BARNET**  
LONDON BOROUGH

The poster features a central graphic with the word 'FRAUD' in large, bold, red letters, with 'IN BARNET' underneath it. Surrounding this central text are various other words related to fraud, such as 'STOP', 'CORRUPTION', 'PHISHING', 'TENANCY FRAUD', 'BRIBERY', 'BLUE BADGE FRAUD', and 'STOLEN', arranged in a circular pattern. A fingerprint icon is also visible on the left side of the graphic.



**Table 1** below compares this year’s referrals with those received in the same period last year. The figures show that there have been some variations in the new referral types, specifically Blue Badge fraud. This reduced number in Q3 is attributed to the fact that last year in Q3 a detailed Blue Badge fraud training program was delivered to the Civil Enforcement Officers which had an immediate effect on referrals. It is envisaged that another training program will be delivered by CAFT in the new financial year with a view to increasing referrals in this area. It should however be noted that the overall number of referrals remains relatively constant with that of last years.

**Table 1**

<b>New Fraud Referrals</b>	<b>2017-2018</b>			<b>2018-2019</b>		
<b>CAFT Section</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>
Corporate Fraud	21	14	13	9	12	18
Blue Badge Fraud	54	96	146	73	100	76
Financial	1	4	4	3	4	1
Tenancy Fraud	65	84	102	76	96	125
<b>Total no. of New referrals</b>	<b>141</b>	<b>198</b>	<b>265</b>	<b>161</b>	<b>212</b>	<b>220</b>
	<b>604</b>			<b>593</b>		

## 2. Pro-active fraud plan

**Table 2** provides an update against any CAFT pro-active exercises undertaken in this period as set out within the 2018/19 plan

<b>CAFT Pro-active review</b>	<b>Outcome</b>
<p><b>Disabled Blue Badge Street Operation.</b> 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 five intelligence led pro-active ‘street Operation’ during the last three months. During these exercises CAFT officers are accompanied by NSL Parking Enforcement Officers and Officers from Barnet Police.</p> <p>The first of these Operations was carried out on 29<sup>th</sup> October 2018 in the Hendon area. During this operation <b>11</b> badges were identified as being misused, out of these <b>4</b> badges were cancelled and <b>3</b> badges were seized.</p> <p>The following three Operations were carried out during ‘<b>International Fraud Awareness Week</b>’ in November 2018 in the areas of Hendon, Edgware and High Barnet. During these Operations <b>277</b> blue badges were checked resulting in <b>16</b> badges being identified as being misused (<b>5</b> of these were cancelled badges). <b>5</b> badges were seized and <b>11</b> Penalty Charge notices (PCN) were issued for blue badge misuse.</p> <p>The final Operation was carried out on 5<sup>th</sup> December 2018 in Burnt Oak and Edgware as part of a ‘Day of Action’ arranged by the Task Force consisting of the Community Safety Hub, the Police and other enforcement agencies. During this exercise, a</p>

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**International Fraud Awareness Week  
11<sup>th</sup> -17<sup>th</sup> November 2018**

This is a proactive week of action where the work of counter fraud officers is publicised and advice given to staff as well as members of the public to assist with any concerns they may have.

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**Corporate Fraud  
Adult Social Care Direct payments**

A proactive exercise was carried out whereby data relating to direct payments was cross matched against DWP deceased records to identify any overpayments resulting from a failure to notify the council.

counterfeit disabled badge was identified for further investigation.

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As well as carrying out Blue Badge Operations throughout the week with police, CAFT officers set up information stalls at Barnet House housing reception, the Broadwalk shopping centre in Edgware, the Spires shopping centre in High Barnet and the quadrangle in Middlesex University at Hendon. CAFT officers were joined at these locations by colleagues from Trading Standards, Street Enforcement and Environmental Health where advice was given as well as Promotional items such as Post-it notes, pens, key rings and lanyards being distributed to members of the public.

CAFT Also held a lunch and learn session in the Atrium where fraud related paraphernalia seized from real cases was on display with officers on hand to explain how they were used.

Throughout the week there were also a number of communications released via First Team Articles, Barnet First – e-newsletter, Computer and TV screen messages at NLBP and Barnet House and other Social Media such as Tweets and Facebook and Press Releases for the purpose of keeping Fraud Awareness at the forefront of people’s minds

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The purpose of this exercise was to identify payments that may have been made to recipients after they had passed away.

The exercised used 589 cases where direct payments had terminated within the last two years. The results established in 59 cases where the direct payment was stopped as a result of the death of the recipient.

In 55 of the cases the direct payment had been stopped on the relevant date in relation to the date of death.

The remaining 4 cases are still under investigation and relate to anomalies regarding payments that were made and utilised post death

### 3. Performance Indicators

**Table 3** provides an update against all performance indicators as set out within the 2018/19 fraud plan. This shows that CAFT Officers have actively investigated a total of 471 allegations of fraud in this third quarter of 2018/19 (251 ongoing investigations and 220 new referrals).

*(No targets are set against each of these indicators, they are the results of CAFT re-active and continuous investigation work – with the exception of ‘Properties Recovered’ which is agreed with Barnet Homes as an annual figure of 60 properties).*

Performance Indicator	Q3 2018-19	Comments
<b>Corporate Fraud Team</b> deal with the investigation of any criminal and fraud matters (except Benefit and 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	12	
Number of new fraud investigations	18	
<b>Total number of Cases dealt with in Q2</b>	<b>30</b>	
Total Number of closed fraud investigations	13	4 closed no Fraud 1 Fraud proven (School Admissions - please refer to noteworthy case 1 in section 4) 2 advice & assistance given with recommendations made to the department concerned. 6 closed insufficient evidence
Number of staff no longer employed / dismissed as a result of CAFT investigations.	0	
Number of cases awaiting legal action	0	
Total number of on-going fraud investigations	17	1 relates to Family Services 1 relates to assisted travel 1 relates to Parking 7 relate to Direct Payments 1 relates to Waste & Recycling 1 relates to Council Tax 2 relate to Electoral Register 1 relates to Schools & Learning 2 relate to Housing rents
<b>Total number of Corporate cases carried into Q4</b>	<b>17</b>	
<b>Disabled Blue Badge Misuse and Fraud</b> 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	111	As a result of these referrals <b>12</b> badges have been seized.
Number of new referrals received	76	
<b>Total number of BB cases dealt with in Q3</b>	<b>187</b>	

Number of cases that were closed after prosecution in Q3	9	These cases were put before the courts in the third quarter and resulted in guilty verdicts. Please refer to noteworthy cases in section 4
Number of cases closed with Cautions being Administered in Q3	24	Please refer to noteworthy investigations section 4 of the report for further details
Number of cases closed with a warning letter sent to badge holder or misuser in Q3	19	Warning letters* are issued where there is a strong suspicion that a holder's badge is being misused or the LA has decided to take no further action. *some relate to Barnet badges seized by other local authorities
Number of cases closed with no further action by the Authority	14	<b>1</b> was closed Fraud Proven no further action (NFA), and <b>13</b> were closed due to insufficient evidence.
<b>Total number of BB cases closed in Q3</b>	<b>66</b>	
Number of cases with HB Public Law awaiting court action	14	All of these cases are already with our legal team for prosecution
Number of On-going BB investigations	107	
<b>Total number of BB cases Carried into Q4</b>	<b>121</b>	
<b>Financial Investigations</b> - 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	22	
Number of new Financial investigations	1	
<b>Total number of Financial cases in Q3</b>	<b>23</b>	
Number of closed Financial investigations	0	
<b>Total number of closed Financial cases in Q3</b>	<b>0</b>	
Total Number of on-going Financial investigations	23	Of these investigations, <b>7</b> relate to planning, <b>3</b> relate to Tenancy Fraud, <b>1</b> relates to Finance <b>1</b> relates to Trading Standards.  As CAFT have Accredited Financial Investigators, there is scope for us to offer our services to other local authorities who do not have trained officers in this field. We are currently assisting Haringey Council with <b>9</b> PoCA investigations, Enfield Council with <b>1</b> PoCA investigation and Camden Council with <b>1</b> PoCA

		investigation. Details of cases are reported on closure when all legal actions have concluded
<b>Total number of Financials cases carried into Q4</b>	<b>23</b>	
<p><b>Tenancy Fraud Team</b> 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.</p> <p>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 current status of the cases referred.</p>		
Number of carried forward Tenancy Fraud investigations from Q2	106	
Number of new Tenancy Fraud Cases referred in Q3	80	
Number of new Right to Buy Cases received for verification	45	Since April 2017 CAFT hold the responsibility for vetting all Right to Buy Applications submitted to Barnet Homes.
<b>Number of cases being investigated in Q3</b>	<b>231</b>	
Number of Tenancy cases closed due to property being recovered by the Authority	7	<p><b>4 relate to standard tenancies</b>, which were recovered due to civil action being taken.</p> <p><b>3 relate standard tenancies</b> where the property was voluntarily surrendered. All noteworthy cases are referred to in Section 4</p> <p>As at the end of Quarter 3 – CAFT have recovered 37 properties so far, this year.</p>
Number of Right to Buy cases closed due to applications being denied as a result of CAFT intervention	9	The Right to Buy scheme helps eligible council and housing association tenants in England to buy their home at a discount. By the end of Quarter 3 CAFT have denied 38 RTB applications due to inaccuracies or for supplying false information
Number of Tenancy investigations closed	63	These cases were investigated but no tangible evidence was identified to substantiate the allegations. <i>The cases were closed as Insufficient Evidence or No Fraud Identified</i>
Number of Right to Buy cases closed as eligible to apply	25	All Right to Buy cases are now validated by CAFT. These cases were validated has having no issues and so allowed to progress through the RTB system
<b>Total number of cases closed in Q3</b>	<b>104</b>	

Total number of on-going Tenancy Fraud Investigations.	113	Of these cases 5 are with legal awaiting Criminal prosecution and 2 is with legal awaiting Civil action.
Total number of on-going Right to Buy Investigations.	14	
<b>Number of Tenancy Fraud and Right to Buy cases carried into Q4</b>	<b>127</b>	
<b>Other information reported as per requirements of policy.</b>		
Number of requests authorised for surveillance in accordance with Regulation of Investigatory Powers Act 2000 (RIPA).	<b>Nil this quarter. This statistic is reported for information purposes in accordance with our policy and statistical return to the Office of Surveillance Commissioners.</b>	
Number of referrals received under the council's whistleblowing policy.	There have been <b>0</b> referrals received under the council's whistleblowing policy in this last quarter.	
This is reported in accordance with Policy.		

