



# The Audit Findings for London Borough of Barnet

# DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

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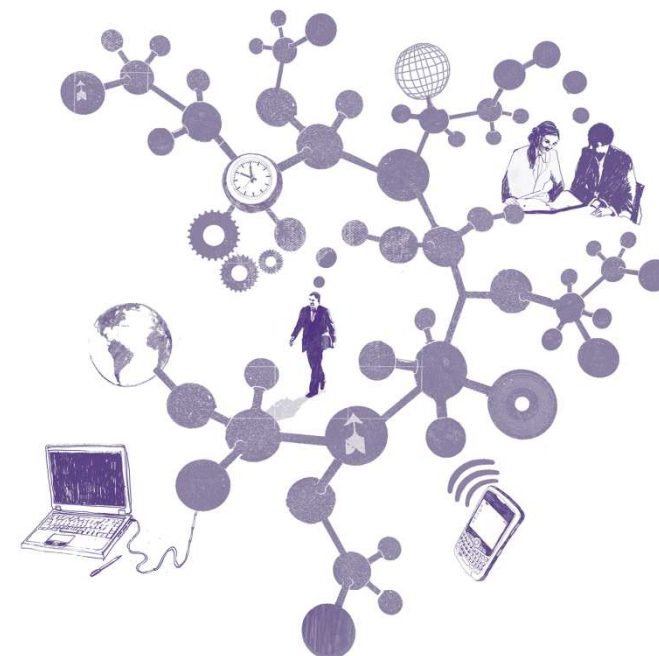
**Year ended 31 March 2015**

July 2015

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July 2015

Dear Sirs

### **Audit Findings for London Borough of Barnet for the year ending 31 March 2015**

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of London Borough of Barnet, the Audit Committee) , as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Paul Hughes

Engagement Lead

#### **Chartered Accountants**

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## Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of London Borough of Barnet (the Council) group and Council financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the group and Council's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

Following discussions with the finance team at the Council, we have altered our planned audit approach which was communicated to you in our Audit Plan dated 13 April 2015. Our approach now includes the review of the consolidated group financial statements.

Our audit is underway and we are continuing to undertake our work in the following areas:

- review of the group financial statements and consolidation process
- completion of the final stages of our audit testing across the Council's financial statements
- initial DWP certification testing
- completion of our internal review process

- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

## Key issues arising from our audit

### Financial statements opinion

Subject to no material unresolved issues arising from completion of our work, we anticipate providing an unqualified opinion in respect of the financial statements.

At the time of writing, we have not identified any adjustments affecting the group and Council's reported financial position. The draft financial statements for the year ended 31 March 2015 recorded net expenditure of £92,442 and currently this remains unchanged.

We have identified a number of minor amendments to improve the presentation of the financial statements.

Further details are set out in section two of this report.

## Executive summary

The key messages arising from our audit of the group and Council's financial statements are:

- Following discussions with the finance team at the Council, it was agreed that group financial statements would be produced. This was on the basis of revised technical guidance in relation to materiality, alongside the increasing complexity within the group structure that the Council anticipates in future years. At the time of writing, our review of the group financial statements and the consolidation process is yet to be completed, but we will update the Audit Committee at the meeting on 30 July.
- As in the prior year, our review of asset valuations has identified that the Council has a different interpretation of the Code requirements regarding the regularity of revaluations. Our view of the guidance is that whole classes of assets should be revalued within a single year to avoid reporting a mixture of values at different dates. The Council interprets that a rolling programme of revaluations is sufficient on the basis of the Code requirement allowing for rolling revaluations over a 'short period' of three to five years. Whilst we have highlighted this difference in interpretation, we are satisfied that any difference in valuation as a result of the different interpretations is unlikely to be material.
- Following updates to the Code there have been changes to the requirements around the recognition of school land and buildings on local authority balance sheets. The Council has completed a review of all schools which has confirmed that the existing accounting treatment remains appropriate. Our review of the work performed by the Council has not identified any issues with its approach.
- We have reported on detail on the Pension Fund audit within the separate Audit Findings Report presented to the Pension Fund Committee. Our audit of the Pension Fund has not identified any significant adjustments to the financial statements, but we have included a number of control issues for management to consider.
- We are in the process of completing the initial Department of Work and Pensions certification testing across all benefit types. We will inform the Audit Committee at the meeting on 30 July with regard to any required 40+ testing that we will be required to complete as part of our grant certification review.
- The Council has introduced a new ledger system from 1 April 2014 following the move from SAP to Integra which is hosted by Capita. Our IT experts have completed a review of the controls in place over the system with no significant issues being identified. In addition, we have completed a line by line reconciliation to ensure that the closing trial balance per the SAP system agrees to the opening trial balance per the Integra system. No issues were noted as part of this review.

