



# LONDON BOROUGH OF BARNET

## AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2018

9 July 2018

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# WELCOME

We have pleasure in presenting our Audit Completion Report to the Audit Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2018, specific audit findings and areas requiring further discussion and/or the attention of the Audit Committee. At the completion stage of the audit it is essential that we engage with the Audit Committee on the results of audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit Committee meeting on 17 July 2018, and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

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 use of resources. This report has been prepared solely for the use of the Audit Committee and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

In communicating with those charged with governance of the Council and the Group, we consider those charged with governance of subsidiary entities to be informed about matters relevant to their entity. Please let us know if this is not appropriate.

We would also like to take this opportunity to thank the management, finance team and staff of the Council for the co-operation and assistance provided during the audit.

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# OVERVIEW

This summary provides an overview of the audit matters that we believe are important to the Audit Committee in reviewing the results of the audit of the financial statements of the Council and consolidated entities (together the 'Group') and use of resources of the Council for the year ended 31 March 2018.

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

## AUDIT SCOPE AND OBJECTIVES

Audit status	We have largely completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to resolution of matters set out in the outstanding matters section below.
Audit risks update	No additional significant audit risks were identified during the course of our audit procedures subsequent to our Audit Plan to you dated 19 April 2018.
Materiality	Our final materiality is £15.5 million for the Council and the Group. We have increased our materiality from £15.0 million to £15.5 million to reflect the gross expenditure reported in the draft financial statements.
Changes to audit approach	There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.
Group audit	<p>Our approach was designed to ensure we obtained the required level of assurance across the components of the Group in accordance with ISA (UK) 600 (Audits of Group Financial Statements). This objective has been achieved.</p> <p>To summarise our audit coverage:</p> <ul style="list-style-type: none"> <li>• Total expenditure: 99% full audit, 1% specific procedures and 100% Group level procedures</li> <li>• Total assets: 104% full audit, (4)% specific procedures and 100% Group level procedures.</li> </ul>

## KEY AUDIT AND ACCOUNTING MATTERS

Material misstatements	<p>Our audit identified one material misstatement:</p> <ul style="list-style-type: none"> <li>• Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement (CIES) is correct in total but the income and expenditure elements were both understated by £23.210 million due to the incorrect netting off of the gain on investment properties against expenditure rather than income.</li> </ul> <p>Management has amended the financial statements for this, which has no impact on the surplus on the provision of services for the year.</p>
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# OVERVIEW

## KEY AUDIT AND ACCOUNTING MATTERS (CONTINUED)

Unadjusted audit differences	<p>We are required to bring to your attention one audit difference that we have identified, but you are not proposing to adjust:</p> <ul style="list-style-type: none"> <li>The estimate of the return on the pension scheme assets included in the actuarial report had overstated the Council's net pension liability by £1.851 million.</li> </ul> <p>If corrected, while increasing net assets, this would have no impact on the surplus on the provision of services for the year.</p>
Control environment	<p>Our audit identified one significant deficiency in internal controls. However, we found a number of other deficiencies and have included recommendations within Appendix II of this report.</p>
Other financial reporting issues	<p>We noted the following from our review of the draft financial statements:</p> <ul style="list-style-type: none"> <li>The Open Door Limited loan facility with the Council of £65 million, of which £3.5 million has been drawn down at 31 March 2018, has not been disclosed in the related parties note.</li> <li>Some immaterial notes and accounting policies were included in the draft financial statements and we have requested they be removed.</li> <li>A number of disclosure changes and we have requested they be amended.</li> <li>There have been in number of prior period adjustments. We have requested that these be clearly described by way of a restatements note.</li> </ul>

## KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES

Sustainable Finances	<p>Our work in this area is ongoing and we will update the Audit Committee at their meeting on 17 July.</p>
Family Services	<p>Although there has been a positive direction of travel during the year in terms of improvements made to Children's Services, because of Ofsted inspection rating the Council's Children's services as inadequate, we are unable to conclude that the Council has adequate arrangements for the delivery of safe and effective services for Children's services. Our use of resources conclusion will be modified to reflect this.</p>
Contract Management and Monitoring	<p>Our work in this area is ongoing and we will update the Audit Committee at their meeting on 17 July.</p>

## AUDIT OPINION

Financial statements	<p>Subject to the successful resolution of outstanding matters set out on page 6, we anticipate issuing an unmodified opinion on the consolidated Group financial statements and the Council financial statements for the year ended 31 March 2018.</p>
Annual Governance Statement	<p>We have no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements or our knowledge.</p>

## OVERVIEW

AUDIT OPINION (CONTINUED)	
Use of resources	<p>Subject to the successful resolution of outstanding matters set out on page 6, we anticipate issuing a modified opinion on the arrangements in place to secure economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2018 in relation to the significant failings around delivery of safe and effective services for Children's services.</p> <p>Our work to conclude on the significant risk around financial sustainability and the risk around contract management is in progress.</p>
Whole of Government Accounts (WGA)	We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the financial statements. We plan to issue our opinion on the consistency of the DCT return with the audited financial statements before the 31 August 2018 statutory deadline.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.
Management letter of representation	The draft management letter of representation, to be approved and signed, is set out in Appendix VI.
Audit certificate	We will issue our audit certificate after we have completed our work on the group financial statements, Pension Fund financial statements, use of resources and Whole of Government Accounts, and after responding to any objections received from local electors.

# OUTSTANDING MATTERS

The following matters are outstanding at the date of this report. We will update you on their current status at the Audit Committee meeting at which this report is considered:

**1** We have not fully concluded on our work yet although the detailed procedures are largely complete in most areas. The outstanding areas include: testing of manual journals; valuations of council dwellings, investment properties and other land and buildings; payroll disclosures and related parties disclosures.