#### 4. Noteworthy investigation summaries: -

##### Corporate Investigations

**Case 1** – relates to an allegation of a fraudulent Primary school's admission. The basis of the referral was that the application address was in fact within the catchment area for the requested school, but that the applicants did not reside at the address. CAFT therefore commenced an investigation. CAFT enquires confirmed that although the address was owned by the applicant they did not reside at the property as there was evidence that actually resided at an address outside the catchment area and as a result the preferred school requested by the applicant was not offered so no further action needed to be taken ...

##### Blue Badge Investigations

**Case 1** – relates to the misuse of a child's disabled Blue Badge that was being used by a family member to gain free parking. The offender initially pleaded 'not guilty' at Willesden Magistrates Court on 9<sup>th</sup> October 2018 stating that the badge was not on display. After a brief discussion, she pleaded Guilty to an offence of wrongful use of a disabled badge contrary to section 117 of the Road Traffic Regulation Act 1984 and was sentenced to a conditional discharge, ordered to pay costs of £2,000 and a £20 victim surcharge.

**Case 2** – relates to the fraudulent use of a foreign disabled badge believed to be a forgery. The offender was approached by Fraud Officers at the scene when using the badge and had refused to co-operate. He drove off without providing his details. Video footage was obtained by the officer which gave a clear description of the driver who was later identified as being a student at the local University. He attempted to mislead the investigation by stating that he had sold the car and the offender was not him and refused to attend a formal interview. The offender was summonsed to court and pleaded guilty to wrongful use of a disabled badge contrary to 117 Road Traffic Regulation Act 1984 on 13<sup>th</sup> November 2018 and was sentenced to a fine of £150, ordered to pay full costs of £550 and a victim surcharge of £30.

**Case 3** – relates to the misuse of a deceased persons Blue Badge that was being used to gain free parking. The offender stated that he had found the badge a couple of days before, however further investigations established that the badge had been used on the same vehicle some months earlier by his wife (please see **case 4** below). The offender in this case pleaded Guilty at Willesden Magistrates Court on 13<sup>th</sup> November 2018 to Theft by finding and to wrongful use of a disabled badge contrary to section 117 of the Road Traffic Regulation Act 1984

and was sentenced to a fine of £500 for Theft, a £200 fine for the misuse of the badge, ordered to pay costs of £500 and a £50 victim surcharge.

**Case 4** – relates to the misuse of a deceased persons Blue Badge that was being used to gain free parking. The offender was investigated for using the badge on her vehicle when it came to light that she had received a parking fine and photographic evidence showed the blue badge displayed. She was interviewed and admitted using the badge that had been found by her husband. The offender pleaded guilty to wrongful use of a disabled badge contrary to 117 Road Traffic Regulation Act 1984 on 13th November 2018 and was sentenced to a fine of £100, ordered to pay costs of £200 and a victim surcharge of £30.

**Case 5** – relates to the misuse of a deceased persons Blue Badge that was being used to gain free parking on more than one occasion. Further to this the offender had appealed and got away with paying previous parking fines by stating that he had a blue badge and that he was the badge holder. The offender pleaded guilty to two offences of wrongful use of a disabled badge contrary to 117 Road Traffic Regulation Act 1984 and 2 offences of Fraud by False Representation contrary to the Fraud Act 2006 on 04<sup>th</sup> December 2018. He was sentenced to £600 for each Fraud offence, £100 for each misuse offence, ordered to pay costs of £1,280.09 and a victim surcharge of £60. In total, he was ordered to pay £2,740.09.

### **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.*

**24 Simple Cautions were administered by CAFT in Q3** in investigations 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 Simple Caution.

All of the cases that were cautioned related to instances of straight forward misuse that took place. These include situations where errands were being run by family members on behalf of the badge holder such as the collection of medication or food. The offenders stated that they had the badge holder's permission and believed that the badge could be used for such action. However, when the Blue Badge scheme was explained to them they realised that their actions fell outside of what was permitted. In such cases and in accordance with our policy the council can issue a simple caution rather than pursue the matter through the courts.

### **Tenancy Fraud Investigations**

**Mr B** had a one bedroom flat in Hendon, a referral was received from the caretaker of the address who suspected the property was being lived in by someone other than the tenant. The resulting CAFT investigation found that the tenant was in fact living elsewhere whilst receiving rental payments for the social housing property. The tenant failed to attend any of the arranged interview under caution appointments and made it clear he would not be attending. The case was taken to civil court where outright possession was granted and the property was recovered, the case is now with legal for prosecution under the Prevention of Social Housing Fraud Act 2013 for sub-letting the property.

**Mr F** had a one bedroom flat in Edgware. A referral was received from the Barnet Homes repair team who had been informed by a neighbour that the tenant did not live there. A number of visits were carried out to the property and calling cards were left. Witness statements were obtained from the neighbours stating the tenant was not resident and all efforts to locate the tenant were exhausted. An eviction therefore took place and the property was recovered.

**Ms N** had a three-bedroom house in Whetstone. As part of a proactive exercise for Notting Hill Housing Association, an un-announced visit was made to the property. There was no answer so a calling card was left. Further suspicion arose when an e mail was received from the tenant stating she was on holiday for the next three weeks. The CAFT investigation revealed that the tenant had actually been living in Dubai and her daughter and daughters partner were living in the property. The case was taken to civil court where outright possession was granted and the property was recovered.

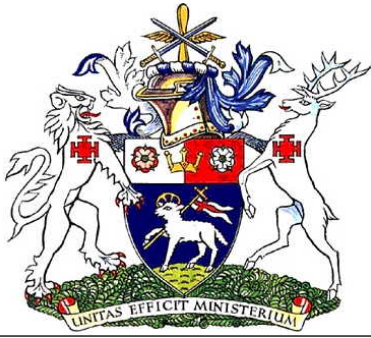
**Ms S** had a one bedroom flat in Finchley Central. A pro-active exercise was being carried out in the area, and un-announced visit found the tenant at a property which was not the social housing property she was the tenant of. The CAFT investigation found that the tenant was living with her grandmother and not at her tenancy address. The tenant failed to attend a number of arranged interviews, the case therefore went to civil court where outright possession was granted and the property was recovered through eviction.

**Mr Q** had a one bedroom flat in Colindale. An application was received from the tenant in relation to reassigning the property to his brother as he needed to travel to Afghanistan to care for his sick mother. The CAFT investigation found that the tenant had in fact been living in Canada since 2014. The tenant returned to the UK for a formal interview under caution, however his solicitor advised him not to be interviewed. However, tenant subsequently returned the keys to the property and then returned to Canada before any legal proceedings could take place.

**Mr K** had a three-bedroom house in Southgate. The investigation commenced following a referral from Metropolitan Housing Association, stating the tenant was linked to another property. CAFT identified that the tenant had purchased a property after the tenancy started, which he is allowed to do, but no longer needed the assistance of social housing. The tenant voluntarily returned the keys and the property was recovered.

**Miss M** had a four-bedroom house in High Barnet. The investigation started due to an anonymous referral stating the tenant was not resident at the property and it was being left empty. CAFT investigations identified that the tenant had moved out of the property to live elsewhere. The tenant was interviewed and confirmed she had vacated the property and that it was no longer needed. The keys were voluntarily returned and the property was recovered.





## Audit Committee 31st January 2019

<b>Title</b>	<b>External Audit Plan 2018/19</b>
<b>Report of</b>	Director of Finance (Section 151 Officer)
<b>Wards</b>	Not Applicable
<b>Status</b>	Public
<b>Urgent</b>	No
<b>Key</b>	No
<b>Enclosures</b>	Appendix A – Audit Plan to the Audit Committee
<b>Officer Contact Details</b>	Stephen Fitzgerald - <a href="mailto:Stephen.Fitzgerald@Barnet.gov.uk">Stephen.Fitzgerald@Barnet.gov.uk</a>

### Summary

This report advises the committee of BDO's audit plan for 2018/19.

### Recommendations

1. The Audit Committee are asked to note BDO's audit plan for 2018/19.
2. The Audit Committee are asked to note the fee of £197,262 for the 2017/18 audit and the fee of £21,617 for certification of the housing benefits subsidy return, as set out in paragraph 6.8.

## **1. WHY THIS REPORT IS NEEDED**

- 1.1 The purpose of the audit plan is to highlight to the Committee the key elements of BDO's external audit strategy for the audit for the year ended 31 March 2019.

## **2. REASONS FOR RECOMMENDATIONS**

- 2.1 To ensure that the Audit Committee are aware of the external audit scope and objectives, overall audit strategy, key audit risks and the proposed audit fees for 2018/19.

## **3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED**

- 3.1 None

## **4. POST DECISION IMPLEMENTATION**

- 4.1 BDO's audit plan for 2018/19 will dictate what is reported to the Audit Committee as part of the audit process.

## **5. IMPLICATIONS OF DECISION**

### **5.1 Corporate Priorities and Performance**

- 5.1.1 The audit plan will assess fundamental aspects of financial standing and performance management in Barnet that relate to the key theme of 'value for money' relating to the Council's corporate priorities.

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

- 5.2.1 This report sets out the engagement timetable and framework for the assessment of the Council's financial reporting, management and standing, as well as value for money. The proposed fee for the audit of £130,919 will be paid out of Corporate Fees within Central Expenses.

### **5.3 Social Value**

- 5.3.1 None in the context of this decision

### **5.4 Legal and Constitutional References**

- 5.4.1 The Council's Constitution (Article 7) sets out the terms of reference for Committees. The responsibilities for the Audit Committee include providing "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".

### **5.5 Risk Management**

- 5.5.1 The audit plan for the year ended 31 March 2019 highlights the Council's statutory responsibility in respect of producing the financial statements. Without appropriate closedown processes in place and references to local government financial reporting policies there is a risk that statutory deadlines may be missed or accounting policies misinterpreted without the appropriate reference to the external auditor's views ~~or~~

concerns. The consequence of this could result in a qualified audit opinion on the financial statements or a qualified value for money opinion.

## 5.6 Equalities and Diversity

5.6.1 The audit planning report 2018/19 has the potential to cover the inspection and assessment of all services within the authority that, in turn, impacts on all members of the community.

## 5.7 Corporate Parenting

5.7.1 None in the context of this decision

## 5.8 Consultation and Engagement

5.8.1 None

## 5.9 Insight

5.9.1 None in the context of this decision.

## 6. BACKGROUND INFORMATION

6.1 The purpose of the audit planning report is to highlight the key elements of BDO's 2018/19 external audit strategy for the Council. It is compiled based on their audit risk assessment and discussions of key risks with management. It is reported to the Audit Committee as those charged with governance for consideration in accordance with International Standard on Auditing (UK & Ireland) 260.

6.2 The audit plan for the year ended 31 March 2019 sets out the planned BDO external audit team and the engagement timetable.

6.3 **The audit plan for 2018/19 details the audit scope and objectives in accordance with the NAO Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the NAO. This will enable BDO to form an opinion on whether:**

6.3.1 The financial statements give a true and fair view of the financial position of the group and authority and their expenditure and income for the period in question.