### **Value for Money conclusion**

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section three of this report.

### **Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

### **Controls**

#### **Roles and responsibilities**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

#### **Findings**

Our work has not identified any significant control weaknesses, but we draw your attention to some minor control issues in relation to journals and IT highlighted in section 2 of this report.

We note that the Council's overall control environment, as measured by Internal Audit's programme of work, has remained good and the Head of Internal Audit has again given 'satisfactory' assurance on the effectiveness of the Council's overall control framework.

### **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Council's Chief Financial Officer and the finance team.

### **Acknowledgment**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
**July 2015**

## Section 2: *Audit findings*

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters



# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 30 April 2015. We also set out any adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

Following discussions with the finance team at the Council, we have altered our planned audit approach as previously communicated to you. Our approach now includes the review of the consolidated group financial statements. The decision to produce consolidated statements was based on revised technical guidance in relation to materiality, alongside the increasing complexity within the group structure that the Council anticipates in future years.

## **Audit opinion**

Subject to no material unresolved issues arising from completion of our work, we anticipate that we will provide the Council with an unmodified opinion. Our proposed audit opinion is set out in Appendix B.

## Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>Throughout the course of the audit we have performed the following:</p> <ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions</li> </ul>	<p>As at the time of writing, our audit work has not identified any issues in respect of revenue recognition. The Council has adopted appropriate accounting policies regarding revenue recognition and our testing supports compliance with the policies</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk of management over-ride of controls</p>	<p>Throughout the course of the audit we have performed the following:</p> <ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> </ul>	<p>At the time of writing, our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>
3.	<p><b>Risk of new accounting system producing balances that are materially misstated</b></p>	<p>Throughout the course of the audit we have performed the following:</p> <ul style="list-style-type: none"> <li>• testing of the completeness of data migration to the new system, including reconciling the opening and closing trial balances</li> <li>• documenting our understanding of the controls put in place by management in relation to the new system</li> <li>• review of subsystem reconciliations</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the introduction of the new accounting system at the Council. Our review of the controls in place has identified a small number of minor recommendations which have been raised with officers.</p>

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Operating expenses</b></p>	<p>Creditors related to core activities (e.g. supplies) understated or not recorded in the correct period</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• We have documented our understanding of processes and key controls over the transaction cycle</li> <li>• We have undertaken walkthrough of the key controls to assess whether those controls are designed effectively and operating in accordance with our documented understanding</li> <li>• We have performed unrecorded liabilities testing</li> <li>• We have completed cut-off testing</li> </ul> <p>In addition, we have:</p> <ul style="list-style-type: none"> <li>• Undertaken testing on a sample of expenditure invoices throughout the year to gain assurance that expenditure has occurred and has been correctly classified</li> <li>• Reviewed and tested a sample of items included within the year end creditors balance</li> </ul>	<p>We are still completing the final areas of our audit testing but, at the time of writing, our audit work has not identified any significant issues in relation to the risks identified.</p>
<p><b>Employee remuneration</b></p>	<p>Employee remuneration accrual understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• We have documented our understanding of processes and key controls over the transaction cycle</li> <li>• We have undertaken walkthrough of the key controls to assess whether those controls are designed effectively and operating in accordance with our documented understanding</li> <li>• We have reviewed the reconciliation of the payroll subsidiary system to the general ledger</li> <li>• We have completed a trend analysis over monthly payroll payments</li> </ul> <p>In addition, we have:</p> <ul style="list-style-type: none"> <li>• Undertaken testing on a sample of employees throughout the year, including the agreement of pay run data to individual pay slips and contracts of employment</li> <li>• Reviewed senior management remuneration and disclosures</li> </ul>	<p>We are still completing the final areas of audit testing but, at the time of writing, our audit work has not identified any significant issues in relation to the risk identified.</p>

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Welfare Expenditure</b></p>	<p>Welfare benefit expenditure improperly computed</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• We have documented our understanding of processes and key controls over the transaction cycle</li> <li>• We have undertaken walkthrough of the key controls to assess whether those controls are designed effectively and operating in accordance with our documented understanding</li> <li>• We have completed initial Department of Work and Pensions certification testing of Housing Benefits, including analytical review and verification of benefits awarded on a sample basis</li> </ul>	<p>We are still completing our testing of the initial cases across all award types but, at the time of writing, our audit work has not identified any significant issues in relation to the risks identified.</p>

## Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.



Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Barnet Group	Yes	Targeted	No specific risks identified	Specific targeted procedures to be performed by the audit team on the material balances.	Our audit work is yet to be completed and will be reported to the Audit Committee at the meeting on 30 July.
Barnet Holdings	No	Analytical	No specific risks identified	Desktop review performed by the audit team	Our audit work is yet to be completed and will be reported to the Audit Committee at the meeting on 30 July.

## Significant findings arising from the Group audit

Our audit work is yet to be completed and any significant findings will be reported to the Audit Committee at the meeting on 30 July.

# Accounting policies, estimates & judgements




In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>We have reviewed the accounting policies in place with regard to revenue recognition</li> <li>The accounting policy ensures that income for services provided is recognised when, and to the extent that, performance occurs. Grant income is recognised when there is assurance that the Council will comply with any conditions attached to the payments</li> </ul>	<ul style="list-style-type: none"> <li>The revenue recognition policy is in line with the requirements of the Code and accounting standards</li> <li>Testing performed on revenue balances has confirmed that, for the sample selected, the Council has accounted for income in line with the policy</li> </ul>	 <b>(green)</b>
<b>Estimates and judgements</b>	<ul style="list-style-type: none"> <li>Judgements and estimates have been considered in the following areas:                             <ul style="list-style-type: none"> <li>asset valuations</li> <li>useful life of capital equipment</li> <li>pension fund valuations</li> <li>PFI disclosures</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>We have reviewed the work completed by the Valuations Team. This testing has not identified any issues with the individual valuations performed, all of which were found to be in line with appropriate professional standards. However, as part of our review, we identified that the Council has a different interpretation of the Code requirements regarding the regularity of revaluations. Our view of the guidance is that revaluations of a whole class of assets should be considered within a single year to avoid reporting a mixture of values at different dates. The Council interprets that a rolling programme of revaluations is sufficient on the basis of the Code requirement allowing for rolling revaluations over a 'short period' We are satisfied that any difference in valuation as a result of the different interpretations is unlikely to be material.</li> <li>We completed a review of the useful economic lives of PPE assets and no issues were noted from the testing performed.</li> <li>As part of the audit we used the work of an expert (PwC), commissioned by the Audit Commission, to assess the work of the Council's actuary (Barnett Waddingham). We have not identified any issues from the completion of this review.</li> <li>We reviewed the PFI disclosures and ensured that information presented in the financial statements was in line with the operating model. No issues were noted from the work performed.</li> </ul>	 <b>(amber)</b>

**Assessment**

 Inappropriate accounting policy 
  Accounting policy subject to interpretation 
  Accounting policy appropriate and disclosures sufficient

## Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements - local authority maintained schools premises</b>	<p>As per the Statement of Accounts, from 2014/15, CIPFA/LASAAC is of the view that local authority maintained schools are capable of being treated as separate entities for control purposes. This brings the school as an entity within the scope of the control criteria in IFRS 10.</p> <p>As a consequence, schools transactions, including income, expenditure, assets, liabilities and reserves will be recognised in the Council's single entity accounts where applicable.</p> <p>Income, expenditure, assets (excluding non-current assets), liabilities and reserves will all be consolidated into the single entity financial accounts of the Council as these transactions are deemed to be within the control of the local maintained school as entities within themselves. In regards to non-current assets, the approach adopted will be to consider, on a school by school basis, whether the local maintained school controls the non-current assets (including land, property, plant, equipment and playing fields) to identify whether 'control' exists to ascertain if consolidation is required.</p>	The Council has completed a review of all schools which has confirmed that the existing accounting treatment remains appropriate. Our review of the work performed by the Council has not identified any issues with its approach.	 <b>(green)</b>
<b>Going concern</b>	The Directors have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Directors' assessment and are satisfied with managements' assessment that the going concern basis is appropriate for the 2014/15 financial statements.	 <b>(green)</b>
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	 <b>(green)</b>

### Assessment

 Inappropriate accounting policy
  Accounting policy subject to interpretation
  Accounting policy appropriate and disclosures sufficient

## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.