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Clearance of outstanding issues on the audit queries tracker currently with management. The key items on the tracker are:

- 2**
- Remaining evidence for sample of journals
  - Remaining evidence for sample of debtors and creditors
  - Valuations source data testing

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**3** Bank Confirmations

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**4** Manager, Partner and Quality Control review, and clearance of review points

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**5** Final review and approval by you of the Statement of Accounts

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**6** Technical clearance

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**7** Subsequent events review

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**8** Management letter of representation, as attached in Appendix VI to be approved and signed

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# KEY AUDIT AND ACCOUNTING MATTERS

## AUDIT RISKS

Below we set out how these risks have been addressed and the outcomes of our procedures.

Key: ■ Significant risk ■ Normal risk

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1	Management override of controls	<p>Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond 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.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud</li> <li>Obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.</li> </ul>	<p>We have used data analytics software, BDO Advantage, to review the Council's general ledger, in order to focus our testing of journals on higher risk areas. Our detailed testing of a sample of journals is substantially complete and work to date has not identified any significant issues.</p> <p>We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are set out in this report.</p> <p>We have identified no significant or unusual transactions to date which we consider to be indicative of fraud in relation to management override of controls.</p>

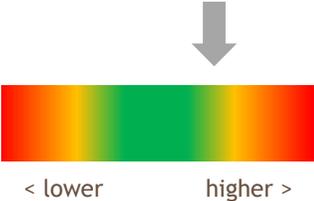
## KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2	<b>Revenue recognition</b>	<p>Under auditing Standards there is a presumption that income recognition presents a fraud risk. In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).</p>	<p>We have tested a sample of grants subject to performance and / or conditions to confirm that conditions of the grant have been met before the income is recognised in the CIES.</p>	<p>From the grant income testing performed there are no matters to report.</p>
3	<b>Presentation of the Comprehensive Income and Expenditure Statement (CIES)</b>	<p>In the prior year the draft of the accounts presented for audit included material 'grossing up' and 'netting off' errors in the CIES whereby both income and expenditure were materially overstated/understated. We also identified a number classification errors within the prior year draft accounts.</p> <p>Whilst these errors arose partly as a result of the changes to the format of the CIES last year, it was also reported by us that we believed that the Council's ledger structure and chart of accounts meant the level of manual intervention and off-ledger adjustments required presents a risk of error to the accuracy of the financial statements.</p> <p>The Council has taken steps to improve the automation of the ledger for financial reporting purposes. However, a risk of material misstatement remains due to the level of manual adjustments required to the CIES.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>Reviewed the CIES by using a risk-based approach to review off ledger adjustments and ensure these have been appropriately prepared.</li> <li>Tested a sample of income and expenditure items to assess if the classification and treatment in the accounts is correct.</li> <li>Reviewed the prior period adjustments made to income and expenditure in the CIES.</li> </ul>	<p>We are satisfied that from the testing performed that the off-ledger adjustments to the CIES have been prepared appropriately.</p> <p>Our testing of the classification and treatment of income and expenditure is in progress but, from the work completed to date, there are no significant issues.</p> <p>From review of the prior period adjustments we are satisfied that these have been prepared in compliance with the CIPFA Code of Practice on Local Government Accounting.</p>

## KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
<p>4 <b>Property, plant and equipment and investment property valuations</b></p>	<p>Local authorities are required to ensure that the carrying value of land, buildings, dwellings and investment properties is not materially different to existing use value for operational assets, or fair value for surplus assets and investment properties at the balance sheet date.</p> <p>The Council applies an annual revaluation process which is determined through consultation between the finance team and Principal Valuation Manager. High value properties, and those which are expected to be subject to significant valuation movements, are revalued on an annual basis. This covers approximately 90% of properties by value. Other properties are revalued on a rolling 5-yearly basis.</p> <p>We consider there to be a risk over the valuation of land buildings, dwellings and investment properties where valuations are based on market assumptions or where updated valuations have not been provided for a class of assets at the year-end.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• Reviewed the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert</li> <li>• Confirm that the basis of valuation for assets valued in year is appropriate based on their usage</li> <li>• Review accuracy of asset information provided to the valuer</li> <li>• Review assumptions used by the valuer and movements against relevant indices for similar classes of assets and follow up valuation movements that appear unusual.</li> </ul>	<p>We have gained sufficient assurance over the independence, objectivity and competence of the Council's valuation team, and therefore can rely upon their work in valuing the Council's property assets. In addition, we note that there is a robust review and challenge process in place within the finance team which provides further assurance.</p> <p>For the sample of PPE assets and investment properties reviewed we are satisfied that the basis of the valuation for each asset is appropriate.</p> <p>Our work in this area is in progress.</p> <p>We have challenged the valuer in respect of a number of property valuation movements which appeared unusual in comparison to general indices, and some of this work is still ongoing. Further information about our assessment of the estimates applied can be found on the following page.</p>

