LONDON BOROUGH OF BARNET

INTERIM PROGRESS REPORT TO THE AUDIT COMMITTEE

Audit for the year ended 31 March 2016 - Issued to the Audit Committee - 13 July 2016

LEIGH LLOYD-THOMAS
Engagement Lead

T: (020) 7893 2616
E: leigh.lloyd-thomas@bdo.co.uk

JODY ETHERINGTON
Audit Manager

T: (01473) 320790
E: jody.etherington@bdo.co.uk

PURPOSE AND USE OF THIS REPORT

We present our Interim Progress Report which details the key findings arising to date from the audit for the attention of those charged with governance. It 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.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK & Ireland) which provide us with a framework which enables us to form and express 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 nor 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 and our value for money conclusion. As the purpose of the audit is for us to express an opinion on the financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

This report has been prepared solely for the use of the Audit Committee 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.

We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

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SUMMARY

AUDIT SCOPE AND OBJECTIVES

- Matters subject to further audit procedures and responses awaited from management are set out on page 19 below.
- There were no significant changes to our planned audit approach nor were any restrictions placed on our work.
- No additional significant audit risks were identified during the course of our audit procedures subsequent to our audit planning report to you dated 18 March 2016.
- Our materiality levels have required reassessment since our audit planning referred to above. Our revised materiality level is £14.5 million, as set out in Appendix IV.

AUDIT OPINION

- Subject to the successful resolution of outstanding matters set out on page 19 we anticipate issuing an unqualified opinion on the financial statements for the year ended 31 March 2016.
- At the time of drafting this report we have not yet received a copy of the draft Governance Statement for our review.
- Our work in relation to the arrangements in place to secure economy, efficiency and effectiveness is ongoing. To date, we have identified no matters to report. We will update the Audit Committee with our final conclusions at their meeting on 28 July 2016.

KEY AUDIT AND ACCOUNTING MATTERS

The key matters that have arisen in the course of our audit are summarised below:

i. We identified no evidence of material misstatement as a result of management override of controls, or systematic bias in the making of accounting estimates.

ii. Our work on the significant risk of fraud in relation to revenue recognition is ongoing, but to date we have identified no issues.

iii. There were no differences to be corrected in the final Statement of Accounts that affect the reported surplus for the year. A number of amendments to classifications and presentational adjustments have been made, as detailed in the ‘Key Audit and Accounting Matters’ section of this report. There are no unadjusted audit differences.

iv. We have identified some areas for improvement in respect of the Council’s Narrative Statement.

v. We identified no significant control deficiencies, but have made a number of other recommendations as set out at Appendix III to this report.

OTHER MATTERS FOR THE ATTENTION OF THE AUDIT COMMITTEE

- Our review of the Council’s whole of government accounts data collection tool is still in progress, following delays in the issue of the consolidation pack by HM Treasury.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT AUDIT RISKS

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered significant audit risks, in the 2015/16 audit planning report dated 18 March 2016. These significant risks have been highlighted in red and findings have been reported in the following table.

We have since undertaken a more detailed assessment of risk following the completion of our review of the Council's internal control environment and draft financial statements, and we have not identified any additional significant risks.

NATURE OF RISK	RELATED CONTROLS / RESPONSE TO RISK	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION AND RECOMMENDATION
MANAGEMENT OVERRIDE OF CONTROLS	Auditing standards presume that a risk of management override of controls is present in all entities. By its nature, there are no controls which can fully mitigate the risk of management override.	We have responded to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.	We have identified no evidence of material misstatement as a result of management override of controls. Our review of accounting estimates has identified no evidence of deliberate bias. Further details on key accounting estimates are provided on pages 13 to 15 of this report.
REVENUE RECOGNITION	Auditing standards presume there is a risk of fraud in relation to revenue recognition. In particular, we considered there to be a significant risk over the completeness and existence of fees and charges revenue in the Comprehensive Income & Expenditure Statement (CIES). We also considered there to be a significant risk over the existence (recognition) of revenue and capital grant income in the CIES that is subject to conditions before it may be recognised as revenue.	We carried out audit procedures to gain an understanding of the Council's internal control environment for significant income streams, including how this operates to prevent loss of income and ensure that income is recognised in the correct accounting period. We tested an extended sample of grants subject to conditions to confirm that these had been met before the income was recognised in the CIES. We tested an extended sample of fees and charges and investment rental income to ensure income has been recorded in the correct period and that all income that should have been recorded has been recorded.	Our work in this area is ongoing. However, at the time of drafting this report we have identified no issues. We will update the Audit Committee as to our final conclusions at its meeting on 28 July 2016.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings of the work designed to address all other risks identified in our 2015/16 audit planning report and any other relevant audit and accounting issues identified as a result of our audit: **Normal risk** **Other issue**