	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	We have discussed the risk of fraud with the Council's management including consideration of the Council's counter-fraud work programme. We have noted the fraud investigations the Council has undertaken during the year, details of which it has reported to the Audit Committee. We do not consider that the frauds identified in 2014/15 or currently under investigation have a material impact on the Council's accounts. We have not been made aware of any other incidents in the period from discussions with the Chair of the Audit Committee and other Council officers, including the Chief Operating Officer. No other issues have been identified during the course of our audit procedures.
2.	<b>Matters in relation to laws and regulations</b>	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>We have requested a standard letter of representation from management, a draft of which is included at Appendix C to this report for information. We have requested, representations from management in respect of the adequacy of the judgments and significant estimated made by management in preparing the financial statements, the completeness of information provided to audit by management, and the completeness of the financial statements themselves and management's awareness of fraud, control weaknesses or other irregularities that could materially affect the position reported in the Council's financial statements.</li> <li>We request these representations for all our local government audits and have not identified any specific risks from our audit testing requiring additional representations specific to this Council.</li> </ul>
4.	<b>Disclosures</b>	Our review found no non-trivial omissions in the financial statements.
5.	<b>Matters in relation to related parties</b>	We are not aware of any related party transactions which have not been disclosed in the financial statements.
6.	<b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests for bank and investment balances . This permission was granted and the requests were sent. These have subsequently been returned with positive confirmation.
7.	<b>Annual Governance Statement</b>	We have recently received the Council's Annual Governance Statement and will review this to confirm it complies with the requirements of 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007. We will report any issues to the Audit Committee at the meeting on 30 July.





## Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	 (deficiency)	<b>Journal authorisation:</b> Our testing of journals identified that the authorisation process for journals did not include the requirement for journals to be authorized on the Integra system	The Council should include a requirement for all journals to be authorised on Integra in order to ensure a clearly documented journal approval on the system
2.	 (deficiency)	<b>IT controls:</b> As part of our review of IT controls, we identified a small number of minor points in relation to the Integra system. These primarily related to access controls in place. We have reported these points to Council officers	The Council should ensure that the points raised in relation to the Integra system are resolved going forward

### Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

## Adjusted misstatements

At the time of writing, no significant adjustments to the draft financial statements have been identified as a result of the audit procedures.

## Unadjusted misstatements

At the time of writing, our audit work has not identified any adjustments which be requested be processed, but which have not been made within the financial statements.

## Misclassifications & disclosure changes

As at the time of writing, the table below provides details of misclassification and disclosure changes identified during the audit which are to be made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	2,160	Debtors / Creditors	A debtor with the Pension Scheme had been incorrectly posted within the pension contributions creditor account, which was therefore netting off against the creditor balance. It was agreed with Council officers that this should be reclassified as a debtor
2 Disclosure	-	Financial Statements	There were a small number of minor presentational issues that were identified during the course of our audit. These are to be amended in the final set of financial statements.

## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non-audit services and independence

05. Communication of audit matters

# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

**The Council has proper arrangements in place for securing financial resilience** - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness** - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.





## Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

## Key findings – securing financial resilience

In common with local authorities nationally, the financial challenges facing the Council are significant. The Council is, however, meeting these challenges well and has good arrangements in place to ensure it remains resilient to deal with the new financial risks as they emerge.

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission and have summarised our overall assessment of each area in the table below:

Characteristic	2014/15 Assessment
Key indicators of financial performance	 Green
Financial planning	 Green
Financial governance	 Green
Financial control	 Green

# Value for Money

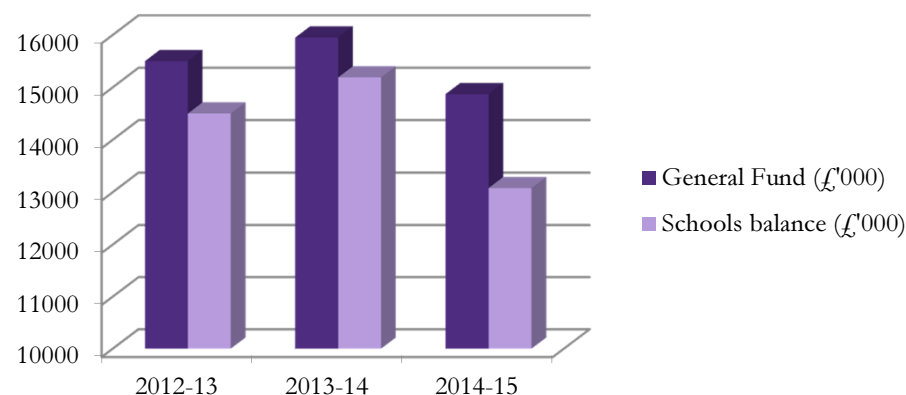
## Key indicators of financial performance

