



LONDON BOROUGH OF BARNET COUNCIL

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2016



EXECUTIVE SUMMARY

Purpose of the letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the financial year ended 2015/16. It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public. It will be published on the website of Public Sector Audit Appointments Limited.

Responsibilities of auditors and the Council

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

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

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

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

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

BDO LLP
31 October 2016

Audit conclusions

FINANCIAL STATEMENTS

We issued unqualified true and fair opinions on the Council and pension fund financial statements on 30 September 2016.

We reported our detailed findings to the Audit Committee on 28 July and Pension Fund Committee on 13 September. The majority of audit differences were corrected in the published financial statements and the remaining uncorrected differences did not have a material impact on our opinions on the financial statements.

USE OF RESOURCES

We issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 30 September 2016.

While there is a recognised funding gap in the Medium Term Financial Strategy, we are satisfied that the Council has robust processes in place to deliver the necessary savings and income growth over the medium term.

EXERCISE OF STATUTORY POWERS

We received a number of objections and other information regarding the lawfulness of certain transactions included in the financial statements.

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

GRANT CLAIMS AND RETURNS CERTIFICATION

Our review of grant claims and returns is in progress and the results will be reported upon completion of this work.

FINANCIAL STATEMENTS

OPINION

We issued unqualified true and fair opinions on the Council and pension fund financial statements on 30 September 2016.

Scope of the audit of the financial statements

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

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

Our assessment of risks of material misstatement

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

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

REVENUE RECOGNITION	RESPONSE	FINDINGS
Risks of fraud in revenue recognition may arise from the use of Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.	Our review of revenue recognition focused on testing completeness and existence of fees and charges, investment property rental income and whether any conditions attached to grants have been met.	We did not identify any issues.
For the pension fund, this included contributions income from employees and employers.	Our review of the pension fund income focused on testing the completeness and accuracy of contributions due.	We found that in recent years contributions income had been accounted for on a cash receipted basis rather than an accruals basis. Employers are able to pay over pension contributions in the month following the payroll (i.e. the March amounts due are received in April) but this remains amounts properly due in respect of that month's payroll. Management corrected the financial statements for the current and prior periods to include contributions due in the correct financial year.

FINANCIAL STATEMENTS

Continued

LAND AND BUILDINGS VALUATIONS	RESPONSE	FINDINGS
<p>The valuations for land and buildings included in Property, Plant and Equipment is estimated based on market values for existing use or depreciated replacement cost (DRC). The valuations for investment property is estimated based on the highest and best use method.</p> <p>We identified a risk that the basis of valuation for these assets may not be appropriate or may not be supported by available valuation data.</p> <p>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.</p>	<p>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 available market data (such as local sales, regional price indices and BCIS tender prices) and follows RICS guidance.</p> <p>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.</p>	<p>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.</p> <p>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.</p>

FINANCIAL STATEMENTS

Continued

PENSION LIABILITIES	RESPONSE	FINDINGS
<p>An actuarial estimate of the pension fund liability to pay future pensions, and the Council's share of the local government pension scheme, is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation.</p> <p>At 31 March 2016 the total liabilities for the pension fund decreased by £29 million to £1,572 million. Liabilities net of scheme assets held fell by £16 million to £666 million. The Council's share of the net liabilities decreased by £7 million to £469 million. This was mainly as a result of the lower discount rate applied to the liabilities.</p>	<p>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.</p> <p>The key changes to the financial assumptions related to:</p> <ul style="list-style-type: none"> • An increase in RPI from 3.1% to 3.2% • An increase in the discount rate from 3.2% to 3.5% (to place a current value on the future liabilities through the use of a market yield of corporate bonds). 	<p>We found that, whilst all assumptions used fall within the expected range, assumptions in respect of life expectancy were at the lowest point in the expected range, and 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.</p> <p>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 are in general reasonable but tend towards a lowering of the liability.</p>