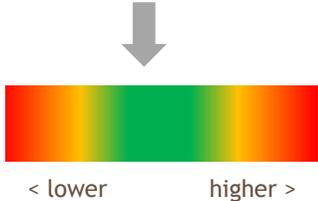
# KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES		
Land, buildings, dwellings and investment property valuations		
ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	IMPACT
<p>Land and buildings are valued by reference to existing use market values</p> <p>Dwellings are valued by reference to open market value less a social housing discount</p> <p>Investment properties are valued by reference to highest and best use market value</p> <p>Some specialist buildings are valued at depreciated replacement cost by reference to building indices</p>	<p><b>Council Dwellings</b> For Council dwellings, a flat rate of 6.0% increase in valuations has been applied to each property for 2017/18 (giving a total revaluation gain of £30.4 million after accounting for stock movements). We have compared this to national house price indices, which show increases of around 4% over the same period but prices within London dropping by 0.7%. We are currently carrying out further work to evaluate the appropriateness of the increase.</p> <p><b>Schools</b> Council owned schools are valued at depreciated replacement cost on the basis of government guidance on the required floor area per pupil for different types of school. It is noted that the Council applies the maximum recommended floor area per pupil which is allowed by the government guidelines, which will result in valuations towards the top end of the range. The rationale for this is that schools constructed by the Council in recent years have been built to a high specification. This year, the Council has recognised a valuation decrease of 10% (£21.2 million) in respect of its schools' land and buildings, which is primarily as a result of building costs per square metre being revised in the current year to better reflect the present cost within the borough. We are currently assessing the appropriateness of this change.</p> <p><b>Investment Properties</b> Investment properties have seen an overall increase in valuation of £26.2 million in year. Our review of a sample of investment property valuations and challenge of the assumptions used is ongoing.</p> <p><b>Surplus Assets</b> Surplus assets have seen an overall revaluation increase of £2.4 million. We are currently assessing the assumptions used in the valuations.</p> <p><b>Other Land and Buildings</b> Other land and buildings have been revalued downwards by a total of £15.2 million (9.3%). MCSI regional capital growth indices (for buildings) show regional increases of -0.7% for retail, -0.8% for office, and +7.4% for industrial, for the period Q1 2016 to Q1 2017 (as the effective date of the Council's valuations is 1 April 2017). We have tested a sample of properties, and will be challenging the valuer where individual movements appear unusual.</p>	<p style="text-align: center;">↓</p>  <p style="text-align: center;">&lt; lower                      higher &gt;</p>

## KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
<p>5 Pension liability assumptions</p>	<p>The pension liability comprises the Council's share of the market value of assets held in the London Borough of Barnet Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability 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. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>Agreed the disclosures to the information provided by the pension fund actuary</li> <li>Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data</li> </ul>	<p>We did not identify any significant issues regarding the accuracy of the disclosures in the financial statements or the accuracy and completeness of data provided by the fund to the actuary.</p> <p>We noted that the estimate of the Council's share of fund assets used to calculate the net pension liability in the draft accounts was based upon index returns, as the actuary did not have the actual investment return information at the time of drafting his report. As a result, the initial estimate has overstated the Council's net pension liability by £1.851 million.</p> <p>As the auditors of pension fund, we are in the process of reviewing the controls for providing accurate membership data to the actuary and are checking whether any significant changes in membership data were communicated to the actuary</p> <p>We consider that the assumptions and methodology used by the Council's actuary within the updated report are appropriate, and will result in an estimate of the net pension liability which falls within a reasonable range, subject to us gaining suitable assurance over the accuracy of the membership data used as described above.</p> <p>Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted in the following page</p>

# KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES					
Pension liability assumptions					
ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT			IMPACT	
The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows	The actuary has used the following assumptions to value to future pension liability:				
		<b>Actual</b>	<b>Acceptable range</b>		<b>Comments</b>
	RPI increase	3.4%	3.4%		Reasonable (tending to top of expected range)
	CPI increase	2.4%	2.4%		Reasonable
	Salary increase	2.7%	--		Reasonable (derived from RPI above)
	Pension increase	2.4%	2.4%		Reasonable
	Discount rate	2.6%	2.6-2.7%		Reasonable (tending to bottom of expected range)
	Mortality - LGPS:				
	- Male current	23.9 years	23.7-24.4		Reasonable
	- Female current	26.5 years	26.2-26.9		Reasonable
	- Male retired	21.9 years	21.5-22.8		Reasonable
	- Female retired	24.3 years	24.1-25.1		Reasonable
	Commutation	50%	50%		Reasonable
The assumptions used fall within the reasonable range for the actuary.					

## KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
6	Disposal of Mill Hill Depot	<p>The Mill Hill Depot was included in Investment Properties and valued at 31 March 2017 at £21.4m. The Depot is part of an arrangement with the Inglis Consortium and was valued based on the projected Annual Values of Future Development Income earned from the site, discounted to its present value.</p> <p>The Inglis consortium has three members, of which the Council has a 13.9% share. The final part of the Council's land holding has been sold to the developers following preparation for development of the final phase. The Council receives capital receipts at 13.9% for each completed development and subsequent sale of housing.</p> <p>The Council was considering the most appropriate presentation of disposal of the land and the future expected capital receipts from the development through Inglis for the financial statements.</p>	We have reviewed the presentation of the land disposal and future expected capital receipts.	<p>The Council has accounted for this transaction as a disposal and recognised a long-term debtor to recognise deferred capital receipts of £5.367 million due from the sale of properties.</p> <p>The loss on disposal of £2.232m was included in other operating expenditure in the draft accounts but should be included in financing and investment income and expenditure. We have requested this adjustment be made in the statement of accounts.</p>

## KEY AUDIT AND ACCOUNTING MATTERS

7	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
	Consideration of related party transactions	We consider if the disclosures in the financial statements concerning related party transactions are complete and accurate, and in line with the requirements of the accounting standards.	<p>We have:</p> <ul style="list-style-type: none"> <li>Documented the related party transactions identification procedures in place and review relevant information concerning any such identified transactions</li> <li>Discussed with management and review Councillor and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us.</li> </ul>	<p>We identified that the Open Door Limited loan facility with the Council of £65 million, of which £3.5 million had been drawn down at 31 March 2018, had not been disclosed in the related parties note.</p> <p>We have not identified any other undisclosed related party transactions within the draft accounts.</p> <p>Our work in this area is ongoing.</p>

## KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
8	Allowances for non-collection of receivables	<p>The Council recognises a significant allowance for the non-collection of receivables, primarily in respect of council tax, NDR, housing benefit overpayments, housing rents and parking charges. The Council assesses each type of receivable separately in determining how much to allow.</p> <p>There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied.</p>	<p>We have reviewed the provision model for significant income streams and debtor balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears.</p>	<p>Our assessment of the Council's significant accounting estimates in respect of allowances for non-collection of receivables is set out on the following page. We concluded that all estimates fall within a reasonable range.</p>

# KEY AUDIT AND ACCOUNTING MATTERS

ACCOUNTING ESTIMATES		
Allowances for non-collection of receivables		
ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	IMPACT
Estimate of future write-offs of uncollectable debt	<p><b>Council tax arrears</b></p> <p>The Council has recognised a year-end provision of £18.373 million against gross arrears and related costs (excluding amounts attributable to the Greater London Authority) totalling £33.504 million. The provision has increased by £1.622 million from the prior year.</p> <p>The provision is estimated using historic collection rate information from last 4 years. We have reviewed the methodology and we are satisfied that all estimates fall within reasonable range.</p> <p><b>Other debtors</b></p> <p>Provisions against other debtors total £43.442 million, which is an increase of £28.566 million from the prior year. The most significant categories of debtor against which provisions are raised include housing rent arrears (£2.714 million), housing needs resource (£6.308 million) Penalty Charge Notices (£4.696 million), and NDR arrears (£2.628 million) Graham Park (3.5 million) and Housing Benefit Overpayment (£22.998 million).</p> <p>For each of these categories the Council has applied a different methodology, utilising historic collection rates and other data to set expectations for future collection rates.</p> <p>We have reviewed the methodologies used for each significant category of debtor and we are satisfied that all estimates fall within a reasonable range.</p>	<p style="text-align: center;">↓</p>  <p style="text-align: center;">&lt; lower                  higher &gt;</p>

## KEY AUDIT AND ACCOUNTING MATTERS

### OTHER ISSUES

We comment below on other issues identified in the course of our audit, of which we believe you should be aware:

	AUDIT AREA	AUDIT FINDINGS
9	Revenue Expenditure Funded from Capital under Statute	<p>The Council identified Revenue Expenditure Funded from Capital under Statute (REFCUS) of £7.5 million relating to the construction of the new Brent Cross West Thameslink station had been included in the Council's assets under construction additions. REFCUS is expenditure that may be classified under statute as capital but does not constitute additions to the Council's fixed assets, as the assets are not owned by the Council.</p> <p>To rectify this in the PPE disclosure note the assets under construction additions have been reduced by £7.5 million to make the transfer to REFCUS. As this understates additions in the current year, we consider it more appropriate for the adjustment to go through the PPE reclassifications line. This is a presentational adjustment, which has no impact on the surplus on the provision of services in the Comprehensive Income and Expenditure Statement.</p> <p>Our testing of assets under construction additions and REFCUS has not identified any issues.</p> <p>Management have made this adjustment in the statement of accounts.</p>
10	Grahame Park - Genesis Housing	<p>The Council has been in negotiation with Genesis Housing over a loan of £5 million included in long term investments. We understand negotiations have now been concluded and the arrangement is for £1.5 million to be repaid by 31 March 2019. £3.5 million has been provided for as at 31 March 2018. The write off has been approved by the P&amp;R Committee.</p> <p>The investment should be reclassified to short-term investments from long-term investments and impaired to £1.5 million rather than including £3.5 million in provisions. We have requested this be amended in the statement of accounts</p>
11	Expenditure and Funding Analysis	<p>The Expenditure and Funding Analysis (EFA) reconciles the totals of the Comprehensive Income and Expenditure to the financial performance disclosure in the narrative report. However, in the draft Statement of Accounts the Net Expenditure Chargeable to General Fund and Housing Revenue Account Balances in the EFA did not agree to the financial performance disclosure in the Narrative Report. We have requested management to make this adjustment in the final statement of accounts.</p>
12	Group accounts	<p>An incorrect restatement of £6.952 million was processed as the prior year pension error in The Barnet Group single entity accounts was corrected in the group accounts last year but TBG only corrected in 2017/18, therefore, the group accounts should not have been restated. This has been corrected in the Statement of Accounts.</p>

## KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	AUDIT FINDINGS
13 Immaterial disclosures	<p>The draft Statement of Accounts include a number of immaterial or surplus disclosure notes and accounting policies, as follows:</p> <ul style="list-style-type: none"> <li>• Note - Material Items of Income and Expenditure</li> <li>• Note - Financing activities</li> <li>• Note - Trading operations</li> <li>• Accounting policy - Community Infrastructure Levy</li> <li>• Accounting policy - Finance leases</li> <li>• Accounting policy - Charges to Revenue for Non-Current Assets</li> <li>• Accounting policy - Rounding differences</li> </ul> <p>We recommended that these notes and accounting policies are removed to improve clarity for the user of the accounts. Management considers the financing activities note and the Community Infrastructure Levy accounting policy to be qualitatively material with the other disclosures being removed. We have raised a recommendation at Appendix II that the Council continues to review the accounts next year to ensure that immaterial information is not included in line with Code requirements.</p>
14 Prior period adjustments	<p>Management have made a number prior period restatements and representations. We have reviewed the restatements to the Comprehensive Income and Expenditure and are satisfied that these have been prepared in compliance with the CIPFA Code of Practice on Local Government Accounting. A number of other restatements and representations have been made in the Statement of Accounts. We requested the reason for these to be detailed by way of separate note with additional disclosures (the restatement had been included within the notes to the Expenditure and Funding Analysis). Management have included a note to the accounts summarising these adjustments and including narrative to explain them.</p>
15 Disclosure adjustments	<p>The draft statement of accounts have been reviewed by our Technical Support Group which noted a number of disclosure adjustments to be made which Management have agreed to adjust.</p>
16 Assets under construction	<p>A significant portion of additions in the year are posted to assets under construction and then reclassified to the appropriate asset category at the year end and the PPE note reflects this. However, a significant amount of these assets do not meet the recognition requirements of assets under construction. We request that this be amended in the final statement of accounts.</p>