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
HIGHWAYS NETWORK ASSETS	We flagged in our planning report that the Code will adopt a revised basis for valuation of highways network assets from 2016/17 (depreciated replacement cost rather than depreciated historic cost), and that this will require implementation from 1 April 2016. We explained that, for 2015/16, disclosure would be required of the estimated impact of this change in the following year. However since issuing our plan, further CIPFA guidance has clarified that, since the change will only be applied prospectively to the 2016/17 accounts, no such disclosure is required this year.	No disclosure was required this year. Implementation of the changes required for the 2016/17 financial statements remains a significant undertaking for all highways authorities, and we would welcome early discussions with the finance and/or highways teams as to how this process will be managed in advance of next year's audit.
CONSIDERATION OF RELATED PARTY TRANSACTIONS	We are required to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards. We reviewed the related party transactions identification procedures in place and relevant information concerning any such identified transactions. We also discussed with management and reviewed Councillor and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed.	No significant issues have been identified. We have requested additional detail to be disclosed in respect of transactions with Barnet (Holdings) Ltd and the Inglis Consortium Ltd, which management has agreed to include in the final Statement of Accounts. We will require a statement that there are no material undisclosed related party transactions to be included in your letter of representation to us, as set out at Appendix VII to this report.
AUDIT FEES	We reviewed the Audit Costs note against our agreed schedule of fees, and noted that the audit costs within the draft Statement of Accounts were understated by a total of £9,000.	Audit Costs in the draft Statement of Accounts were understated by £9,000 for the certification of grant claims and returns. The £4,000 relating to pension audit costs should be included in the pension fund accounts rather than the Council. Management has agreed to correct this error in the final Statement of Accounts.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
VALUATION OF MILL HILL DEPOT	The Council has entered into a contractual development agreement with partners to transfer the Mill Hill depot site into a larger regeneration site for a 13.9% share of projected profits of the whole site. The asset is held as investment property and each year the site is revalued. As parts of the site are developed and sold, the Council receives its share of the proceeds as capital receipts and this amount is derecognised from investment property. The carrying value of the asset is £30.258 million at 31 March 2016. The Council still uses part of the site as a depot while the new site is under construction.	We discussed with management and the valuer the valuation of the site and agreed this to underlying projections of the future development net proceeds that support the land value. We are satisfied that the classification as investment property is appropriate and reflects the contractual share of risks and rewards of ownership from the entire site rather than that part still held in title by the Council. We concur with management that the part of the site still in use as a depot, used under licence until December 2016, would not require that part to be valued as operational land.
ACCOUNTING FOR COUNCIL DWELLING REVALUATIONS	The Council's policy is for council dwellings to be revalued on a beacon basis as at 31 March each year. However, within the draft Statement of Accounts, the revaluation has been posted with an effective date of 1 April 2015, by adding back one year's depreciation to obtain an approximation of the valuation at 1 April. This practice is consistent with that applied by the Council in previous years, however it is not strictly correct as it implicitly assumes that movements in valuation in year are equal to the annual depreciation charge, and therefore ignores other market movements which may have taken place during the year. We note that the correct net valuation has been applied as at 31 March 2016. We also note that the depreciation section of the PPE note only contains one line for the write-back of depreciation on revaluation, which assumes that all such write-back is posted to the revaluation reserve. The Code requires separate disclosure of amounts written-back posted to the revaluation reserve and the surplus/deficit on the provision of services. As a result, revaluation movements in respect of Council dwellings have been grossed up within the PPE note. The above issues will impact upon the presentation of revaluation movements in the PPE note, but do not impact upon the closing net book value of PPE, the Comprehensive Income and Expenditure Statement, or closing reserve balances.	Revaluation movements in respect of council dwellings are incorrectly presented within the PPE note. There is no impact on the closing net book value of PPE, the Comprehensive Income and Expenditure Statement, or closing reserve balances. The adjustments which we anticipate are required within the PPE note in respect of this issue are as follows:- • In the cost section, revaluation increases recognised in the revaluation reserve will increase by £1.219 million. • In the cost section, revaluation decreases recognised in the revaluation reserve will decrease by £17.607 million. • In the cost section, revaluation increases recognised in the surplus on the provision of services will decrease by £40.303 million. • In the accumulated depreciation section, write-back of depreciation on revaluation will increase by £21.477 million. The new total write-back figure of £40.496 million should be split between that posted to the revaluation reserve (£40.303 million) and that posted to the surplus on provision of services (£193,000). Management have agreed to correct these errors in the final Statement of Accounts.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
CLASSIFICATION OF DEBTORS AND CREDITORS	Our review of debtors identified an error in respect of expenditure which was receipted twice in error. Whilst the expenditure was correctly reversed, the other side of the reversal entry was incorrectly posted to debtors, meaning that both debtors and creditors were overstated by £3.026 million in the draft Statement of Accounts.	Both debtors and creditors were overstated by £3.026 million in the draft Statement of Accounts. There is no impact on the Comprehensive Income and Expenditure Statement or closing reserve balances. Management has agreed to correct this error in the final Statement of Accounts.
CLASSIFICATION OF INVESTMENTS	The Council has adopted a policy of classifying any deposits which mature within 3 months of the balance sheet date as cash equivalents. However, the Code requires the assessment of whether or not a deposit meets the definition of a cash equivalent to be carried out at the point of acquisition. This means that deposits which were originally placed for more than 3 months should be classified as investments, not cash equivalents, regardless of their maturity date. As a result, we have identified £79.803 million of deposits which were included within cash and cash equivalents in the draft Statement of Accounts, but should have been classified within short-term investments. Within long-term investments the Council has recognised a total of £2.910 million in respect of an investment with an Icelandic Bank which has been impaired in previous years. On 30 June 2016, this investment was sold at auction for £2.584 million. Management has deemed this to be a non-adjusting event after the balance sheet date, on the grounds that the Council had no intention to sell at 31 March 2016, and that the small difference in valuation may have arisen due to market movements after year-end. As such, no adjustment has been made in the Statement of Accounts. We concur with this judgement.	Short-term investments of £79.803 million were misclassified as cash and cash equivalents in the draft Statement of Accounts. There is no impact on closing reserve balances. Management has agreed to correct this error in the final Statement of Accounts, and is also in the process of assessing whether any restatement of the prior year figures is required.
PRESENTATION OF OVERDRAFT BALANCES	Within the draft Statement of Accounts, the Council had separately disclosed cash and cash equivalents within current assets (£126.980 million) and current liabilities (£1.290 million). However, the Code requires that where overdraft balances arise as a result of the Council's normal day-to-day cash management, that these should be net off of the current asset balance.	Both current assets and current liabilities were overstated by £1.290 million within the draft Statement of Accounts. The total net cash balance was correct. Management has agreed to correct this in the final Statement of Accounts. We are also awaiting confirmation from management as to whether a restatement of the prior year balance sheet is required, as there was a material overdraft balance (£16.880 million) last year. Again, the total net cash balance was correct.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
EARMARKED RESERVES	The draft Statement of Accounts included a transfer from earmarked reserves to the Capital Adjustment Account of £18.302 million in respect of capital expenditure funded from reserves. The Code requires that such amounts are initially funded from the General Fund, and then transferred from earmarked reserves.	Within the draft Statement of Accounts there is a transfer of £18.302 million from earmarked reserves to the Capital Adjustment Account which is on the wrong line in the Movement in Reserves Statement, and should be reclassified to the 'adjustments between accounting basis and funding basis under regulations' line. There is no impact on closing reserve balances. Management has agreed to correct this error in the final Statement of Accounts.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