FINANCIAL STATEMENTS

Continued

ALLOWANCE FOR NON-RECOVERY OF RECEIVABLES	RESPONSE	FINDINGS
<p>The Council's provision for estimated non-recovery of 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).</p> <p>We identified a risk that the provisions may not accurately reflect collection rates based on age or debt recovery rates.</p>	<p>We reviewed provision rates applied by management with collection rates and write off data available.</p>	<p>The provision for non-recovery of aged debt was generally reasonable and supported by collections data.</p> <p>However, our review of the cumulative collection rates for council tax arrears, when taking into account the amounts that continue to be recovered some years after the debt becomes due, suggests that recoverable amounts are higher than included in management's estimates for non-recovery and the Council may be understating the income due from the Collection Fund.</p>

FINANCIAL STATEMENTS

Continued

Our application of materiality

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

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

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

The materiality for the Council's financial statements as a whole was set at £14.3 million. This was determined with reference to a benchmark of gross expenditure (of which it represents 1.5 per cent) which we consider to be one of the principal considerations for the Council in assessing the financial performance.

The materiality for the pension fund's financial statements as a whole was set at £9.1 million. This was determined with reference to a benchmark of net assets (of which it represents 1 per cent) which we consider to be one of the principal considerations for the pension fund in assessing the financial performance.

We agreed with the Audit Committee that we would report all individual audit differences in excess of £286,000. We agreed with the Pension Committee that we would report all individual audit differences in excess of £180,000.

Audit differences - Council

We identified a number of audit differences in the draft financial statements. The majority of the differences were corrected by management in the published financial statements, resulting in an increase of £1.368 million on the Surplus on the provision of services in the Comprehensive Income and Expenditure Statement.

The remaining uncorrected differences did not have a material impact on our opinion on the financial statements.

Audit differences - pension fund

We identified a number of errors in the draft financial statements relating to income due (for accrued contributions from employers incorrectly accounted for on a cash basis) and expenditure (for amounts payable) that were also found to have existed in recent years.

Management provided corrected financial statements that increased net assets at 31 March 2015 by £4.5 million (to £928.9 million), increased the loss for the 2015/16 year from £9.1 million to £12.6 million, and increased the closing net assets at 31 March 2016 by £1.0 million to £916.3 million.

The remaining uncorrected differences did not have a material impact on our opinion on the financial statements.

FINANCIAL STATEMENTS

Continued

Other matters we report on

Annual governance statement

We were satisfied that the Annual Governance Statement is not misleading or inconsistent with other information we were aware of from our audit.

Narrative reporting

Local authorities are required to include a narrative report in the Statement of Accounts to offer interested parties an effective guide to the most significant matters reported in the accounts. The narrative report should be fair, balanced and understandable for the users of the financial statements.

We were satisfied that the information given in the narrative report for the financial year for which the financial statements are prepared is consistent with the financial statements. We noted that whilst the report includes information 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.

Internal controls

We identified the following significant deficiencies in internal controls for the pension fund:

- Maintaining accurate pension fund membership data and timely processing of changes
- Timely clearance of reconciling items in the bank reconciliation
- Review and reconciliation of receivables and payables balances.

We did not find any significant deficiencies in internal controls for the Council although a number of other areas for improvement were identified which we have discussed with management including having signed employment contracts for all staff and reconciliation of schools' income and expenditure at year end.

Whole of Government Accounts

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

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

The DCT was amended as a result of the audit to reclassify a number of balances and we were able to conclude that the revised DCT was consistent with the audited financial statements. However, we were required to report that balances in last year's DCT were not mapped consistently with the current year as a result of these changes.

We also reported that we were unable to conclude that all WGA counter-party transactions and balances were properly allocated to CPID codes (counter-party identifier) in the DCT.

USE OF RESOURCES

CONCLUSION

We issued an unqualified conclusion on the arrangements for securing economy, efficiency and effectiveness in its use of resources on 30 September 2016.

Scope of the audit of use of resources

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

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

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

Our assessment of significant risks

Our audit was scoped information obtained from your previous auditor, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Council including internal audit, information disclosed or available to support the governance statement and annual report, and information available from the risk registers and supporting arrangements.