### Key indicators of financial performance:

The Council continues to perform well in this area and has been able to manage its financial position effectively in the year, despite cutting Council Tax by 1% in 2014/15.

The Council has reported an service overspend of £1,079k for the year. This has reduced the General Fund balance from £15,950k as at 31 March 2014 to £14,871k as at 31 March 2015, which is broadly in line with the £15m minimum level for the General Fund balance (equivalent to just over 5% of the Council's expenditure budget) as set by the s151 Officer. Schools balances as at 31 March 2015 were £13,079k (£15,189k as at 31 March 2014). Although there has been a decrease of £2,110k, the Schools balance still remains in a healthy position.

The graph below shows the year on year balances across the General Fund and Schools balance.



## Financial planning

The liquidity position of the Council remains strong, with the financial statements showing a healthy cash position at the year end. The cash balance at 31 March was £35,366k, set against an overdraft of £16,880k. In addition, the Council was holding £171,171k in short term deposits.

Workforce indicators shows a slight decline in performance against the sickness indicator, with the average number of sickness days has increasing from 7.2 days in 2013/14 to 8.1 days in 2014/15. Whilst this remains above the Council's 6 day target, it is below the benchmarking level of 9 days.

Review of performance reports shows that the Council has managed cost pressures during the year to ensure that the budget has been met.

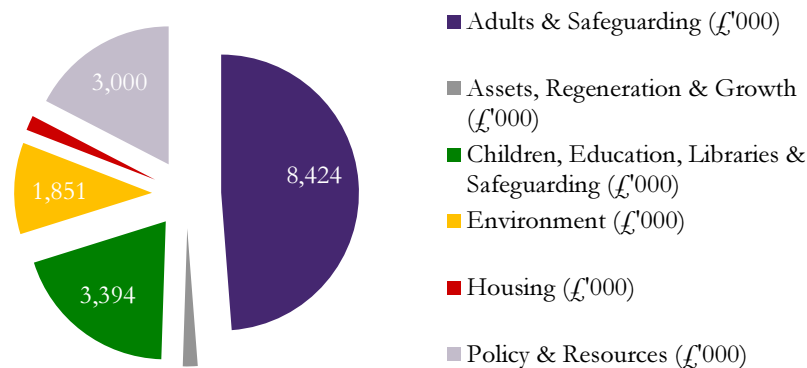
### Financial planning:

The Council continues to have a clear process in place to manage its financial planning. The Business Planning report was presented to the Cabinet in February 2015, including the medium term financial strategy (MTFS) for 2015/16 to 2019/20. This plan has been prepared on the basis of a 1% reduction in Council Tax for 2015/16, Council Tax freeze for the year 2016/17 and 2% increase from 2017/18 onwards.

# Value for Money

The 2015/16 budget sets out an expected budget gap of £73.5m for 2016-2020. Of the £73.5m, the Council has identified savings of £51.9m, leaving a gap of £21.9m. The remaining gap will be allocated in the new financial year to Theme Committees so they may develop further proposals which will be subject to further consultation.

The total budget gap for 2015/16 has been identified as £15,749k. Savings of £17,269k (net of pressures of £1,520k) have been identified to enable a balanced budget to be set. These savings have been subject to detailed review to ensure that they are both deliverable and in line with Council policy. The savings of £17,269k are split across individual delivery units as shown below:



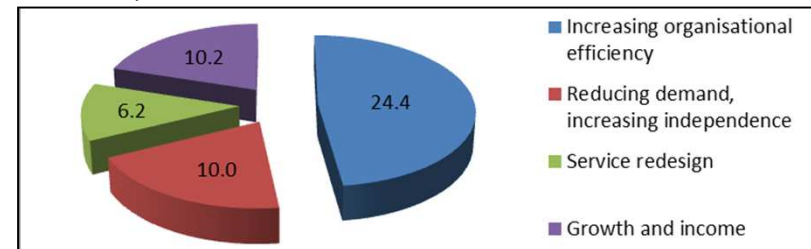
Clearly there are many challenges faced by the Council, but it is a positive to have set a balanced budget. Built into this process is consideration of the reserve levels and the budget confirms that both the General Fund Reserve and the Housing Revenue Account will broadly in line with the minimum levels as set by the Reserves Policy.