6.3.2 The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

6.3.3 Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).

6.3.4 The return required to facilitate the preparation of Whole of Government Accounts (WGA) consolidated accounts is consistent with the audited financial statements.

6.3.5 The authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

**6.4 The audit planning report 2018/19 also sets out group and component materiality and clearly trivial threshold levels:**

6.4.1 The concept of materiality will be applied by BDO in both planning and performing the audit, and in evaluating the effect of misstatements.

6.4.2 The estimated group and component materiality levels for the 2018/19 audit are as follows:

- Group - £16.2m
- Significant components (Council) - £16.2m
- Non-significant components (The Barnet Group Limited and its subsidiaries) - £5.0m

6.4.3 Planning materiality levels are estimated at this stage and will be confirmed by BDO when the draft financial statements are received for audit.

6.4.4 The clearly trivial threshold for all group and components detailed in section 6.4.2, is set at £0.243m, which is based on 1.5% of the materiality level of the Group (£16.2m). Any uncorrected misstatements above this level identified through the audit process are required to be reported to the Audit Committee.

**6.5 The audit planning report 2018/19 also details the overall audit strategy.**

6.5.1 This encompasses a risk based audit of the group and authority's financial statements and the authority's use of resources based on BDO's understanding of the group, authority and other component entities' businesses and specific risks and of the adequacy of the accounting systems and records as the basis for preparation of the financial statements.

6.5.2 For the use of resources audit, BDO consider the significance of business and operational risks insofar as they relate to 'proper arrangements', including risks at both sector and authority-specific level, and draw on relevant cost and performance information as appropriate.

6.5.3 The approach to the audit of components of the group financial statements is designed to ensure that BDO obtain the requisite level of assurance across the whole group:

**6.6 For the financial statements audit, under International Standard on Auditing 315 'Identifying and assessing the risks of material misstatement through understanding the entity and its environment', BDO are required to consider significant risks that require special audit attention.**

6.6.1 The key audit risks that have been identified in relation to the audit of the financial statements are as follows, with further details and the planned audit approach set out on pages 10-14 of the BDO audit plan:

Significant risk:

- Management override of controls
- Revenue (and expenditure) recognition
- Property, plant and equipment and investment property valuations
- Pension liability valuation
- Presentation of the Comprehensive Income and Expenditure Statement (CIES)

Normal risk:

- Allowances for non-collection of receivables
- Consideration of related party transactions
- Classification and measurement of financial instruments
- Revenue from contracts with customers
- Accounting for renegotiated Brent Cross lease

6.6.2 The audit will also consider throughout the process the possibility of material misstatement due to fraud or error.

6.6.3 The key audit risks that have been identified in relation to the use of resources audit are as follows, with further details and the planned audit approach set out on pages 15-16 of the BDO audit plan:

Significant risk:

- Recognition of revenue and capital grants that are subject to performance conditions.
- Material misstatements


Normal risk:

- Asset valuation
- NET Pension liability

6.7 Under Auditing and Ethical Standards, BDO are required as auditors to confirm their independence to the Audit Committee. BDO have not identified any potential threats to their independence as auditors.

6.8 The audit plan confirms the proposed Code audit fee of £130,919 (2017/18: £197,262) and a separate fee of £19,000 (2017/18: £21,617) for the certification of the housing benefit subsidy return. Separate fees are charged for the audit of the teachers' pensions return and pooling of capital receipts return which are outside of the main audit engagement.

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Report to the Audit Committee

# LONDON BOROUGH OF BARNET COUNCIL

Audit Planning: year ending 31 March 2019

IDEAS | PEOPLE | TRUST



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# WELCOME

## Introduction

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We have pleasure in presenting our Audit Planning Report to the Audit Committee of London Borough of Barnet Council (the 'Council'). This report forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process with those charged with governance.

It summarises the planned audit strategy for the year ending 31 March 2019 in respect of our audit of the financial statements of the Council and consolidated entities (together the 'group') and use of resources; comprising materiality, key audit risks and the planned approach to these, together with timetable and the BDO team.

The planned audit strategy has been discussed with management to ensure that it incorporates developments in the business during the year under review, the results for the year to date and other required scope changes.

We look forward to discussing this plan with you at the Audit Committee meeting on 31 January 2019 and to receiving your input on the scope and approach.

In the meantime if you would like to discuss any aspects in advance of the meeting please contact one of the team.



Leigh Lloyd-Thomas

21 January 2019



**Leigh Lloyd-Thomas**

**Engagement Partner**

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This report has been prepared solely for the use of the Audit Committee and Those Charged with Governance and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

# SCOPE AND MATERIALITY

## Executive summary

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This summary provides an overview of the key audit matters that we believe are important to the Audit Committee in reviewing the planned audit strategy for the Council and the Group for the year ending 31 March 2019.

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

### Audit scope

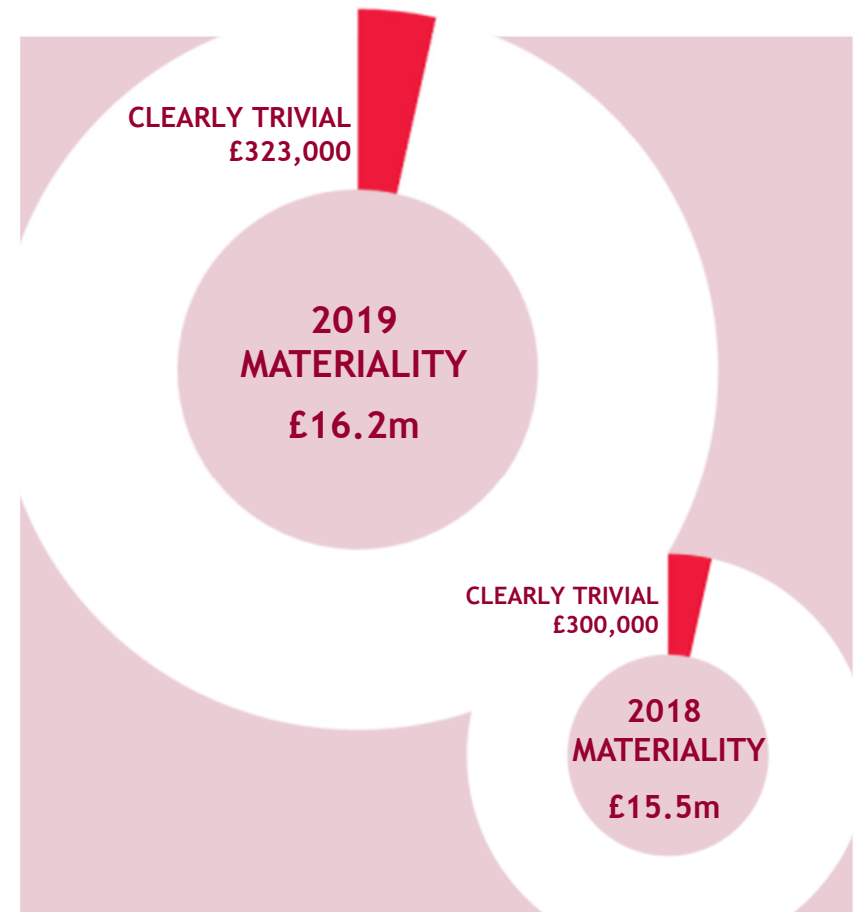
The scope of the audit is determined by the NAO's Code of Audit Practice that sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. This includes: auditing the financial statements; reviewing the arrangements to secure value for money through the economic, efficient and effective use of its resources; and, where appropriate, exercising the auditor's wider reporting powers and duties.

Our approach is designed to ensure we obtain the requisite level of assurance in accordance with applicable laws, appropriate standards and guidance issued by the NAO.

### Materiality

Planning materiality for the Council and the Group will be set at 1.50% of gross expenditure for the year (prior year 1.50%) using the prior year gross expenditure figure. This will be revisited when the draft financial statements are received for audit.

Although materiality is the judgement of the engagement lead, the Audit Committee is obliged to satisfy themselves that the materiality chosen is appropriate for the scope of the audit.



# AUDIT STRATEGY

## Executive summary

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Our Audit Strategy is predicated on a risk based approach, so that audit work is focused on the areas of the financial statements where the risk of material misstatement is assessed to be higher, or where there is a risk that the organisation has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources

We have discussed the changes to the organisation, systems and controls in the year with management and obtained their own view of potential audit risk in order to update our understanding of the Group's activities and to determine which risks impact on the numbers and disclosures in the financial statements, or on its arrangements for securing economy, efficiency and effectiveness in its use of resources.

The table on the next page summarises our planned approach to audit risks identified.

A lower level of materiality is applied to the areas of the financial statements that are considered to be sensitive, such as senior management remuneration disclosures, auditor's remuneration disclosures and related party disclosures.

We will continue to update this assessment throughout the audit.

The table on the next page summarises our planned approach to audit risks identified.

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<b>Risk identified - Financial statements</b>	<b>Risk rating</b>	<b>Fraud risk present</b>	<b>Testing approach</b>	<b>Impact of significant judgements and estimates</b>
Management override of controls	Significant	Yes	Substantive	Medium
Revenue recognition	Significant	Yes	Substantive	Medium
Property, Plant & Equipment and Investment Property valuation	Significant	No	Substantive	High
Pension liability assumptions	Significant	No	Substantive	High
Presentation of income and expenditure in the CIES	Significant	No	Substantive	Low
Allowance for non-collection of receivables	Normal	No	Substantive	Medium
Related party transactions	Normal	No	Substantive	Low
Implementation of IFRS 9 financial instruments	Normal	No	Substantive	Medium
Implementation of IFRS 15 revenue from contracts with customers	Normal	No	Substantive	Medium
Accounting for lease surrender and new leases	Normal	No	Substantive	Low
<b>Risk identified - Use of resources</b>				
Sustainable finances	Significant		Detailed review	Medium
Family services provision	Significant		Ofsted reports	Low
Contract management	Normal		Review internal audit findings	Low

# INDEPENDENCE AND FEES

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### Independence

We confirm that the firm complies with the Financial Reporting Council's Ethical Standard for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

### Fees

	2018/19 £	2017/18 £
<b>Code audit fees</b>	(1) 130,919	(2) 197,262
<b>Total audit fees</b>	<b>130,919</b>	<b>197,262</b>
<b>Non audit fees</b>		
- Housing Benefit Subsidy certification	19,000	(3) 21,617
- Teachers' Pension return certification	5,000	(4) 5,000
- Pooling Housing Capital Receipts return certification	2,750	2,750
<b>Non audit fees</b>	<b>26,750</b>	<b>29,367</b>
<b>Total fees</b>	<b>157,669</b>	<b>226,629</b>

(1) PSAA has set the 2018/19 fee scale on the basis that individual fees for all opted-in bodies have been reduced by 23 per cent from the fees applicable scale fee for 2017/18. This gives opted-in bodies the benefit of the cost savings achieved in the recent audit procurement, and continues the practice of averaging firms' costs so that all bodies benefit from the same proportionate savings, irrespective of the firm appointed to a particular audited body. It also passes on the benefit of economies which PSAA is making in its own operating costs.