## KEY AUDIT AND ACCOUNTING MATTERS

### MATTERS REQUIRING ADDITIONAL CONSIDERATION

We comment below on other matters requiring additional consideration:

	AUDIT AREA	AUDIT FINDINGS
17	Fraud	<p>Whilst the Director of Finance and members have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from those charged with governance on whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan on 19 April 2018.</p> <p>The Council notified us of a significant fraud identified in December 2017. Although significant the fraud has not materially misstated the statement of accounts.</p>
18	Internal audit	We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage and to inform our Use of Resources assessment.
19	Group matters	<p>Following review of the component auditors' reporting we were satisfied with the quality of their work and can confirm:</p> <ul style="list-style-type: none"> <li>• There were no limitations on the audit where information was restricted</li> <li>• We did not identify any fraud at a component level.</li> </ul>

## 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	<p>We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.</p> <p>We are satisfied that the other information in the Statement of Accounts is consistent with the financial statements and our knowledge.</p> <p>Our audit identified some minor inconsistencies between the other information in the Statement of Accounts and the financial statements and we have asked that these be corrected in the revised Statement of Accounts.</p>
2	<p>We are required to report by exception if the Annual Governance Statement is misleading or inconsistent with other information that is forthcoming from the audit.</p> <p>We have made some suggestions to improve clarity and have asked that these be corrected in the revised Annual Governance Statement.</p>

# CONTROL ENVIRONMENT

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 the Audit Committee.

As the purpose of the audit is for us to express an opinion on the Council's financial statements and use of resources, 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.

We note that the Council's internal audit function has issued a number of observations and recommendations on the Council's control environment during 2017/18. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control which we are required to report to you.

Our audit has identified the following significant deficiencies in 2017/18:

## High-level oversight of financial controls

Throughout our audit, we noted that many of the control activities which provide assurance over the completeness and accuracy of the Statement of Accounts take place outside of the finance team, for example within payroll, adults and communities, revenues and benefits or IT teams. This includes key controls around the initiation of material income and expenditure streams, and the interfacing of financial information between feeder systems and Integra.

This in itself is not unusual within a large and complex organisation such as the Council. However, we do have some concerns about a lack of high level understanding and oversight of the complete control framework, and how this provides management with the required level of assurance that the internal control system, as a whole, is suitable for the Council's needs.

We have also identified other deficiencies in controls which have been discussed with management and included in the action plan at Appendix II.

# WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

MATTER	COMMENT
<p>1 For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £500 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 Authority 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.</p>	<p>Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 14 June 2018. The Council met this deadline.</p> <p>We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the Council's financial statements.</p> <p>We will issue our opinion on the consistency of the DCT return with the audited financial statements before the 31 August 2018 statutory deadline.</p>

## 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 (value for money) and report to you on an 'except for' basis. 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.

### AUDIT RISKS

We assessed the following matters as audit risks, as identified in our Audit Plan to the Audit Committee. We have set out below how these risks have been addressed and the outcomes of our work.

# USE OF RESOURCES

Key: ■ Significant risk ■ Normal risk

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
<p>1 <b>Financial sustainability</b></p>	<p>The Council had planned an overspend of £7.9 million. This was made up of an overspend against resources of £6.7 million and a net use of reserves of £1.2 million.</p> <p>The Council identified that the continued support from reserves would not be viable. The Medium Term Financial Strategy (MTFS) updated in December 2017 forecast a budget gap prior to identified savings of £39.5 million over the 2-year period from 2018/19 to 2019/20.</p> <p>The Council identified savings plans in order to address this budget gap in 2018/19 however a £5.9 million gap is currently forecast for 2019/20. The savings targets were significant and achievement of these inherently challenging.</p> <p>Initial horizon planning suggested that there may be a further £32.5 million of cost pressures in 2020/21 and this would need to be covered from reserves and additional savings plans to be identified.</p> <p>We have:</p> <ul style="list-style-type: none"> <li>• Reviewed the assumptions used in the MTFS and assessed the reasonableness of the cost pressures and the amount of Government grant reductions applied.</li> <li>• We are conducting our work into the delivery of the budgeted savings in 2017/18 and the plans to reduce services costs and increase income from 2018/19 - our testing in this area is progress.</li> <li>• We are reviewing the strategies to close the budget gap after 2018/19 - our testing in this area is progress.</li> </ul>	<p>The updated MTFS shows an anticipated budgeted gap of £42m to 2021/22 estimated to increase to £62m by 2024/25. The MTFS details that the Council’s reserves will be fully depleted by 2021.</p> <p>The Council have been able to deliver 88% of their savings plan in 2017/18 but have overspent by £21m.</p> <p>We are assessing the impact of the failure of the Council to close the budget gap. We will update the Audit Committee through a verbal update on 17 July 2018.</p>

## USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
<p>2</p> <p><b>Family Services</b></p>	<p>In April and May 2017, the Council was subject to an Ofsted inspection of its services for children in need of help and protection, children looked after and care leavers.</p> <p>The report found the following services to be inadequate:</p> <ul style="list-style-type: none"> <li>• Children who need help and protection</li> <li>• Children looked after and achieving permanence</li> <li>• Leadership, management and governance.</li> </ul> <p>The inspection was critical of the Council and found widespread poor practice and failures in arrangements to ensure the safety of children and young people.</p> <p>The Council has developed an action plan to improve services.</p> <p>We have:</p> <ul style="list-style-type: none"> <li>• Reviewed the Ofsted Monitoring Reports issued through the year to determine the direction of travel of the services</li> <li>• Monitored progress against the Family Services Improvement action plan through the work that Internal Audit is completing</li> <li>• Reviewed the minutes of the Children, Education, Libraries and Safeguarding (CELS) Committee</li> <li>• Held meetings with key individuals to discuss the direction of travel of the services.</li> </ul>	<p>Although there has been a positive direction of travel during the year in terms of improvements made to Children's Services, because of Ofsted inspection rating the Council's Children's services as inadequate, we are unable to conclude that the Council has adequate arrangements for the delivery of safe and effective services for Children's services.</p> <p>We propose that our use of resources conclusion will be modified to reflect this.</p>

## USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
3 Contract Management	<p>The Council relies heavily on external contractors for the provision of a large number of its frontline and back office services. Some of these contractors are completely separate private sector organisations, whilst others are wholly or partly controlled by the Council.</p> <p>We noted a number of concerns raised around performance of the Customer &amp; Support Group and arrangements for managing performance of other contractors.</p> <p>Work in progress:</p> <ul style="list-style-type: none"><li>• Review of the internal audit reports which inform on 2017/18 financial year</li><li>• Review Management's work around its key contracts to ascertain what assurance arrangements it has in place over contract performance</li><li>• Hold meetings with key individuals to discuss strategic contract management and performance assurance.</li></ul>	<p>Our work in this area is ongoing and we will update the Audit Committee at their meeting on 17 July.</p>

# APPENDICES

## APPENDIX I: 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, and in aggregate, on the financial statements.

### ADJUSTED AUDIT DIFFERENCES

Our audit identified one material misstatement:

- Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement (CIES) is correct in total but the income and expenditure elements were both understated by £23.210 million due to the incorrect netting off of the gain on investment properties against expenditure rather than income.

Other audit differences identified by our audit work that was adjusted by management:

- An in-year adjustment of £7.5 million to correct REFCUS was treated as negative additions to assets under construction but should have been disclosed through reclassifications.
- The loss on disposal of £2.232 million was included in other operating expenditure in the draft accounts but should be included in financing and investment income and expenditure. We have requested this adjustment be made in the statement of accounts.
- An incorrect restatement of £6.952 million was processed as the prior year pension error in The Barnet Group single entity accounts was corrected in the group accounts last year but TBG only corrected in 2017/18, therefore, the group accounts should not have been restated.

These had no impact on the surplus on provision of services.

### UNADJUSTED AUDIT DIFFERENCES

There is one unadjusted audit difference identified by our audit work which would have no impact on the surplus on provision of services if corrected. You consider these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement however, we also request that you correct them even though not material.

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## APPENDIX I: AUDIT DIFFERENCES

	£'000	INCOME AND EXPENDITURE		STATEMENT OF FINANCIAL POSITION	
		DR £'000	CR £'000	DR £'000	CR £'000
Group surplus on provision of services before adjustments	9,507				
DR Pension Scheme Liability				1,851	
CR Pension Reserve					1,851
<i>Impact of net pension liability on using actual return on assets (N.B. this adjustment passes through other comprehensive income in the CIES and therefore does not impact upon the surplus on the provision of services)</i>					
<b>TOTAL UNADJUSTED AUDIT DIFFERENCES</b>					
Group surplus on provision of services if adjustments accounted for	9,507				

There are no adjustments which impact on the group surplus on provision of services to date.

## APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

Key: ■ Significant deficiency in internal control ■ Other deficiency in internal control ■ Other observations

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
STATEMENT OF ACCOUNTS AND FINANCIAL STATEMENTS					
High-level oversight of financial controls	<p>As in the prior year, we noted that many of the control activities which provide assurance over the completeness and accuracy of the Statement of Accounts take place outside of the finance team, for example within payroll, adults and communities, revenues and benefits or IT teams. This includes key controls around the initiation of material income and expenditure streams, and the interfacing of financial information between feeder systems and Integra.</p> <p>This in itself is not unusual within a large and complex organisation such as the Council. However, we do have some concerns about a lack of high level understanding and oversight of the complete control framework, and how this provides management with the required level of assurance that the internal control system, as a whole, is suitable for the Council's needs.</p>	<p>We recommend that management conducts a review and assessment of the overall internal control system. Process notes and/or system diagrams should be drawn up for key transaction streams, setting out the key control activities in each place, who has responsibility for their operation, and how their effectiveness is monitored.</p> <p>We recommend the Council considers seeking Service Auditor Reports for services conducted outside of its core finance team which would provide assurance over the operating effectiveness of controls in these areas.</p>	XXX	XXX	XXX
Reconciliation of the payroll reports to the General Ledger	<p>A year-end reconciliation is performed between the payroll system and the general ledger. The reconciliation is then reviewed by a member of the finance team, however this review is not documented. Monthly payroll reconciliations are not performed.</p> <p>This increases the risk that an error in the payroll reconciliation is not detected if the review is either not performed or not performed thoroughly.</p>	<p>We recommend monthly payroll reconciliations are performed the review be evidenced by to demonstrate the reconciliation has been checked, such as signature and ticking off each line of the reconciliation.</p>	XXX	XXX	XXX

## APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Review of School Annual Entitlement	<p>The annual entitlement calculation is reviewed by the School Funding Manager, including investigating year-on-year variances. However there is no set threshold over which all variances are reviewed and there is no documentation or evidence of the review being performed.</p> <p>This Increases the risk of an error is not being picked up by the review, resulting in misstatement of schools entitlement.</p>	We recommend the review should be evidenced by a separate spreadsheet being used to document all variances investigated, using a suitable threshold and the resulting explanations or corrections.	XXX	XXX	XXX

## APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

We have followed up on the recommendations that we raised in the prior year:

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
<b>ANNUAL REPORT AND ACCOUNTS</b>					
<b>Accounts preparation process</b>	<p>The first draft accounts presented for audit included material 'grossing up' errors whereby both income and expenditure for both the current and prior years was materially overstated. In addition, management has confirmed that there were material 'netting off' errors in the prior year financial statements such that income and expenditure were understated by £40.9 million. We have also identified several classification errors within the current year draft accounts.</p> <p>Whilst these errors have arisen partly as a result of the changes to the format of the CIES this year, it is also our view that the Council's ledger structure and chart of accounts is too complex, and the level of manual intervention and off-ledger adjustments required presents a risk of error and / or manipulation to the accuracy of the financial statements.</p>	<p>We recommended that management conducts a detailed review with a view to determining whether there is scope to simplify the current ledger structure and accounts preparation process, particularly around the level of manual intervention and off-ledger adjustments required in the preparation of the CIES.</p> <p>Where off-ledger adjustments are required, the process should be clearly documented in advance of year-end, with explanations of each adjustment required. This will reduce the risk of error or omission during the accounts preparation phase.</p> <p>Off-ledger adjustments should be subject to a documented review and authorisation process which mirrors that required for journals posted within Integra.</p>	XXX	XXX	XXX

## APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
<b>High level oversight of financial controls</b>	<p>Throughout our audit, we noted that many of the control activities which provide assurance over the completeness and accuracy of the Statement of Accounts take place outside of the finance team, for example within payroll, adults and communities, revenues and benefits or IT teams. This includes key controls around the initiation of material income and expenditure streams, and the interfacing of financial information between feeder systems and Integra.</p> <p>This in itself is not unusual within a large and complex organisation such as the Council. However, we do have some concerns about a lack of high level understanding and oversight of the complete control framework, and how this provides management with the required level of assurance that the internal control system, as a whole, is suitable for the Council's needs.</p>	<p>We recommended that management conducts a review and assessment of the overall internal control system. Process notes and/or system diagrams should be drawn up for key transaction streams, setting out the key control activities in each place, who has responsibility for their operation, and how their effectiveness is monitored.</p>	XXX	XXX	XXX
<b>Bank and other control account reconciliations</b>	<p>The year-end bank reconciliations which were first provided to us contained a number of errors, and did not reconcile. We have now been provided with satisfactory reconciliations. However, discussions with the finance team have confirmed that reconciliations have not always been prepared and reviewed on a timely basis throughout the year. This increases the risk that errors or fraud relating to the Council's bank accounts may not be detected in a timely way, and this may result in financial loss to the Council.</p> <p>In addition, we identified issues in respect of other control account reconciliations including lack of documentary evidence of review, and a failure to investigate and clear unreconciled differences in a timely manner.</p>	<p>We recommended that a monitoring process is put into place to ensure that all control account reconciliations (including bank reconciliations) are prepared and reviewed at an appropriate level on a timely basis throughout the year, and that any differences arising are appropriately explained and cleared in a timely manner. Evidence of this process should be documented and retained.</p>	XXX	XXX	XXX

## APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Related party declaration process	Delays were experienced in receiving annual related party declarations from a number of current Members of the Council.	We recommended that a process is put into place whereby there is appropriate Member oversight of the process (for example through the Audit Committee), in an attempt to improve the timeliness of returns.	XXX	XXX	XXX
Related party transaction controls	We identified that not all declared related parties had been included on the finance team's analysis of related party transactions, which increases the risk of undisclosed related party transactions.	We recommended that a control is put into place to check that all declared related parties have been included within the finance team's analysis at year-end.	XXX	XXX	XXX
Developer deposits	Our testing of a sample of creditors identified balances totalling £4.725 million in respect of developer deposits which were more than 1 year old at the balance sheet date. The outstanding balance is high in the context of the movement in year, and indicates a risk that there are some balances which should either be repaid to developers, or recognised as income to the Council.	We recommended that a control is put into place to ensure periodic and regular review of old deposit balance, to ensure that these are repaid or recognised as income on a timely basis.			
Schools bank accounts	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 will cause a misstatement within the Balance Sheet each year.	We recommended that the Council reviews its processes going forwards to ensure that schools transactions can be correctly accounted for up until year-end.			

## APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Exit packages	Our review of the draft exit packages disclosure note identified that this had been prepared on the basis of payments made during the year, rather than exit packages agreed in the year as required by the Code.	We recommended that a control is put into place as part of the year-end process to ensure that any exit packages which have been agreed in year but paid in the following year are identified and reported.			
Housing Benefits Overpayment Debtor and Impairment Allowance	We identified that the Council had not recognised a Housing Benefits Overpayment debtor or corresponding impairment allowance. A report from the Housing Benefits system identified that the overpayment debtor is around £20 million of which we would expect a significant proportion to be impaired	We recommended that management review the Housing Benefit overpayment debtor and undertake detailed analysis of the potential recovery of the debt to accurately estimate an impairment provision.			
Immaterial disclosures	The Statement of Accounts contain a number of disclosure notes which are immaterial, and should be removed in accordance with Code requirements that a local authority shall not reduce the understandability of its financial statements by obscuring material information with immaterial information.	We recommended that a review is carried out prior to the accounts preparation exercise next year to ensure that immaterial information which has historically been included within the Statement of Accounts is removed.			
Annual Governance Statement	The Annual Governance Statement (AGS) sets out the Council's sources of assurance in respect of the six core principles of the CIPFA/SOLACE 2012 Framework Delivering Good Governance in Local Government. However, the AGS could be improved by providing more information about the outcomes of the various assurance processes in place. In addition, there is little information given concerning the processes adopted, and outcomes, in respect of an overall effectiveness review covering the Council's whole governance framework.	We noted management's intention to review the structure of the AGS in 2017/18 in response to the updated CIPFA/SOLACE Framework which was published in 2016.  As part of this review, we recommended that management consider our suggestions as to how the AGS can be further improved.			

## APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Narrative Statement	Our review of the draft Narrative Statement found that it did not contain any commentary on the group accounts or the financial performance of the Housing Revenue Account, as required by the Code, and also that a number of other recommended disclosure areas were omitted.	We recommended that management reviews CIPFA guidance in advance of preparing the 2017/18 Narrative Statement, to identify areas for improvement going forward.			

## APPENDIX III: MATERIALITY

### MATERIALITY - COUNCIL

	FINAL £	PLANNING £
Materiality	15,500,000	15,000,000
Clearly trivial threshold	310,000	300,000

Planning materiality of £15,500,000 was based on 1.5% of gross expenditure, using the prior year group financial statements.

We revised our materiality because of increased gross expenditure reported in the draft financial statements.

### MATERIALITY - GROUP

	FINAL £	PLANNING £
Materiality	5,000,000	5,000,000
Clearly trivial threshold	310,000	300,000

Component materiality is set for those entities where component auditors perform an audit or a review for the purposes of the group audit. The local materiality applied for the statutory audit of the component financial statements, where required, cannot exceed the component materiality and is likely to be lower than the component materiality set as part of the group audit. We understand that the component auditor has agreed materiality at a level significantly below our component materiality level.

## APPENDIX IV: INDEPENDENCE

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

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2018.

Details of services, other than audit, provided by us to the Council and the Group during the period and up to the date of this report were provided in our Audit Plan. These services have been approved by the Director of Finance.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

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

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

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

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## APPENDIX V: FEES SCHEDULE

	2017/18 PROPOSED £	2017/18 PLANNED £	2016//17 FINAL £	EXPLANATION FOR VARIANCES
Code audit fee	170,025	170,025	170,025	As per PSAA scale fee
Additional code audit fee	-	-	31,877	Awaiting scale fee variation
Fee for reporting on the housing benefits subsidy claim	21,000	21,000	21,000	As per PSAA scale fee
<b>TOTAL AUDIT AND CERTIFICATION FEES</b>	<b>191,025</b>	<b>191,025</b>	<b>222,902</b>	
Fees for reporting on other government grants:				
• Pooling of housing capital receipts return	2,750	2,750	2,750	N/A
• Teachers' pension return	5,000	5,000	5,000	N/A
Fees for other non-audit services	-	-	-	N/A
<b>NON-AUDIT ASSURANCE SERVICES</b>	<b>7,750</b>	<b>7,750</b>	<b>7,750</b>	
<b>TOTAL ASSURANCE SERVICES</b>	<b>198,775</b>	<b>198,775</b>	<b>230,652</b>	

## APPENDIX VI: DRAFT LETTER OF REPRESENTATION

### TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP  
55 Baker Street  
London  
W1U 7EU

[XX] May 2018

Dear Sirs

#### **Financial statements of London Borough of Barnet and the Group for the year ended 31 March 2018**

We confirm that the following representations given to you in connection with your audit of the Council's financial statements and the Group financial statements for the year ended 31 March 2018 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 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 Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2018 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 (the Code).

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 Annual 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.

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

- Management
- Employees; or
- Others where the fraud could have a material effect on the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

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 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 confirm that the following debtors and accrued income are recoverable and should not be impaired:

- Comer Homes at £1.3 million (over three years old) in relation to energy costs that should be refunded by the landlord for the North London Business Park

We confirm the following significant assumptions made in relation to accounting estimates (including fair value measurements) used in the preparation of the financial statements:

**a) Pension fund assumptions**

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- Rate of inflation (CPI): 2.4%
- Rate of increase in salaries: 2.7%
- Rate of increase in pensions: 2.4%
- Rate of discounting scheme liabilities: 2.6%
- LGPS commutation take up option: 50%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

**b) Valuation of housing stock, other land and buildings and investment properties**

We are satisfied that the useful economic lives of the housing stock and other land and buildings, and their constituent components, used in the valuation of the housing stock and other land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to council dwellings and other land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

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We are satisfied that investment properties have been appropriately assessed as level 2 on the fair value hierarchy for valuation purposes and valued at fair value, based on highest and best use.

**c) Allowance for non-collection of receivables**

We are satisfied that the impairment allowances for council tax arrears, NDR arrears, housing benefit overpayments, housing rent arrears and parking charges are reasonable, based on collection rate data.

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 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 and member has taken all the steps that they ought to have taken as a director or member to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Kevin Bartle  
Interim Director of Finance  
[XX] July 2018

Cllr Anthony Finn  
Chair  
Signed on behalf of the Audit Committee  
[XX] July 2018

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## APPENDIX VII: DRAFT AUDIT REPORT

[To be inserted]

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## 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 all 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 companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a 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.

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

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FOR MORE INFORMATION:

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

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