What is clear from the work performed around financial planning is that the Council has not just focussed on the short term. This is particularly evidenced through the Priorities and Spending Review that was carried out in 2014 and updated in 2015. This report is the result of a very detailed piece of work performed by the Council to both gather evidence and generate ideas to enable important services to be provided going forward.

The Report forecasts a gap of £73.5m in the Council's finances between 2016 and 2020. Effectively this means that the Council's spending power in 2020 will be roughly half of what it was in 2010.

This Plan sets out a number of options totalling potential savings of around £51.9m. It is made up of a range of different focuses:

- preventative action and investment to unlock future savings
- changing behaviour to reduce demand on services
- provide more efficient and better integrated services with other parts of the public sector
- prioritise resources, potentially resulting in the need to stop providing services others may be able to do better.



The Council has clearly taken a long term view and has tried to get ahead of the likely challenges. The Plan recognises that whilst the scale of this challenge is massive, the Council will still have a significant budget that it will need to use effectively. It also recognises that there will be a number of opportunities which the Council must be in a position to utilise.



## Value for Money

### Financial governance

Our prior year Audit Findings Report confirmed that the Council was performing well in this area. We have updated this review to cover 2014/15 and no issues have come to light that have indicated any significant changes to this position.

The Council has a good track record of delivering its financial plan and ensuring that reserves are maintained in excess of the target levels. Clear reporting arrangements remain in place and members continue to receive detailed quarterly reports to help them oversee the performance of the Council.

The Council has consulted extensively on the budget and medium term financial strategy and has been able to identify savings sufficient to enable budgeting for a balanced budget in both 2015/16 and 2016/17. In addition to this, the Council has continued to focus on the Priorities and Spending Review to ensure that the focus is not solely on the short term.

Management has scrutinised both the financial and operational performance of the Council effectively throughout the year, including through the Delivery and Strategic Commissioning Boards. These meetings have proven effective at ensuring that the focus of senior management is on the key high risk areas, enabling mitigating actions to be discussed and agreed at the earliest possible opportunity.

### Financial control

Our prior year Audit Findings Report confirmed that the financial control at the Council was assessed as green and no significant issues had been identified. We have updated our review for 2014/15 and no issues have come to light that have indicated any changes to this position.

A review of the Head of Internal Audit opinion has noted that the Council has continued to make good progress around its internal control environment. Internal Audit provided the following opinions:

- satisfactory assurance on the Council's overall internal control environment
- satisfactory assurance on the key controls in operation within key financial systems.



The Council continues to produce reliable financial information and audit work has not highlighted significant adjustments to the draft financial statements.

## Value for Money

### Key findings - challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

We have undertaken a review which considered the Council's arrangements against the expected characteristics of proper arrangements as defined by the Audit Commission and have summarised our overall assessment of each area in the table below :

Characteristic	2014/15 Assessment
Prioritising resources	 <b>Green</b>
Improving efficiency and productivity	 <b>Green</b>

### Prioritising resources

The Council has robust arrangements in place to ensure that resources are prioritised. The detailed findings from the Priorities and Spending review has helped to inform the forward looking budget for 2016-2020.

The Council held a consultation aimed to set a new approach to business planning and engagement by consulting on the combined package of the Corporate Plan, Commissioning Priorities and budget. In particular it aimed to:

- create a stronger link between strategy, priorities and resources
- place a stronger emphasis on commissioning as a driver of the business planning process
- focus on how the Council will use its resources to achieve its commissioning plans.

The Council has undertaken a range of consultation to inform the development of the Corporate Plan strategic priorities and 5 year Commissioning Plans, along with indicative savings proposals to inform the MTFs.

### Improving efficiency and productivity

The Council plans to continue to drive out efficiencies across the system, to achieve better outcomes with fewer resources. This includes a focus on workforce productivity; bearing down on contract and procurement costs; and using assets more effectively.

## Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non-audit services and independence**

05. Communication of audit matters

## Fees, non-audit services and independence

We confirm below our final fees charged for the audit and the provision of audit related services.

### Fees

	Per Audit plan £	Actual fees £
Council audit	226,700	226,700
Grant certification on behalf of Audit Commission (i)	27,080	TBC
<b>Total audit fees (ii)</b>	<b>253,780</b>	<b>TBC</b>

- (i) Certification of grant claims and returns are not due until later in the year so this remains work in progress at the date of this report. Confirmation of the final fee will be included within the separate Certification Report later in the year
- (ii) Pension fund audit work is completed separately from the main Council audit (please see Pension Fund Audit Findings Report for further details)

### Fees for other services

Service	Fees £
<b>Audit related services</b>	
Certification of the Teachers' Pensions claim	4,829

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Matters in relation to the Group audit	✓	✓

# Appendices

## Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	<b>Journal authorisation:</b> The Council should include a requirement for all journals to be authorised on Integra in order to ensure a clearly documented journal approval on the system	Medium		
2.	<b>IT controls:</b> The Council should ensure that the points raised in relation to the Integra system are resolved going forward	Medium		



## Appendix B: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF BARNET

We have audited the financial statements of London Borough of Barnet for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of London Borough of Barnet, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword and the Group's explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of London Borough of Barnet as at 31 March 2015 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

#### Opinion on other matters

In our opinion, the information given in the explanatory forewords for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Appendix B: Audit opinion (continued)

### Matters on which we report by exception

We are required to report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

### Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, London Borough of Barnet put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

### Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion. *[ Whilst no objections to the accounts from local government electors have yet been submitted, we would have to update the certificate if any are received ]*

## Appendix C: Letter of Representation

- We have included a draft of the letter of representation requested from the Council's management below. We request a letter of representation containing standard representations from all our local government clients.
- We have requested, representations from management in respect of the adequacy of the judgments and significant estimated made by management in preparing the financial statements, the completeness of information provided to audit by management, and the completeness of the financial statements themselves and management's awareness of fraud, control weaknesses or other irregularities that could materially affect the position reported in the Council's financial statements.

### London Borough of Barnet

#### Group Financial Statements for the year ended 31 March 2015

This representation letter is provided in connection with the audit of the group financial statements of London Borough of Barnet and its subsidiary undertakings as shown in Appendix I to this letter, for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the group and parent Council financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### Group financial Statements

- i We have fulfilled our responsibilities for the preparation of the group and parent Council financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ("the Code") which give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the group and parent Council and these matters have been appropriately reflected and disclosed in the group financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the group and parent Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the group and parent Council financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi We are satisfied that the material judgements used in the preparation of the group and parent Council financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vii Except as disclosed in the financial statements:
  - a there are no unrecorded liabilities, actual or contingent
  - b none of the assets of the group or parent Council has been assigned, pledged or mortgaged
  - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

## Appendix C: Letter of Representation (continued)

viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

x All events subsequent to the date of the group financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed.

xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

xii We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and parent Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xiii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the group and parent Council financial statements.

xiv We believe that the Group and Council financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Group or Council's ability to continue as a going concern need to be made in the financial statements.

### Information Provided

xv We have provided you with:

- a access to all information of which we are aware that is relevant to the preparation of the group and parent Council financial statements such as records, documentation and other matters;
- b additional information that you have requested from us for the purpose of your audit; and
- c unrestricted access to persons within the group and parent Council from whom you determined it necessary to obtain audit evidence.

xvi We have communicated to you all deficiencies in internal control of which management is aware.

xvii All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.

xviii We have disclosed to you the results of our assessment of the risk that the group and parent Council financial statements may be materially misstated as a result of fraud.

xix We have disclosed to you all our knowledge of fraud or suspected fraud affecting the group and parent Council involving:

- a management;
- b employees who have significant roles in internal control; or
- c others where the fraud could have a material effect on the financial statements.

xx We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, regulators or others.

xxi We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing group and parent Council financial statements.

xxii We have disclosed to you the identity of all the group's and the parent Council's related parties and all the related party relationships and transactions of which we are aware.

xxiii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the group and parent Council financial statements.

## Appendix C: Letter of Representation (continued)

### **Annual Governance Statement**

xxiv We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

### **Approval**

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 30 July 2015.

# DRAFT



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