(2) The planned Code audit fee for 2017/18 was £170,025. Due to additional work in response to additional audit risks we have informed management that we intend to raise a supplementary invoice for £27,237, for a final audit fee of £197,262.

(3) We may have to revise the final fee in light of errors reported to DWP regarding additional testing for rent officer determinations. cases

(4) Work is in progress following delays in obtaining required documentation.

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Key components of our audit objectives and strategy for the Group are highlighted and explained on the following pages.

Audit planning is a collaborative and continuous process and our audit strategy, as reflected here, will be reviewed and updated as our audit progresses.

We will communicate any significant changes to our audit strategy, should the need for such change arise.

Reporting	Objectives
Auditing standards	We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and relevant guidance published by the NAO.
Financial statements	We will express an opinion on the Council and Group financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2018/19 and other directions.
Statement of Accounts	In addition to our objectives regarding the financial statements, we will also read and consider the other information contained in the Statement of Accounts to consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.
Use of resources	We will report where we consider that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
WGA	We will review the Whole of Government Accounts (WGA) return and express an opinion on the return whether it is consistent with the audited financial statements.
Additional powers and duties	Where necessary we may be required to: issue of a report in the public interest; make a written recommendation to the Council; allow local electors to raise questions and objections on the accounts; or exercise legal powers to apply to the courts for a declaration that an item of account is contrary to law, issue an advisory notice or an application for a judicial review.
Report to the Audit Committee	Prior to the approval of the financial statements, we will discuss our significant findings with the Audit Committee. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit.



# AUDIT SCOPE ENTITIES, COMPONENTS AND AUDIT RISKS

A high-level overview of how we have designed the Group audit strategy is summarised below to ensure you have clear oversight of the scope of the work we intend to perform on each entity.

We have sought confirmation from management that component entities not previously included in the group financial statements as immaterial remain immaterial for 2018/19.

Entity	Nature of Operations	Audit classification	Reason for classification	Audit Risks	Component Materiality	Audit strategy
London Borough of Barnet Council	Provides full range of local authority services	Significant	Size and Risk	Risks 1-13	£16.2m	Statutory audit performed by BDO LLP
The Barnet Group Limited and its subsidiaries (Barnet Homes Limited, Your Choice (Barnet) Limited, TBG Flex Limited, TBX Open Door Limited and Bumblebee Lettings Limited)	Provision of Adult Social Care Services and Housing Management Services on behalf of the Council  (100% owned by the Council)	Non significant component	Size	Risks 8 and 9	£5m	Statutory audit performed by Grant Thornton LLP  Total income and expenditure in the entity is approximately £70 million. As the majority of transactions are with the Council, after elimination of intra-group transactions the net impact on the Group financial statements is below our group audit materiality. However, the net liabilities of the subsidiary are material as the subsidiary includes a significant pension liability.
Barnet (Holdings) Limited and RE (Regional Enterprise) Limited	Provision of development and regulatory services in the Borough  (Barnet Holdings Limited holding parent with joint venture RE Regional Enterprise Limited 49% held by the Council)	Immaterial component	N/A	N/A	£5m	Desktop review to confirm below materiality levels  The Council excludes this component (including equity accounting valuation adjustments for the joint venture) in the group financial statements as not material difference in equity valuation
Inglis Consortium	Land acquisition, development and disposal  (Joint venture with 13.9% held by the Council)	Immaterial component	N/A	N/A	£5m	Desktop review to confirm below materiality levels  The Council reports this investment in its own financial statements at fair value based on forecast profit distributions and does not include any adjustments in the group valuation as not material

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# AUDIT SCOPE ENTITIES, COMPONENTS AND AUDIT RISKS

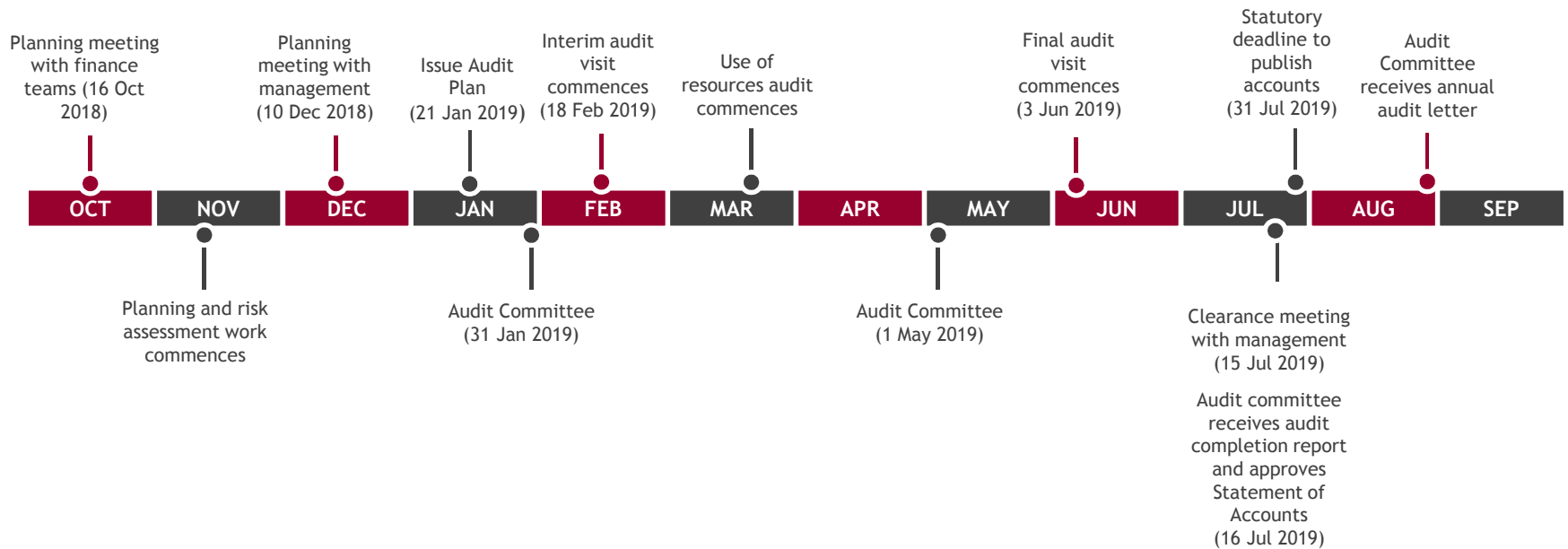
Entity	Nature of Operations	Audit classification	Reason for classification	Audit Risks	Component Materiality	Audit strategy
BXS GP Limited	Redevelopment at Brent Cross Cricklewood South Scheme  (Joint Venture)	Immaterial component	N/A	N/A	£5m	Desktop review to confirm below materiality levels  The Council excludes this component in the group financial statements as not material
Hill Green Homes Limited	Housing development  (100% owned by the Council)	Immaterial component	N/A	N/A	£5m	Desktop review to confirm below materiality levels  The Council excludes this component in the group financial statements as not material

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# AUDIT TIMELINE

An overview of the key dates



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# BDO TEAM

## Team responsibilities



**Leigh Lloyd-Thomas**  
Engagement Lead

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e: leigh.lloyd-thomas@bdo.co.uk

As audit engagement lead I have primary responsibility to ensure that the appropriate audit opinions are given.

In meeting this responsibility I ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement, whether due to fraud or error, and to report on the financial statements and communicate as required by the ISAs (UK), in accordance with our findings.

I will ensure that we have undertaken sufficient work to assess the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources against the guidance published by the NAO.

I am responsible for the overall quality of the engagement and am supported by the rest of the team as set out here.



**Michael Asare Bediako**  
Audit Manager

t: 020 7893 3643  
e: Michael.asarebediako@bdo.co.uk

I will lead on the audit of the Council.

I work closely with Leigh to develop and execute the audit strategy. I will be a key point of contact on a day to day basis for the Council and will ensure that timelines are carefully managed to ensure that deadlines are met and matters to be communicated to Management and the Audit Committee are highlighted on a timely basis.



**Kirsty Slater**  
Assistant Manager

t: 020 7893 3794  
e: kirst.slater@bdo.co.uk

I will be the assistant lead on the audit of the Council.

I work closely with Michael to execute the audit strategy. I will provide management support for audit.

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# OVERVIEW

We have assessed the following as financial statements audit risks. These are matters assessed as most likely to cause a material misstatement in the financial statements and include those that will have the greatest effect on audit strategy, the allocation of audit resources and the amount of audit focus by the engagement team.

Description of risk	Significant risk	Normal risk	Overview of risk
1. Management override of controls			ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
2. Revenue (and expenditure) recognition			There is risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).  There is also a risk of manipulation of expenditure recognition by inappropriately deferring expenditure by including expenditure in the following year.
3. Property, Plant & Equipment and Investment Property valuation			There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at year-end.
4. Pension liability valuation			There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.
5. Presentation of net income and expenditure in the CIES			There is a risk due to the level of manual adjustments required to the CIES to net down income and expenditure recorded in the ledger where the Council acts as an agent on behalf of other entities.
6. Allowances for non-collection of receivables and debt			There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied.  The implementation of IFRS 9 financial instruments has also changed the basis for estimating losses for non-collection of receivables and debt from an incurred loss model to an expected credit loss model that takes in account assumptions about the future credit losses. However, this includes only receivables and debt deemed to be financial instruments and excludes receivables under statute such as council tax, NDR and parking charges that CIPFA has stated will continue to be accounted for on an incurred loss model.

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# OVERVIEW

Description of risk	Significant risk	Normal risk	Overview of risk
7. Related party transactions			There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting requirements.
8. Classification and measurement of financial instruments (IFRS 9)			There is a risk that relevant financial assets and liabilities are not classified and measured in accordance with the new accounting standard.  There is also the risk that components who report under UK GAAP may be consolidated into the Group financial statements without the required adjustments to ensure the Group financial statements comply with the new standard.
9. Revenue from contracts with customers (IFRS 15)			There is a risk that relevant revenue streams are not recognised in the financial statements in accordance with the new standard.  There is also the risk that components who report under UK GAAP may be consolidated into the Group financial statements without the required adjustments to ensure the Group financial statements comply with the new standard.
10. Accounting for renegotiated Brent Cross lease			The Council will need to assess the accounting treatment for this transaction and the potential impact on the financial statements. There is a risk that the accounting treatment of the lease may not be appropriate.