<table>
<tr><th>NATURE OF RISK</th><th>WORK PERFORMED AND FINDINGS</th><th>CONCLUSION</th></tr>
<tr><td>NARRATIVE REPORTING</td><td>For 2015/16 the Council was required to produce a ‘Narrative Report’ replacing the old ‘Explanatory Foreword’ in the financial statements, which includes additional information not previously required. The Narrative Report is required to be fair, balanced and understandable.

We compared the Narrative Report against the Code requirements to ensure that all required elements were correctly included. We also reviewed the Narrative Report to ensure consistency with our understanding of the entity and the financial statements.</td><td>Broadly speaking, we found the Narrative Report to be fair, balanced and understandable, although we identified the following areas which could be improved:-

• There is no commentary on the Group Accounts, as required by the Code.

• Whilst information is given in respect of outturn against budget for service expenditure, no similar information is provided for other operating expenditure, financing and investment income and expenditure or taxation and non-specific grant income, meaning that the reader is not given a complete picture of the Council’s financial performance against expectations.

• Further information could be provided in respect of the Council’s current borrowing facilities and capital borrowing.

• Whilst commentary has been given on non-financial performance indicators, this tends to focus on areas well the Council has performed well or improved during the year, and there is very little commentary on areas of poor performance or where improvement is required.

Discussions with management are still ongoing as to whether or not these recommendations will be implemented in the current year, or considered for future years.

We also identified a small number of minor errors and inconsistencies between the Narrative Statement and financial statements, which management has agreed to correct in the final Statement of Accounts.</td></tr>
<tr><td>FRAUD AND ERROR</td><td>We are informed by management that there have not been any cases of material fraud or error, to their knowledge.