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

USE OF RESOURCES

Continued

SUSTAINABLE FINANCES	RESPONSE	FINDINGS
<p>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.</p> <p>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.</p>	<p>We carried out a review of the MTFS to review the key assumptions and the plans in place to deliver the necessary savings over the medium term.</p> <p>We also interviewed senior management and the Leader of the Council to discuss their understanding of the financial challenge and the savings plans.</p>	<p>In 2015/16 the Council delivered savings of over £13 million against planned savings of £17 million. The main reason for not hitting target was due to a rise in Adult Social care costs.</p> <p>The detailed corporate plan and MTFS outline how the £81 million funding gap will be closed through additional income and savings. The Council appear to have a good grasp of their finances and plans are prudent and as robust as they can be given the ever changing political landscape following Brexit.</p> <p>The Leader of the Council is confident that members are provided with accurate and timely reports allowing them to make informed decisions.</p> <p>Relationships with partners and third party providers are well managed and opportunities to enhance services whilst being conscious of the need to save money wherever possible are developed and nurtured.</p> <p>The Council had good levels of reserves to support the plans which can be drawn if required for unplanned rises in social care and children's care over the short term.</p> <p>Overall, we are satisfied that the Council has robust processes in place to deliver the necessary savings and income growth over the medium term.</p>

EXERCISE OF STATUTORY POWERS

REPORT BY EXCEPTION

We received a number of objections and other information regarding the lawfulness of certain transactions included in the financial statements.

Use of statutory powers

Local electors submitted objections to the lawfulness of certain transactions included in the financial statements:

- Basis for accounting for Penalty Charge Notice (PCN) income
- Parking charge income on housing land
- Sale of Victoria Park Lodge.

We also received information from interested persons with concerns regarding the acquisition of the Abbott Depot site.

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

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

Audit certificate

We are unable to issue the audit certificate to close the audit for 2015/16 until we have completed our investigations and responded to objectors for the matters raised.

GRANT CLAIMS AND CERTIFICATION

CERTIFICATION WORK

Our review of grant claims and returns for 2015/16 is in progress and the results will be reported upon completion of this work.

Housing benefit subsidy claim

Public Sector Audit Appointments Ltd has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

The audit of the 2014/15 housing benefits subsidy claim, completed by your predecessor auditor, found a small number of errors in self employed earnings calculations for non-HRA rent rebate benefit awarded resulting in potential overpayments of £218 based on the extrapolated results.

Our work on the 2015/16 housing benefits subsidy claim is currently in progress and will be completed ahead of the submission deadline of 30 November 2016.

We will report on the key findings separately once the work has been completed.

Other claims and returns

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

These assurance reviews are undertaken outside of our appointment by the Audit Commission or Public Sector Audit Appointments Ltd, and are covered by tripartite agreements between the Council, sponsoring Department and the auditor.

The Council has requested that we undertake a 'reasonable assurance' review, based on the instructions and guidance provided by the Departments, for the following returns for 2015/16:

- Pooling of housing capital receipts return (deadline 30 November 2016)
- Teachers' pensions return (deadline 30 November 2016)

On work on these returns is currently in progress and the key findings will be reported separately.

APPENDIX

Reports issues

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

REPORT	DATE
Audit Plan - pension fund	22 February 2016
Audit Plan - Council	18 March 2016
Final audit report - Council	13 July 2016
Final audit report - pension fund	12 September 2016
Annual Audit Letter	31 October 2016

Fees

We reported our original fee proposals in our Audit Plan.

AUDIT AREA	PLANNED FEES	FINAL FEES
Code audit - Council	170,025	170,025
Code audit - pension fund	21,000	* 21,000
Certification of housing benefits subsidy	21,617	21,617
Fee for audit services	212,642	212,642
Audit related services:		
- Pooling of housing capital receipts	2,500	2,500
- Teachers' pensions return	5,000	5,000
Fee for audit related services	7,500	7,500
Non audit related services:		
- None	-	-
Total fees	220,142	220,142

* Due to significant additional work required for the pension fund audit, final outturn fees have yet to be agreed.

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

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