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# MANAGEMENT OVERRIDE OF CONTROLS

**ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.**

## Risk detail

- ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

## Planned audit approach

Our audit procedures will include the following:

- Review and verification of large and unusual journal entries made in the year, agreeing the journals to supporting documentation. We will determine key risk characteristics to filter the population of journals. We will use our IT team to assist with the journal extraction;
- Review of estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Review of unadjusted audit differences for indications of bias or deliberate misstatement.



Significant risk  
 Normal risk  
 Fraud risk  
 Assess design & implementation of controls to mitigate  
 Significant Management estimates & judgements  
 Controls testing approach  
 Substantive testing approach  
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**Under auditing standards there is a presumption that income recognition presents a fraud risk.**

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach
- Risk highlighted by Council

## Risk detail

- In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).
- In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 issued by the Financial Reporting Council. This states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure, where testing will be focussed.

## Planned audit approach

Our audit procedures will include the following:

- Test a sample of grants included in income to documentation from grant paying bodies and check whether recognition criteria have been met; and
- Test a sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end has been.

# PROPERTY, PLANT & EQUIPMENT AND INVESTMENT PROPERTY VALUATION

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**There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on significant assumptions.**

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach
- Risk highlighted by Council

## Risk detail

- Local authorities are required to ensure that the carrying value of land, buildings, dwellings and investment properties is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.
- The Council applies an annual revaluation process which is determined through consultation between the finance team and Principal Valuation Manager. High value properties, and those which are expected to be subject to significant valuation movements, are revalued on an annual basis. This covers approximately 90% of properties by value. Other properties are revalued on a rolling 5-yearly basis.
- Due to the significant value of the Council’s land, buildings, dwellings and investment properties and the high degree of estimation uncertainty, there is a risk over the valuation of these assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.

## Planned audit approach

Our audit procedures will include the following:

- Review the instructions provided to the valuer and review the valuer’s skills and expertise in order to determine if we can rely on the management expert;
- Confirm that the basis of valuation for assets valued in year is appropriate based on their usage;
- Review accuracy and completeness of asset information provided to the valuer such as rental agreements and sizes; and
- Review assumptions used by the valuer and movements against relevant indices for similar classes of assets and follow up valuation movements that appear unusual.

# PENSION LIABILITY VALUATION

**There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.**

## Risk detail

- The net pension liability comprises the Council and Group’s share of the market value of assets held in the pension fund and the estimated future liability to pay pensions.
- An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate is based on the roll forward of membership data from the 2016 triennial valuation exercise, updated at 31 March 2019 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

## Planned audit approach

Our audit procedures will include the following:

- Agree the disclosures to the information provided by the pension fund actuary;
- Review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Review the controls for providing accurate membership data to the actuary; and
- Check whether any significant changes in membership data have been communicated to the actuary.

Significant risk	
Normal risk	
Fraud risk	
Assess design & implementation of controls to mitigate	
Significant Management estimates & judgements	
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# PRESENTATION OF NET INCOME AND EXPENDITURE IN THE CIES

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**There is a risk of material misstatement in gross or net accounting presentation due to the level of manual adjustments required from the ledger when preparing the CIES.**

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach
- Risk highlighted by Council

## Risk detail

- In the prior years the draft accounts presented for audit included material ‘grossing up’ and ‘netting off’ errors in the CIES whereby both income and expenditure were overstated or understated. We also identified a number classification errors within the prior year draft accounts.
- The Council has taken steps to improve the automation of the ledger for financial reporting purposes. However, a risk of material misstatement remains due to the level of manual adjustments required to the CIES to net down income and expenditure recorded in the ledger where the Council acts as an agent on behalf of other entities.

## Planned audit approach

Our audit procedures will include the following:

- Review off ledger adjustments and ensure they have been appropriately treated in the accounts; and
- Test a sample of income and expenditure items to assess that their classification and treatment in the accounts is correct.

# ALLOWANCES FOR NON-COLLECTION OF RECEIVABLES AND DEBT

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

Significant risk
Normal risk
Fraud risk
Assess design & implementation of controls to mitigate
Significant Management estimates & judgements
Controls testing approach
Substantive testing approach
Risk highlighted by Council

### Risk detail

- The Council recognises an allowance for the non-collection of receivables (arrears and debt), primarily in respect of council tax, NDR, housing benefit overpayments, housing rents and parking charges. The Council assesses each type of receivable separately in determining how much to allow for non-collection.
- There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied.
- The implementation of IFRS 9 financial instruments has also changed the basis for estimating losses for non-collection of receivables and debt from an incurred loss model to an expected credit loss model that takes in account assumptions about the future credit losses. However, this includes only receivables and debt deemed to be financial instruments and excludes receivables under statute such as council tax, NDR and parking charges that CIPFA has stated will continue to be accounted for on an incurred loss model.

### Planned audit approach

Our audit procedures will include the following:

- Review the provision model for significant income streams and receivables and debt balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears and, for receivables classified as financial instruments, includes appropriate assumptions for expected credit losses.

# RELATED PARTY TRANSACTIONS

**There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting 2018/19 requirements.**

## Risk detail

- Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management and the Audit Committee.
- There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting requirements.

## Planned audit approach

Our audit procedures will include the following:

- Review management processes and controls to identify and disclose related party transactions;
- Review relevant information concerning any such identified transactions;
- Discuss with management and review councillors' and management declarations to ensure that there are no potential related party transactions which have not been disclosed; and
- Undertake Companies House searches for potential undisclosed interests.

Significant risk  
 Normal risk  
 Fraud risk  
 Assess design & implementation of controls to mitigate  
 Significant Management estimates & judgements  
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**There is a risk that financial instruments are not classified and measured in accordance with IFRS9.**

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach
- Risk highlighted by Council

## Risk detail

- IFRS 9 financial instruments has been implemented for 2018/19 and requires all relevant financial instrument assets (principally investments and loans provided to others) and liabilities (principally borrowing) to be categorised under new criteria based on their business model and contractual cash flows that will determine their classification and basis of valuation.
- CIPFA has published guidance to assist with the required review and any restatement required where the classification needs to be amended. Our initial review of investments and borrowings suggests that there are unlikely to be material restatements required for the Council.
- The Council will need to undertake a review of all relevant assets and liabilities to determine the appropriate classification in the financial statements. This will need to include both the Council and component entities in the Group financial statements with particular focus on those components who report under UK GAAP, rather than IFRS, as this new accounting standard has not yet been adopted into UK GAAP. There is a risk that relevant financial assets and liabilities are not classified and measured in accordance with the new accounting standard. There is also the risk that components who report under UK GAAP may be consolidated into the Group financial statements without the required adjustments to ensure the Group financial statements comply with the requirement of the new standard.

## Planned audit approach

Our audit procedures will include the following:

- Review the work performed by the Council, once undertaken, to assess the new classification of financial instruments in accordance with the guidance on both the Council and the component bodies in the Group; and
- Review the disclosures required relating to the adoption of the new accounting standard.
- Review the classification and measurement of any loans to subsidiaries to ensure measurement and classification comply with the requirements of the new accounting standards.

# REVENUE FROM CONTRACTS WITH CUSTOMERS (IFRS 15)

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**There is a risk that revenue from contracts with customers is not measured in accordance with IFRS 15.**

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach
- Risk highlighted by Council

## Risk detail

- IFRS 15 revenue from contracts with customers has been implemented for 2018/19 and requires all relevant revenue streams to be reviewed under a new ‘5-step model’ to determine the appropriate point at which revenue can be recognised.
- CIPFA has published guidance to assist with the required review including what revenue falls within IFRS 15 or IPSAS 23 revenue from non-exchange transactions, and the process for determining the correct recognition points and amounts for revenue. Our initial review of revenue streams for local authorities suggests that there are unlikely to be material restatements required for the Council.
- The Council will need to undertake a review of all relevant revenue streams to determine the appropriate recognition date and amounts in the financial statements. This will need to include both the Council and component entities in the Group financial statements with particular focus on those components who report under UK GAAP, rather than IFRS, as this new accounting standard has not yet been adopted into UK GAAP. There is a risk that relevant revenue streams are not recognised in the financial statements in accordance with the new standard. There is also the risk that components who report under UK GAAP may be consolidated into the Group financial statements without the required adjustments to ensure the Group financial statements comply with the requirement of the new standard

## Planned audit approach

Our audit procedures will include the following:

- Review the work performed by the Council, once undertaken, to assess the impact of the new ‘5-step model’ on revenue streams on both the Council and the component bodies in the Group; and
- Review the disclosures required relating to the adoption of the new accounting standard.

# ACCOUNTING FOR RENEGOTIATED BRENT CROSS LEASE

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**There is a risk that the renegotiated lease for the Brent Cross redevelopment may not be accounted for correctly.**

Significant risk	
Normal risk	■
Fraud risk	
Assess design & implementation of controls to mitigate	
Significant Management estimates & judgements	
Controls testing approach	
Substantive testing approach	■
Risk highlighted by Council	■

## Risk detail

- During 2018/19 the Council renegotiated the Brent Cross lease with Hammerson and Standard Life to surrender the existing lease and agree a new £1 billion lease to support the redevelopment of the area.
- The Council will need to assess the accounting treatment for this transaction and the potential impact on the financial statements.
- There is a risk that the accounting treatment of the lease may not be appropriate.

## Planned audit approach

Our audit procedures will include the following:

- Review the work performed by the Council, once undertaken, to assess the accounting treatment and potential impact on the financial statements.

# OVERVIEW

We have assessed the following as use of resources audit risks. These are matters assessed as most likely to impact on our use of resources conclusion and include those that will have the greatest effect on audit strategy, the allocation of audit resources and the amount of audit focus by the engagement team.

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Description of risk	Significant risk	Normal risk	Overview of risk
11. Sustainable finances			The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that these savings may not be delivered.
12. Family services			Although there has been a positive direction of travel during the year in terms of improvements made to Children’s Services, Ofsted is yet to revisit their current rating of the services as ‘inadequate’.
13. Review of Capita contracts			The Council is consulting on the Capita CSG and Regional Enterprise contracts with the public with a view to returning these services in-house. Returning services in-house will be a significant project and will require robust project management.