We have reviewed the reports of the Council’s Corporate Anti-Fraud Team to the Audit Committee throughout 2015/16 and since the year-end, which set out in more detail cases of non-material fraud which have occurred.</td><td>Our own audit testing has identified no instances of material fraud affecting the Council this year.

Non-trivial errors identified through the audit process are set out in detail within this report.</td></tr>
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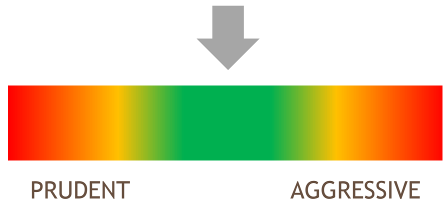
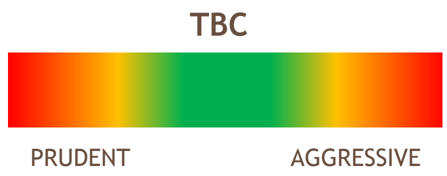
KEY AUDIT AND ACCOUNTING MATTERS
Continued

ACCOUNTING ESTIMATES

Our views on significant estimates including any valuations of material assets and liabilities arrived at during the preparation of your financial statements are set out below:

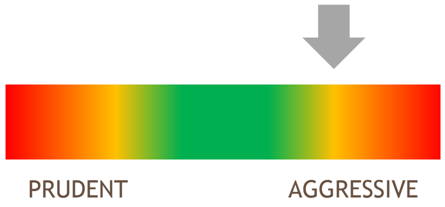
ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
PROPERTY VALUATIONS	The valuation of property assets is carried out by an internal valuer, on a 5-yearly rolling valuation cycle, with approximately 90% by value of the Council's property assets valued each year. We have reviewed the experience and qualifications of the Council's valuer and her team to ensure valuations are being carried out by appropriate individuals. The valuations are based on market data including BCIS and make use of RICS guidance. We have reviewed the key assumptions made in determining valuations and have compared the outputs of the valuation exercise to benchmarking information made available to us by a consulting valuer engaged by the National Audit Office. For dwellings, the Council has applied an average increase in value of 9.3%, compared to a benchmark for London of 13.9% (based upon information available from the Land Registry). We have investigated this further and found that the assumptions used by the Council take into account more localised factors, as opposed to the Land Registry data which provides an average for the whole of London. The assumptions used do not appear unreasonable. For other land and buildings we initially identified some significant increases in upwards revaluations when compared to expectations formed from a review of the consultant valuer's report. However, upon further investigation it was found that the properties in question have had either changed planning consent, development in year or changes of use which explain the increased valuations.
ACCRUED EXPENDITURE	The Council recognises accruals for expenditure incurred but not yet invoiced at year-end, for example in relation to community care services. Our work in this area is still ongoing and we will update the Audit Committee with our findings at their meeting on 28 July 2016. No issues have been identified to date.

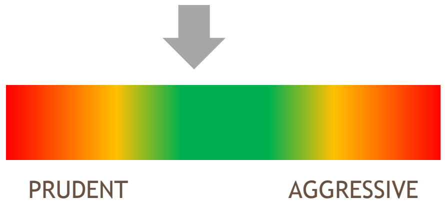




KEY AUDIT AND ACCOUNTING MATTERS
Continued

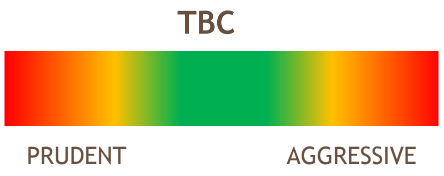
ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
PENSION LIABILITY ASSUMPTIONS	An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. We have reviewed the assumptions used by the actuary for reasonableness by reference to a consulting actuary's report commissioned by the National Audit Office. We found that, whilst all assumptions used fall within the expected range, assumptions in respect of life expectancy were at the lowest extreme of this range, whilst assumptions about the percentage of employees taking up the option under the new LGPS scheme to pay 50% of contributions for 50% of benefits was at the top of the range. Both of these factors will have a downwards impact on the pension liability, which has led us to conclude that the assumptions around the liability in general are on the aggressive side but still reasonable.
USEFUL LIVES OF DEPRECIABLE ASSETS	The Council depreciates its depreciable property, plant and equipment assets on a straight-line basis over their useful economic lives. The useful economic lives of property assets are determined by the Council's valuer each time the assets are revalued. For other classes of asset, a range is used depending upon the type of asset. We have reviewed the ranges of useful economic lives in use and have concluded that these appear reasonable and are consistent with those applied in the prior year. A review of the fixed asset register indicates that the Council was holding fully depreciated assets with a gross book value of £101.988 million at year-end, which represents 6.6% of all assets held by gross book value. The majority of these assets had reached the end of their assigned useful economic life during the year, although there are assets with a gross book value of £35.394 million which were already fully depreciated at the start of 2015/16. This indicates that the Council's depreciation policy could be slightly on the prudent side. However, we do recognise that in the current economic climate the Council is limited in terms of its capital expenditure, and assets are being used beyond their initially anticipated useful lives. As an accounting estimate, any changes to useful lives would be accounted for prospectively, and therefore the likelihood of net book values being materially misstated at year-end as a result of this issue is extremely low. Nevertheless, we recommend that going forwards the Council carries out a review of its fixed asset register and depreciation policy to ensure that the lives applied remain appropriate given the current climate.