# SUSTAINABLE FINANCES

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**The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that these savings may not be delivered.**

Significant risk	■
Normal risk	—
Fraud risk	—
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	—
Controls testing approach	—
Detailed review	■
Risk highlighted by Council	—

## Risk detail

- The Council has set a Medium Term Financial Strategy (MTFS) covering the period 2019 to 2024. The MTFS proposes a savings of £68 million over the period 2019-2024. A balanced position is forecast for 2019/20 however this is dependent on recognising additional income as a result of the business rates pooling arrangements and increased social care funding. A budget gap of £5.2 million is currently forecast for 2019/20 of which £2.6 million is assumed to be funded from reserves. The Council deems that additional funding for social care is likely to continue and this is expected to cover the remaining 2019/20 gap.
- The Council identified savings plans in order to achieve the balance budget in 2019/20. The savings targets are significant and achievement of these inherently challenging. The Council acknowledges that the continued support from reserves would not be viable.
- The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that these savings may not be delivered

## Planned audit approach

Our audit procedures will include the following:

- Review the assumptions used in the Medium Term Financial Strategy and assess the reasonableness of the cost pressures and the amount of Government grant reductions applied;
- Monitor the delivery of the budgeted savings in 2018/19 and the plans to reduce services costs and increase income from 2019/20; and
- Review the strategies to close the budget gap after 2019/20.



# FAMILY SERVICES

**Ofsted is yet to revisit their current rating Children's services as 'inadequate'.**

## Risk detail

In the last Ofsted inspection report published in July 2017, this found that the following services were assessed as inadequate:

- Children who need help and protection
- Children looked after and achieving permanence
- Leadership, management and governance.

Although there has been a positive direction of travel during the year in terms of improvements made to Children's Services, Ofsted is yet to revisit their current rating of the services as 'inadequate'.

## Planned audit approach

Our audit procedures will include the following:

- Review the Ofsted monitoring reports issued through the year to determine the direction of travel of the services;
- Monitor progress against the Family Services Improvement action plan through the Internal Audit work;
- Review the minutes of the Children, Education, Libraries and Safeguarding (CELS) Committee; and
- Hold meetings with key individuals to discuss the direction of travel of the services.

Significant risk  
Normal risk  
Fraud risk  
Assess design & implementation of controls to mitigate  
Significant Management estimates & judgements  
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**Returning the Capita contract services in-house will be a significant project and will require robust project management.**

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Detailed review
- Risk highlighted by Council

## Risk detail

- The Council is consulting on the Capita CSG and Regional Enterprise contracts with the public with a view to returning these services in-house. Returning services in-house will be a significant project and will require robust project management to facilitate a smooth transition of these services.

## Planned audit approach

Our audit procedures will include the following:

- Review the governance and project management arrangements put in place by management to ensure a smooth transition of Capita contracts back in house and the robustness of these arrangements.

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### Fraud

Whilst the Audit Committee as those charged with governance have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit approach includes the consideration of fraud throughout the audit and includes making enquiries of management and those charged with governance.

We have been made aware of a number of low value actual, alleged or suspected incidences of fraud committed by users of the Council's services (misuse of direct payments in supported social care, blue badges, benefits fraud, RTB discounts, sublet of housing, claiming of council tax or NDR reliefs etc.). We request confirmation from the Audit Committee on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

### Significant estimates

We will report to you on significant estimates. We will seek to understand and perform audit testing procedures on accounting estimates and judgements including consideration of the outcome of historic judgements and estimates. We will report to you our consideration of whether Management estimates and judgements are within an acceptable range.

### Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will review relevant reports as part of our audit and consider whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

### Laws and regulations

We will consider compliance with Laws and regulations. The most significant of these for your business includes VAT legislation and Employment Taxes. We will make enquiries of Management and review correspondence with the relevant authorities.

### Accounting policies

We will report to you on significant qualitative aspects of your chosen accounting policies. We will consider the consistency and application of the policies and we will report to you where accounting policies are inconsistent with CIPFA Code of Practice on Local Authority Accounting 2018/19, applicable accounting standards or other direction under the circumstances.

### Financial statement disclosures

We will report to you on the sufficiency and content of your financial statement disclosures.

### Any other matters

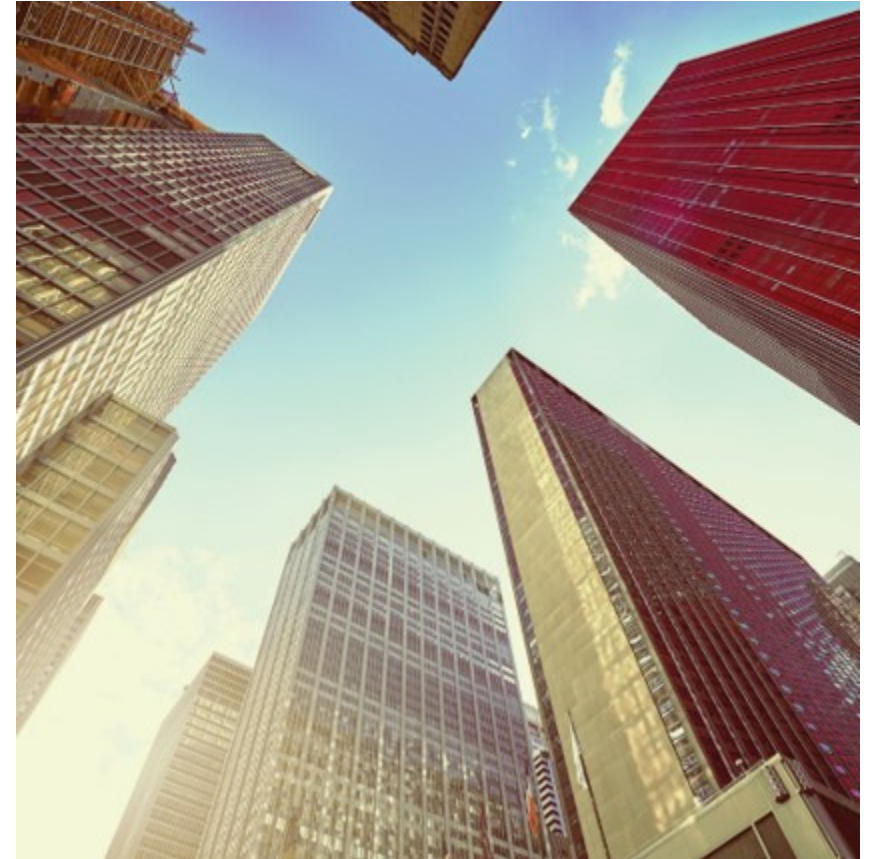
We will report to you on any other matters relevant to the overseeing of the financial reporting process. Where applicable this includes why we consider a significant accounting practice that is acceptable under the financial reporting framework not to be the most appropriate.

# IT GENERAL CONTROLS

IT General Controls (ITGCs) are the policies and procedures that relate to many IT applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. They commonly include controls over data centre and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance.

ITGCs are an important component in systems of internal control, and sometimes have a direct impact on the reliability of other controls.

IT assurance is embedded in our audit strategy to ensure the IT systems provide a suitable platform for the control environment and is undertaken in conjunction with our IT Assurance team. Our testing strategy includes a tailored range of data analytics, system configuration and IT environment testing.



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# INDEPENDENCE

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

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ending 31 March 2019.

**Non-audit services**

Details of services and fees other than audit, provided by us to the Council during the period and up to the date of this report are set out in the appendices.

Details of rotation arrangements for key members of the audit team and others involved in the engagement are set out in the appendices.

Details of other threats and safeguards applied are given in the appendices.

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

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

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

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

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**Fees summary for year ending 31 March 2019**

	2018/19 £	2017/18 £
<b>Code audit fees</b>	(1) 130,919	(2) 197,262
<b>Total audit fees</b>	<b>130,919</b>	<b>197,262</b>
<b>Non audit fees</b>		
- Housing Benefit Subsidy certification	19,000	(3) 21,617
- Teachers’ Pension return certification	5,000	(4) 5,000
- Pooling Housing Capital Receipts return certification	2,750	2,750
<b>Non audit fees</b>	<b>26,750</b>	<b>29,367</b>
<b>Total fees</b>	<b>157,669</b>	<b>226,629</b>

(1) PSAA has set the 2018/19 fee scale on the basis that individual fees for all opted-in bodies have been reduced by 23 per cent from the fees applicable scale fee for 2017/18. This gives opted-in bodies the benefit of the cost savings achieved in the recent audit procurement, and continues the practice of averaging firms’ costs so that all bodies benefit from the same proportionate savings, irrespective of the firm appointed to a particular audited body. It also passes on the benefit of economies which PSAA is making in its own operating costs.

(2) The planned Code audit fee for 2017/18 was £170,025. Due to additional work in response to additional audit risks we have informed management that we intend to raise a supplementary invoice for £27,237, for a final audit fee of £197,262.

(3) We may have to revise the final fee in light of errors reported to DWP regarding additional testing for rent officer determinations. cases

(4) Work is in progress following delays in obtaining required documentation.

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# COUNCIL’S RESPONSIBILITIES

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### Financial reporting

The Council is expected to have effective governance arrangements to deliver its objectives. To this end, the publication of the financial statements is an essential means by which the Council accounts for its stewardship and use of the public money at its disposal.

The form and content of the Council’s financial statements, and any additional schedules or returns for consolidation purposes, should reflect the requirements of the relevant accounting and reporting framework in place and any applicable accounting standards or other direction under the circumstances.

The Council is also required to prepare schedules or returns to facilitate the preparation of consolidated accounts such as HM Treasury’s Whole of Government Accounts.

The Section 151 Officer is responsible for preparing and filing an Statement of Accounts and financial statements which show a true and fair view in accordance with CIPFA Code of Practice on Local Authority Accounting 2018/19, applicable accounting standards or other direction under the circumstances.

Our audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

### Use of resources

Councils are required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at their disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement.

In preparing its governance statement, the Council will tailor the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on their arrangements for securing value for money from their use of resources.



# OUR RESPONSIBILITIES

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### Our responsibilities and reporting - financial statements

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

We read and consider the 'other information' contained in the Annual Report such as the additional narrative reports. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

### Our responsibilities and reporting - use of resources

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

This means that we have regard to relevant guidance issued by the NAO and undertake sufficient work to be able to satisfy ourselves as to whether the Council has put arrangements in place that support the achievement of value for money.

### What we don't report

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



# COMMUNICATION WITH YOU

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## Those charged with governance

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

In communicating with the Audit Committee, representing Those Charged With Governance of the Council and the Group, we consider Those Charged With Governance of subsidiary entities to be informed about matters relevant to their subsidiary. Please let us know if this is not appropriate.

## Communication, Meetings and Feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered. We will meet with management throughout the audit process. We will issue regular updates and drive the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

## Planning Report

The Planning Report sets out all planning matters which we want to draw to your attention including audit scope, our assessment of audit risks and materiality.

## Internal Controls

We will consider internal controls relevant to the preparation of financial statements in order to design our audit procedures and complete our work. This is not for the purpose of expressing an opinion on the effectiveness of internal control.

## Audit Completion Report

At the conclusion of the audit, we will issue an Audit Completion Report to communicate to you key audit findings before concluding our audit opinion. We will include any significant deficiencies in internal controls which we identify as a result of performing audit procedures. We will meet with you to discuss the findings and in particular to receive your input on areas of the financial statements involving significant estimates and judgements and critical accounting policies.