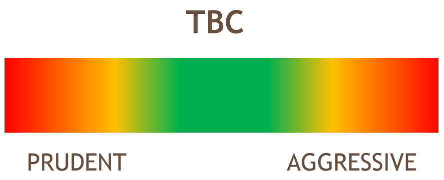




KEY AUDIT AND ACCOUNTING MATTERS
Continued

ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
ALLOWANCES FOR NON-COLLECTION OF RECEIVABLES	The Council's bad debt provision on aged debt is determined for each income stream using available collection rate data. The largest areas of provision include council tax arrears, non-domestic rates arrears, housing rent arrears and PCNs (parking). We have reviewed the calculations supporting the year-end provision figures and are satisfied that these are materially correct. At the time of drafting this report we are still awaiting some evidence to support the percentages applied in respect of housing rent arrears. However, from the work performed so far there is no evidence that the provision is materially misstated. We will conclude in more detail and update the Audit Committee at their meeting on 28 July 2016.
PROVISIONS	The Council has recognised provisions totalling £14.255 million at 31 March 2016. There are no individually material provisions. Our work in this area is ongoing, and we will update the Audit Committee with our conclusions at their meeting on 28 July 2016.





KEY AUDIT AND ACCOUNTING MATTERS
Continued

FINANCIAL STATEMENT DISCLOSURES

Our views on the sufficiency and content of your financial statements' disclosures are set out below:

DISCLOSURE AREA	AUDIT FINDINGS AND CONCLUSIONS
ACCOUNTING POLICIES	Generally speaking, the accounting policies within the draft Statement of Accounts were appropriate and clear, and in accordance with Code requirements. We identified a small number of issues as follows:- • As set out on page 10 of this report, the stated policy was that deposits which mature within 3 months of the balance sheet date were classified as cash and cash equivalents. However, the Code requires that the assessment of whether or not a deposit meets the definition of a cash equivalent to be carried out at the point of acquisition. This means that deposits which were originally placed for more than 3 months should be classified as investments, not cash equivalents, regardless of their maturity date. • The property, plant and equipment policy referred to many items of PPE being valued at fair value, when in fact they are valued in accordance with the Code at current value. • The policy on significant management judgement in applying accounting policies and estimation uncertainty contained insufficient information about property valuation techniques, and we recommended cross-referring to other parts of the Statement of Accounts. We also recommended removing the section on the Special Parking Account on materiality grounds. • We recommended the removal of policies and parts of policies relating to irrelevant or immaterial items, including staff leave accruals, inventories and long term contracts, finance leases, insurance provisions, and the Carbon Reduction Commitment Scheme. We are currently awaiting confirmation from management as to which of the above issues will be addressed in the final Statement of Accounts, and we will update the Audit Committee accordingly at their 28 July 2016 meeting.
IMMATERIAL DISCLOSURES	The draft Statement of Accounts contained a small number of immaterial disclosures, including soft loans, inventories, construction contracts, cash held on behalf of third parties, and financial instrument adjustment account. We have recommended that these be removed, unless management considers them to be material.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

DISCLOSURE AREA	AUDIT FINDINGS AND CONCLUSIONS
OTHER DISCLOSURE MATTERS	We identified the following disclosure and presentational issues within the draft Statement of Accounts:- • The Movement on the HRA note was incorrectly presented as it did not separately identify the write-back of depreciation on HRA properties. As a result the amount transferred to the Capital Adjustment Account was also incorrectly presented, although the underlying accounting entries made and closing reserve balances were correct. • The draft Collection Fund Statement did not cast correctly and it was not possible to reconcile opening and closing Collection Fund balances. • Various issues were identified within the draft financial instruments notes, including inconsistency of figures and presentation within and between tables, inconsistencies with other parts of the Statement of Accounts, and errors in the maturity analysis of financial liabilities. • Within the earmarked reserves note, there was a material level of ‘other’ earmarked reserves (£38.871 million), for which additional analysis should be presented. • There was no disclosure of the date the accounts were authorised for issue, or who gave the authorisation, as required by the Code. • Other minor formatting and rounding issues, internal inconsistencies and errors were identified and full details have been communicated to management. Management has agreed to correct the above errors in the final Statement of Accounts.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

OTHER MATTERS

We are required to communicate certain other matters to you. We deal with these below, either directly or by reference to other communications.