Once we have discussed the contents of the Audit Completion Report with you and having resolved all outstanding matters we will issue a final version of the Report.

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These tables indicate the latest rotation periods normally permitted under the independence rules for the terms of appointment by PSAA.

In order to safeguard audit quality we will employ a policy of gradual rotation covering the team members below as well as other senior members of the engagement team to ensure a certain level of continuity from year to year.

### Independence - engagement team rotation

Senior team members	Number of years involved	Rotation to take place before
Leigh Lloyd-Thomas Engagement Lead	4	5 years (last year will be 2019/20)
Michael Asare Bediako Audit Manager	1	10 years

### Independence - audit quality control

Role	Number of years involved	Rotation to take place before
Engagement Quality Control Reviewer	4	7 years

# MATERIALITY: DEFINITION AND APPLICATION

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## Concept and definition

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. 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.

Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):

- Narrative disclosure e.g. accounting policies, going concern
- Instances when greater precision is required (e.g. senior managers remuneration and related party transactions).

International Standards on Auditing (UK) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Calculation and determination

We have determined materiality based on professional judgement in the context of our knowledge of the Group, including consideration of factors such as industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality in order to:

- Assist in establishing the scope of our audit engagement and audit tests
- Calculate sample sizes
- Assist in evaluating the effect of known and likely misstatements on the Group financial statements.

## Reassessment of materiality

We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.

Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope.

# MATERIALITY: DEFINITION AND APPLICATION



If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.

You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

## Unadjusted errors

We will communicate to you all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.

Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.

We will obtain written representations from the Audit Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.

We will request that you correct all uncorrected misstatements. In particular we would strongly recommend correction of errors whose correction would affect compliance contractual obligations or governmental regulations. Where you choose not to correct all identified misstatements we will request a written representation from you setting out your reasons for not doing so and confirming that in your view the effects of any uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as whole.

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# AUDIT QUALITY

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## BDO’s audit quality cornerstones underpin the firm’s definition of audit quality.

BDO is committed to audit quality. It is a standing item on the agenda of the Leadership Team, who in conjunction with the Audit Stream Executive, monitors the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. We welcome feedback from external bodies and are committed to implementing necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external regulators, the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest entities.

More details can be found in our Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk)



FOR MORE INFORMATION:

Leigh Lloyd-Thomas

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e: [leigh.lloyd-thomas@bdo.co.uk](mailto:leigh.lloyd-thomas@bdo.co.uk)

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

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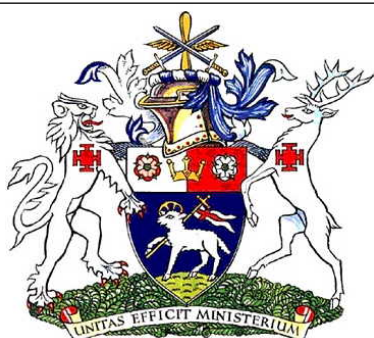
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## Audit Committee

### 31st January 2019

<b>Title</b>	<b>Annual Audit Letter 2017/18</b>
<b>Report of</b>	Director of Finance (Section 151 Officer)
<b>Wards</b>	Not Applicable
<b>Status</b>	Public
<b>Urgent</b>	No
<b>Key</b>	No
<b>Enclosures</b>	Appendix A – Annual Audit Letter 2017/18
<b>Officer Contact Details</b>	Stephen Fitzgerald – Assistant Director of Finance, CSG <a href="mailto:Stephen.Fitzgerald@Barnet.gov.uk">Stephen.Fitzgerald@Barnet.gov.uk</a>

## 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 2017/18, which is attached to this report at Appendix A.

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

An unmodified (formerly known as unqualified) opinion on the Statement of Accounts for 2017/18 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 2018 and its income and expenditure for the 2017/18 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 31 July 2018 and 19 October 2018.

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 through to 2020. The auditors concluded that they were satisfied the Council has adequate arrangements for setting and monitoring financial budgets and that savings had been identified to cover part of the cumulative overspend forecasted to 2022 with, work in progress to identify further savings. However, the auditors have on the 31<sup>st</sup> July 2018, issued a qualified conclusion as they were unable to conclude the Council has adequate arrangements for the delivery of safe and effective services for Children Services in respect of, the Ofsted inadequate inspection rating during the year ended 31 March 2018.

The auditors have not yet completed their work on objections and concerns raised by local electors in respect of 2015/16, 2016/17 and 2017/18 financial years and are not able to issue the audit certificates to close the audits for 2015/16, 2016/17 and 2017/18 until this is complete.

The audit fee for 2017/18 was £197,262 (2016/17: £170,025). The fee for certification of the housing benefits subsidy was £21,617 compared with £20,310 for 2017/18. The fee for the audit of the pension fund accounts was £43,810 (2016/17: £21,000). 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 is reflected in the increased fees.

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 (2017/18: £7,750).

## **Recommendations**

- 1. That the external auditor's Annual Audit Letter for 2017/18 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 2017/18 was £197,262 (2016/17: £170,025). The fee for certification of the housing benefits subsidy was £21,617 compared with £20,310 for 2016/17. The fee for the audit of the pension fund accounts was £43,810 (2016/17: £21,000). 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 Social Value**

- 5.3.1 None in the context of this decision

### **5.4 Legal and Constitutional References**

- 5.4.1 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.

5.4.2 The Council's Constitution, Article 7 - 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"

## 5.5 Risk Management

5.5.1 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.

## 5.6 Equalities and Diversity

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

## 5.7 Corporate Parenting

5.7.1 None in the context of this decision

## 5.8 Consultation and Engagement

5.8.1 There are no consultations or engagements relevant to this report

## 5.9 Insight

5.9.1 None in the context of this decision.

## **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 2018

30 November 2018

# EXECUTIVE SUMMARY

## PURPOSE OF THE LETTER

This annual audit letter summarises the key issues arising from the work that we have carried out at London Borough of Barnet Council for the year ended 31 March 2018.

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.

## 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). Under the Code, we are required to report on:

- Our opinion on the Council and Group's financial statements
- Our opinion on the Pension Fund's financial statements
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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*

BDO LLP

## AUDIT CONCLUSIONS

### FINANCIAL STATEMENTS

We issued our unmodified opinions on the Council's (and Group) financial statements on 31 July 2018 and the Pension Fund's financial statements on 19 October 2018.

We identified a number of non-trivial misstatements in the Council's (and Group) financial statements that were not corrected and would decrease the Group's surplus on the provision of services by £3.6 million for current year misstatements.

In the Pension fund financial statements, there were non-trivial misstatements that were not corrected and would decrease the net assets by £0.301 million.

### USE OF RESOURCES

We issued our qualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 31 July 2018 referring to the Ofsted inspection rating the Council's Children's services as inadequate during the year ended 31 March 2018.

We 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. There is, however, a cumulative overspend of £32 million forecast by 2022 for which the Council have identified £16.6 million of service related savings and are working to identify further savings.

### EXERCISE OF STATUTORY POWERS

Work in on going in relation to objections received although we were satisfied from our review to date that this does not have a material effect on the financial statements or on our value for money conclusion.



# FINANCIAL STATEMENTS

<b>OPINIONS</b>	We issued our unmodified opinions on the Council's (and Group) financial statements on 31 July 2018 and the Pension Fund's financial statements on 10 October 2018.
	<p>This means we consider:</p> <ul style="list-style-type: none"> <li>• The financial statements give a true and fair view of the financial position and its income and expenditure for the year</li> <li>• Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2017/18.</li> </ul>

## SCOPE OF THE AUDIT

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 (and Group) 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 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.

The materiality for the Council's (and Group) financial statements was set at £15.5 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 assessing financial performance.

The materiality for the Pension Fund's financial statements was set at £10.9 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 financial performance. We set a lower materiality level £2.95 million for the transactions included in the Fund Account of the Pension Fund.

## OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Our audit was scoped by obtaining an understanding of the Council (and Group) 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.

## FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Management override of controls	<p>Under auditing standards, there is a presumed risk of management override of controls as management is in a unique position to manipulate accounting records to prepare fraudulent financial statements.</p> <p>We responded to this risk by testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p> <p>We reviewed the accounting estimates for bias and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.</p> <p>We obtained an understanding of the business rationale for significant transactions that were outside the normal course of business or appeared to be unusual.</p>	<p>No issues were identified by our audit work from our review of journals and review accounting estimates for management bias.</p> <p>We found no significant transactions that were outside the normal course of business or otherwise appear unusual.</p>
Revenue recognition	<p>Under auditing standards there is a presumption that income recognition presents a fraud risk.</p> <p>We responded to this risk by testing an increased sample of grants subject to performance conditions to confirm that conditions of the grant had been met before the income is recognised.</p>	<p>Our testing confirmed that income was valid and agreed to underlying documentation, that grants were recognised only when performance conditions had been met, and income had been recorded in the correct period.</p>

# FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
<p>Valuation of land, buildings, dwellings and investment property</p>	<p>Due to the significant value of the Council’s property assets, and the high degree of estimation uncertainty, there is a significant risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> <li>• Reviewing the instructions provided to the valuer and assessing their expertise.</li> <li>• Checking the basis of valuation for assets valued in year as appropriate and agreeing data used by the valuer to support the valuations.</li> <li>• Reviewed the reasonableness of assumptions used in the valuations against indices and price movements for classes of assets, and followed up valuation movements that appeared unusual against indices.</li> </ul>	<p>We concluded that we could rely upon the work of the valuer and that the basis of the valuation of assets was appropriate. We were satisfied with the accuracy of the asset information provided to the valuer.</p> <p>We challenged the valuer in respect of a number of property valuation movements and were satisfied with the valuations.</p> <p>Council dwellings valuations increased by 6%. We compared this to house price indices which show prices within London dropping by 0.7%. We reported in recent years that the Council had not been applying valuation increases by as much as regional price indices would suggest and that we were of the view that the valuations in previous years (while still within a reasonable range) had moved toward the prudent end. The increase in the current year, based on actual sales of comparable dwellings, appears to have an element of ‘catch up’ for previous years and is likely to have moved the valuations back towards the middle of the estimation range.</p> <p>This year, the Council has reduced the estimation for rebuild costs for schools from the sizing applied previously (and now in line with minimum government requirements) and reduced the rebuild costs per square metre (now using the upper quartile BCIS regional prices). This resulted in a valuation decrease of 2.7% to schools’ land and buildings.</p> <p>Investment properties increased due to a number of assets being part of redevelopment schemes, most notably around the Brent Cross redevelopment, and revaluations include higher land values.</p> <p>Surplus assets increased in value where the land had been earmarked for potential residential redevelopment sites.</p> <p>Other land and buildings reduced in value mainly due to the reduction in value for the Abbots Depot site and Copthall site although libraries increased where the valuer had used higher land values.</p>

## FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of pension liability	<p>There is a risk the membership data and cash flows provided to the actuary at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> <li>• Agreeing the information provided to the actuary for contributions and investment returns for the year.</li> <li>• Reviewing the roll-forward membership data from the 2016 triennial valuation used to update the liability valuation.</li> <li>• Reviewing the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</li> </ul>	<p>The Council's net pension liabilities increased by £2.5 million to £535.1 million (Group liability £566 million), including unfunded promised benefits, compared to the previous year. The total value of promised pension benefits in the pension fund increased to £1,864 million against investment assets of £1,097 million.</p> <p>The majority of assumptions remained consistent between the years other than an increase in the discount rate (this reduced the liability). The increased net liability mainly comprised an increase for current service costs that (along with interest costs) exceeded contributions paid by the Council. This was offset by a reduction in liabilities from the change to the discount rate and higher than expected return on scheme investments.</p> <p>We agreed the information provided to the actuary for contributions paid to the pension fund and investment returns for the year. We noted differences in the final investment returns and fund valuation than had been estimated by the actuary and the Council's share of the fund assets was potentially understated by £1.9 million.</p> <p>Our review of the 2016 triennial membership data used in the roll-forward valuation found that some members with incomplete records that had been assumed to be deferred members were active members. The actuary has estimated that this would increase the Council's liability by £2.3 million. We also found some errors in the data held for members and the Council is undertaking a significant data cleansing exercise to improve record keeping.</p> <p>There have also been a number of staff transfers to academies and other organisations as a result of outsourcing contracts since 2016 but no adjustment has been made to the total assets and liabilities allocated to the Council. The actuary has stated that the number of staff transferring is not significant and would not have a material impact on the net liability of the Council. Adjustments will be made in the 2019 triennial valuation for these transfers to other employers. We are satisfied that these differences arising from the use of the rolled-forward 2016 data does not result in a material misstatement of the net liability.</p> <p>Our review of assumptions used to estimate the value the pension liability were found to be reasonable.</p>

## USE OF RESOURCES

<b>CONCLUSION</b>	We issued our qualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 31 July 2018 referring to the Ofsted inspection rating the Council's Children's services as inadequate during the year ended 31 March 2018.
	<p>This means we consider that the Council has proper arrangements to deploy resources to achieve planned and sustainable outcomes for taxpayers and local people, but there are weaknesses in the arrangements for:</p> <ul style="list-style-type: none"> <li>• Understanding and using appropriate reliable financial and performance information (including information from regulatory bodies)</li> <li>• Informed decision making and performance management</li> <li>• Organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>

### SCOPE OF THE AUDIT

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources.

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 annual governance statement, 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 the direction of the efforts of the audit team.

## USE OF RESOURCES

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Financial sustainability	<p>The Council identified that the continued support from reserves would not be viable and the Medium Term Financial Strategy (MTFS) updated in December 2017 to show a forecast budget gap prior to identified savings of £39.5 million over the 2-year period from 2018/19 to 2019/20.</p> <p>The Council identified savings plans in order to address this budget gap in 2018/19 however a £5.9 million gap is currently forecast for 2019/20. The savings targets were significant and achievement of these inherently challenging.</p> <p>Initial horizon planning suggested that there may be a further £32.5 million of cost pressures in 2020/21 and this would need to be covered from reserves and additional savings plans to be identified.</p> <p>We responded to this risk by reviewing the assumptions used in the MTFS. We also reviewed the current savings and the budgeted savings to close the budget gap after 2018/19.</p>	<p>The MTFS has been refreshed and balanced for 2018/19 with planned drawdown from reserves of £7.7 million. There is, however, a cumulative overspend of £32 million forecast by 2022 for which the Council has identified £16.6 million of service related savings and are working to identify further savings. There are regular meetings taking place where savings plans, pressures and mitigations are being discussed with progress tracked, actions planned and budget owners held to account. There are still risks that some of the pressures have been under estimated and some of the mitigations could be too optimistic.</p> <p>There are plans in place to deliver the required savings for 2018/19 and 2019/20 with a few of these already materialising, although there remains a risks that other savings may not materialise, some of which have been identified and other options being considered. The Council is currently working through a long list of possible savings for the years 2020-2024 with a proposed savings plan being prepared for consideration later this year.</p> <p>The reserves forecast shows available (non ring-fenced) reserves of £38 million up to 2020 with forecast drawdown being £4 million for 2018/19 and £3.7 million for 2019/20.</p> <p>While there has been a lot of change and improvement at the Council in the last 12 months with regards to managing resources and sustainable finances there is still a long way to go. It is paramount that management and members continue to keep the financial sustainability of the Council as a high priority with pressures, mitigations and savings tracked regularly. Reserves need to be protected and not be seen as the fall back.</p> <p>While there is a recognised funding gap in the MTFS, we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.</p>

## USE OF RESOURCES

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Quality of Family Services provision	<p>In 2017, the Council was subject to an Ofsted inspection of its services for children in need of help and protection, children looked after and care leavers. 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.</p> <p>We responded to this risk over the quality of care provided by Family Services by:</p> <ul style="list-style-type: none"> <li>• Reviewing the Ofsted Monitoring Reports issued through the year to determine the direction of travel of the services.</li> <li>• Monitored progress against the Family Services Improvement action plan.</li> <li>• Reviewed the minutes of the Children, Education, Libraries and Safeguarding Committee.</li> <li>• Held meetings with key individuals to discuss the direction of travel of the services.</li> </ul>	<p>There has been a positive direction of travel during the year in terms of improvements made to Children's Services.</p> <p>However, as Ofsted continues to rate 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 and our use of resources conclusion was qualified to reflect this.</p>

## EXERCISE OF STAUTORY POWERS

### QUESTIONS AND OBJECTIONS RECEIVED FROM LOCAL ELECTORS

We received the following questions and objections from local taxpayers

ISSUE	FINDINGS
Capita gainshare payments	<p>We received an objection relating to gainshare of £500,000 paid to Capita in 2017/18 under the London Highways Alliance (LoHAC) contract where the objector alleges that these payments are unlawful and that the payments should not have been made. There is also a similar objection that remains under review relating other gainshare payments to Capita of £313,215 for savings on energy costs contracts and £1,241,476 for savings on agency spend in 2016/17.</p> <p>We have issued a Provisional view on the 2016/17 objection on gainshare payments to Capita covering the payments for the agency contract and energy contract of £313,215. We have not upheld the objection to seek a declaration from the courts for the lawfulness of the payments made nor do we intend to issue a Public Interest Report as requested by the objector. However, we intend to report that weaknesses were identified in the arrangements to challenge the basis of calculating gainshare that operated in financial year 2016/17.</p> <p>Work is currently in progress to review the lawfulness of the gainshare payments made under the LoHAC contract.</p> <p>We note that the Council has since ceased the gainshare arrangement with Capita and that no amounts will be paid in 2018/19.</p>
Contract extension award for NSL street scene enforcement	<p>We received an objection relating to an extension to the NSL street scene enforcement contract beyond the terms of the original contract award and allowed extension period, and that the value of the extensions exceeded both the Council's delegated levels and the EU procurement limits. The objector has requested that we issue a Public Interest Report in failing to achieve best value and (inferred in the objection) unlawfulness of the contract payments.</p> <p>We have asked the Council for its initial response to the matters raised and await this response before we are able to progress this work. However, it is unlikely that this will have a material impact on the financial statements or use of resources opinions.</p>



## APPENDIX

### REPORTS ISSUED

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

REPORT	DATE
Grant claims and certification 2016/17	15 January 2018
Audit plan Council (and Group) 2017/18	19 April 2018
Audit plan Pension Fund 2017/18	30 May 2018
Audit completion report Council (and Group) 2017/18	31 July 2018
Audit completion report Pension Fund 2017/18	10 October 2018

### FEES

We are currently in discussion with management regarding final fees.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Council (and Group) audit - PSAA scale fee	<sup>(1)</sup> 197,262	170,025
Pension Fund audit - PSAA scale fee	<sup>(2)</sup> 43,810	21,000
Housing benefits subsidy certification fee	<sup>(3)</sup> 21,617	21,617
Fees relating to objections	<sup>(4)</sup> TBC	N/A
<b>Total audit fees</b>	<b>262,689</b>	<b>212,642</b>
Pooled housing receipts certification	<sup>(3)</sup> 2,750	2,750
Teachers pension return certification	<sup>(3)</sup> 5,000	5,000
<b>Total audit related services fees</b>	<b>7,750</b>	<b>7,750</b>
Other non-audit services	0	0
<b>Total assurance services fees</b>	<b>270,439</b>	<b>220,642</b>

<sup>(1)</sup> Additional work required this year as a result of remapping of CIES, addition testing of valuations and use of resources risks. We propose raising additional fees of £27,237 (to £197,262).

<sup>(2)</sup> Additional testing required due to poor record keeping, membership data and aged debt. We propose raising additional fees of £22,810 (to £43,810).

<sup>(3)</sup> Work is in progress on the housing benefits subsidy and other certification returns.

<sup>(4)</sup> Fees for investigating objections will be chargeable 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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**London Borough of Barnet  
Audit Committee Forward Work  
Programme  
May 2019**

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

Subject	Decision requested	Report Of	Contributing Officer(s)
<b>1 May 2019</b>			
Internal Audit Exception Recommendations and Progress Report Q4 1st January – 31st March 2019	To note the progress against internal audit recommendations and work Completed to date on the Internal Audit Annual Plan 2018 -19 and high priority recommendations.	Head of Internal Audit	
Corporate Anti-Fraud Team (CAFT) Annual Report 2018-2019	To note the work undertaken by Corporate Anti-Fraud Team (CAFT) during the period 2018-2019	Director of Assurance	Head of Counter Fraud Operations
Internal Audit Annual Opinion 2018-19	Each year the work of Internal Audit is summarised to give an overall opinion on the system of internal control and corporate governance within the Council	Head of Internal Audit	
Internal Audit and Anti-Fraud Strategy and Annual Plan 2019-20	To approve the 2019/20 Internal Audit and Corporate Anti-Fraud Team plan	Director of Assurance Head of Internal Audit	Head of Counter Fraud Operations
Grants Certification Work Report 2017/2018	To consider the report from the External Auditors on the Council's management arrangements in respect of the certification process for grants.	Director of Finance - Section 151 Officer	External Auditors
<b>Items to be allocated</b>			

Subject	Decision requested	Report Of	Contributing Officer(s)
Ad Hoc Audit Reports	To commission work from Internal and External Audit arising from the consideration of other scheduled reports subject to them being proportionate to risk identified and with agreement from the Chief Executive. To review any issue referred to the Committee by the Chief Executive, a Director or any Council body		

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