	MATTER	COMMENT
1	Our responsibility for forming and expressing an opinion on the financial statements.	See our audit planning report to you dated 18 March 2016.
2	An overview of the planned scope and timing of the audit.	See our audit planning report to you dated 18 March 2016.
3	Significant difficulties encountered during the audit.	We have no matters to report.
4	Significant matters arising from the audit that were discussed with management or were the subject of correspondence with them, and any other matters arising from the audit that in our judgment are significant to the oversight of the financial reporting process.	We have no matters to report.
5	Written representations which we seek.	These are reproduced at Appendix VII.
6	Any fraud or suspected fraud issues.	See our planning report to you dated 18 March 2016 and additional matters included within this report.
7	Any suspected non-compliance with laws or regulations.	We have no matters to report.
8	Uncorrected misstatements, including those relating to disclosure.	A schedule of uncorrected misstatements is included at Appendix II.
9	Significant matters in connection with related parties.	We have no matters to report.

OUTSTANDING MATTERS

Matters subject to further audit procedures and responses awaited from management are set out on below. Upon completion of these matters, we anticipate issuing an unqualified opinion on the financial statements.

We will update you on their current status at the Audit Committee meeting at which this report is considered:

1 Completion of our final audit testing in a number of audit areas

2 Clearance of outstanding issues currently with management

3 Completion of our internal manager and Partner review process

4 Technical clearance

5 Subsequent events review

6 Receipt and checking of an updated Statement of Accounts incorporating agreed audit adjustments as set out in this report

7 Management representation letter, as attached in Appendix VII to be approved and signed

OTHER REPORTING MATTERS

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

	MATTER	COMMENT
1	The draft Statement of Accounts was prepared and provided to us for audit on 31 May 2016. As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit.	We have no significant matters to report. Throughout the audit, we have encountered some difficulties in obtaining audit evidence from officers outside of the core finance team, for example adult social care, schools, revenues and benefits and payroll. Whilst these issues have largely been resolved, we would welcome a debrief discussion with the Council to identify lessons learned on both sides, and to look for ways in which this process can be streamlined going forwards.
2	We are required to review the draft governance statement and to be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Councils review of effectiveness and our knowledge of the Council.	At the time of writing this report we have not yet received a draft of the Governance Statement.
3	We are required to read all the financial and non-financial information in the narrative report to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.	Our review of the Narrative Statement identified no material inconsistencies with the financial statements or information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. Further comments on the Narrative Statement are set out on page 12 of this report.

CONTROL ENVIRONMENT
Deficiencies and observations

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you.

As the purpose of the audit is for us to express an opinion on the Council's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

SIGNIFICANT DEFICIENCIES

We identified no significant deficiencies during the course of our audit.

OTHER DEFICIENCIES AND OBSERVATIONS

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
EMPLOYMENT CONTRACTS	Of our sample of 29 Council employees, the Council was unable to provide a contract of employment in respect of 1 individual. For a further 18 individuals, a copy of the contract of employment was provided but this was unsigned by the employee.	The lack of a signed contract of employment in respect of a number of employees may increase risk to the Council in the event of any employment disputes arising. Although the existence of a signed contract may not be a strict legal requirement, it does represent best practice.	We recommend that the Council reviews its HR records to ensure that signed contracts of employment are in place and accessible in respect of each of its employees. We note that the Council is currently undergoing an exercise to review employee contracts and terms and conditions of employment, and this may provide an opportunity to ensure that all records are up to date and complete.	

CONTROL ENVIRONMENT
Continued

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
ACCOUNTING FOR SCHOOLS	The Council's policy is to reconcile all schools bank accounts as at 15 March each year, with any transactions between this date and year-end being accounted for as accrued income or expenditure. This is in order to avoid issues concerning staff availability during the Easter holidays.	This practice will lead to misclassifications on the Balance Sheet between cash and cash equivalents and debtors and creditors. It has not been possible to fully quantify this misclassifications, although from the work we have performed we are satisfied that the impact is not material, and there is no impact on the CIES or closing reserve balances.	We recommend that the Council reviews its processes going forwards to consider whether there is any way that schools transactions can be correctly accounted for up until year-end, recognising the inherent difficulties around school holiday periods.	

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

MATTER	COMMENT
For Whole of Government Account (WGA) component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Council for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.	HM Treasury's Whole of Government Accounts team issued a newsletter at the end of June to explain the delay in issuing the DCT which was released on Monday 4 July 2016. This means that local authorities' deadline to submit the unaudited DCT to HM Treasury has been extended to 12 August 2016 and similarly our deadline to issue our audit opinion on the DCT has been extended to 21 October 2016. As such, our review of the Council's DCT submission has not yet commenced. We will update the Audit Committee as to the outcome of this review at a later meeting.

USE OF RESOURCES

Key informed decisions, deployed resources and sustainable outcomes

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) .This is based on the following reporting criterion:

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

There are three sub criteria that we consider as part of our overall risk assessment:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We reported our risk assessment, which included use of resources significant risks, in the 2015/16 Audit Plan issued on 18 March 2016. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements, and we have not included any additional significant risks.

Our work in this area is still ongoing at the time of drafting this report. We report below our findings to date. We will provide an update to the Audit Committee at their meeting on 28 July 2016.

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
SUSTAINABLE FINANCES	The Medium Term Financial Strategy (MTFS) has forecast a funding gap of £81 million between 2016/17 and 2019/20, and requires savings to be made of approximately £20 million each year. The Council has successfully delivered savings of £75 million over the past five years. However, the level of savings required in the next four years will be challenging in order to allow the Council to effectively support the sustainable delivery of strategic priorities and maintain statutory functions. We therefore recognised a significant risk at the planning stage in relation to financial sustainability.	Our work in this area remains ongoing, and meetings have been arranged with a number of senior officers over the coming days. From our work to date, we note that, whilst the savings targets are certainly challenging, the Council current holds relatively high levels of reserves and therefore considers itself to be financially stable in the short to medium term.

APPENDICES

APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	London Borough of Barnet
'Those charged with governance'	The Audit Committee. The persons with responsibility for overseeing the strategic direction of the Council and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance for the Council are the Members. Delegated authority is given to the Audit Committee in respect of matters relating to financial reporting and receiving the findings of the audit.
Management	The persons responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for: • The financial statements (including designing, implementing, and maintaining effective internal control over financial reporting) • Putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.
ISAs (UK & Ireland)	International Standards on Auditing (UK & Ireland)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
Materiality	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
The 'Code'	Code of Practice on Local Authority Accounting in the United Kingdom issued by CIPFA / LASAAC (Chartered Institute of Public Finance and Accountancy / Local Authority Scotland Accounts Advisory Committee)
SeRCOP	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
CIES	Comprehensive Income and Expenditure Statement

APPENDIX II: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, or in aggregate, on the opinion in the auditor's report.

CORRECTED AUDIT DIFFERENCES

There were no differences that have been corrected in the revised draft financial statements that affect the reported surplus for the year. However, a number of amendments to classifications have been made, as detailed in the 'Key Audit and Accounting Matters' section of this report.

UNADJUSTED AUDIT DIFFERENCES

There are no unadjusted audit differences.

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT REPSONSE	RESPONSIBILITY	TIMIMG
FINANCIAL STATEMENTS					
ASSET LIVES	We found that the Council has a relatively high level of fully depreciated assets still in use, which may be indicative of an overly prudent depreciation policy.	We recommend that management carries out a review of the fixed asset register and useful economic lives applied to each class of asset to ensure that these remain appropriate, particularly in the current economic climate when some assets may be used beyond the useful economic life which was originally anticipated.	< Add responses >	< Add responsibility >	< Add timing >
CONTROL ENVIRONMENT					
EMPLOYMENT CONTRACTS	Of our sample of 29 Council employees, the Council was unable to provide a contract of employment in respect of 1 individual. For a further 18 individuals, a copy of the contract of employment was provided but this was unsigned by the employee.	We recommend that the Council reviews its HR records to ensure that signed contracts of employment are in place and accessible in respect of each of its employees. We note that the Council is currently undergoing an exercise to review employee contracts and terms and conditions of employment, and this may provide an opportunity to ensure that all records are up to date and complete.	< Add responses >	< Add responsibility >	< Add timing >

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

Continued

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT REPSONSE	RESPONSIBILITY	TIMIMG
CONTROL ENVIRONMENT (CONTINUED)					
ACCOUNTING FOR SCHOOLS	The Council's policy is to reconcile all schools bank accounts as at 15 March each year, with any transactions between this date and year-end being accounted for as accrued income or expenditure. This is in order to avoid issues concerning staff availability during the Easter holidays.	We recommend that the Council reviews its processes going forwards to consider whether there is any way that schools transactions can be correctly accounted for up until year-end, recognising the inherent difficulties around school holiday periods.	< Add responses >	< Add responsibility >	< Add timing >

APPENDIX IV: MATERIALITY

MATERIALITY - FINAL AND PLANNING

	FINAL	PLANNING
Materiality	£14,300,000	£13,800,000
Clearly trivial threshold	£286,000	£276,000

Planning materiality of £13.8 million was based on 1.5% of gross expenditure, based upon the prior year audited Statement of Accounts.
We revised our materiality upon receipt of the draft Statement of Accounts because the current year outturn expenditure was higher than that of the prior year.

APPENDIX V: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
Leigh Lloyd-Thomas - Audit engagement partner	1	31 March 2021
Engagement quality control reviewer	1	31 March 2023
Jody Etherington - Audit manager	1	31 March 2026

INDEPENDENCE - THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS

We have provided services other than audit to the Council as set out in Appendix VI.

Other than the items identified in Appendix VI, we have not identified any potential threats to our independence as auditors. We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.

We confirm that the firm complies with the FRC's Ethical Standards and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired.

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

APPENDIX VI: FEES SCHEDULE

	2015/16		THREATS TO INDEPENDENCE ARISING	SAFEGUARDS APPLIED AND WHY THEY ARE EFFECTIVE
	£'000	£'000		
Scale audit fee	170,025		N/A	
Certification of Housing Benefit Subsidy Claim (BEN01)	21,617		N/A	
TOTAL AUDIT FEE		**191,642**		
Certification of Pooling of Housing Capital Receipts Return (CFB06)	2,500		The threat to auditor independence from Audit Related Services is clearly insignificant. (ES5:54)	No safeguards required
Certification of Teachers' Pension Return (PEN05)	5,000		The threat to auditor independence from Audit Related Services is clearly insignificant. (ES5:54)	No safeguards required
Audit related assurance services		**7,500**		
Other assurance services		**-**		
TOTAL ASSURANCE SERVICES		**199,142**		

APPENDIX VII: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
55 Baker Street
London
W1U 7EU

28 July 2016

Dear Sirs

Financial statements of the London Borough of Barnet for the year ended 31 March 2016

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2016 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Interim Chief Executive and Director of Finance has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of responsibilities of auditors and of audited bodies local government (April 2015) issued by Public Sector Audit Appointments (PSAA), and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2016 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA /LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the governance statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

We have disclosed to you all instances of fraud or suspected fraud that we have knowledge of, involving:

- Councillors;
- management;
- employees; or
- others where the fraud could have a material effect on the financial statements.

We have disclosed to you all allegations of fraud or suspected fraud affecting the financial statements that have been communicated by councillors, employees, former employees, analysts, regulators or any other party.

APPENDIX VII: DRAFT REPRESENTATION LETTER
Continued

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have recognised a net pension liability in respect of the LGPS scheme of £469.137 million as at 31 March 2016. In estimating this liability, we have made the following key assumptions:

- assumed life expectancy from age 65 years of those retiring today of 22.1 years for males and 24.5 years for females;
- assumed life expectancy from age 65 years of those retiring in 20 years of 24.4 years for males and 26.9 years for females;
- RPI increases of 3.2% per annum and CPI increases of 2.3% per annum;
- salary increases of 4.1% per annum and pension increases of 2.3% per annum; and
- a discount rate of 3.5% per annum.

We consider these assumptions to be appropriate for the purposes of estimating the net pension liability in accordance with the Code and IAS 19, and we are satisfied that the net liability of £469.137 million is not materially misstated.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

We confirm that the above representations are made on the basis of enquiries of Councillors, management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

John Hooton

Interim Chief Executive and Director of Finance

28 July 2016

Cllr Brian Salinger

Audit Committee Chair

Signed on behalf of the Audit Committee

28 July 2016

APPENDIX VIII: AUDIT QUALITY

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

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US firms), the firm undertake a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest audits.

We seek to make improvements and address weaknesses identified from both external and internal quality reviews. Where issues have been identified an action plan is put in place. These plans may relate to individual assignments, individual offices, or be firm-wide and in each instance the outcome of these actions is subject to monitoring and have been the subject of our analysis of root causes. The actions may include, but are not necessarily limited to , one or more of the following:

- The implementation, where appropriate, of relevant training for the engagement team where the issue is team specific;
- The revision and production of additional guidance in connection with the firm's audit approach where we identify that an issue is more wide-spread;
- The development and delivery of firm-wide training;
- Amendments and/or enhancements to stream policies and procedures.

FOR MORE INFORMATION:

LEIGH LLOYD-THOMAS

+44 (0)20 7893 2616
leigh.lloyd-thomas@bdo.co.uk

www.bdo.co.uk