Report to the Audit Committee

LONDON BOROUGH OF BARNET COUNCIL

Audit Completion Report: Year ended 31 March 2019

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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.

This report updates the Committee of the findings and conclusion from the remaining issues from the audit that we brought to your attention in our report and presentation to you on 16 July 2019.

It summarises the results of completing the planned audit approach for the year ended 31 March 2019, 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 our audit of the Group and the Council financial statements and use of resources comprising: 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.

This report contains matters which should properly be considered by the Council as a whole. We expect that the Audit Committee will refer such matters to the Council, together with any recommendations, as it considers appropriate.

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

Leigh Lloyd-Thomas

27 September 2019

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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 Group and the Council 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. For more information on our respective responsibilities please see the appendices.

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 Group and use of resources of the Council for the year ended 31 March 2019.

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.

Overview

Our audit work is complete and we anticipate issuing our opinion on the Council and Group's financial statements and the Council's use of resources for the year ended 31 March 2019.

We were unable to conclude the audit by the 31 July deadline due to issues over valuations of land, buildings and dwellings, where additional work was required by the valuer and amendments made to the financial statements as a result.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Audit report

We are proposing to issue an unmodified audit opinion on the Council and consolidated Group financial statements.

We are proposing to issue an unqualified use of resources conclusion.

Final materiality

Group and Council final materiality was determined based on gross expenditure.

We have increased our materiality from £16.2 million to £16.9 million (Group materiality from £16.2 million to £17.3 million) as a result of increase in final outturn of gross expenditure compared to the prior year.

Material misstatements

We identified material and other misstatements that have been corrected by management. These corrections related principally to valuation of assets and did not impact on the General Fund or HRA balances. These misstatements increased expenditure for the Council by £29.768 million (Group £10.995 million) and amended the reported surplus of £6.635 to a deficit of £23.133 million (Group deficit £3.903 million)

Unadjusted audit differences

There are nine unadjusted audit differences identified by our audit work which would further increase the deficit on the provision of services for the Council by £10.564 million to £33.697 million (Group deficit increased by £11.113 million to £15.016 million).

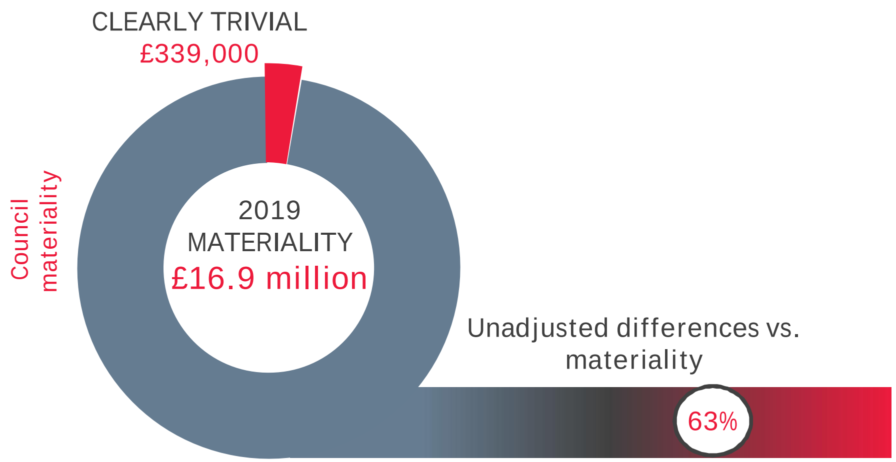
Management has not corrected the financial statements for these misstatements.

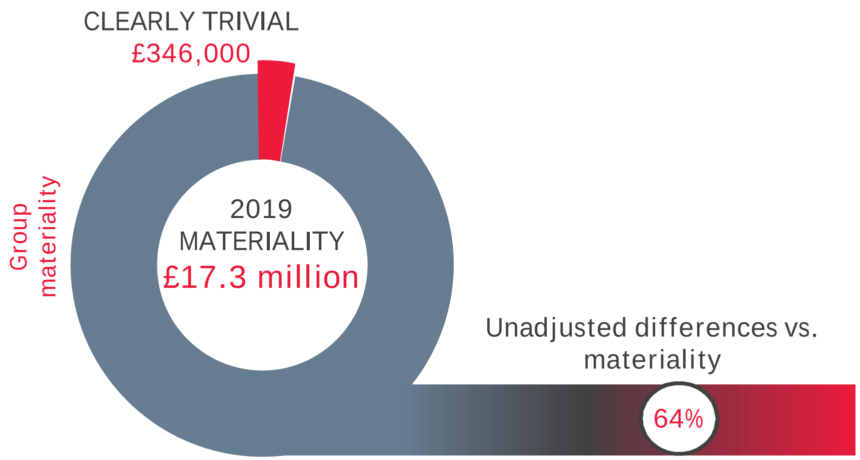
Audit scope

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.

We have audited the Council's financial statements under the NAO Code of Audit Practice. We have undertaken specific procedures for Barnet (Holdings) Limited.

Grant Thornton has audited The Barnet Group and its subsidiaries under the Companies Act.





Financial reporting

- We have not identified any non-compliance with group accounting policies or the CIPFA Code.
- No significant accounting policy changes have been identified impacting the current year. IFRS 9 financial instruments and IFRS 15 revenue from contracts with customers has not had a material impact.
- Going concern disclosures are deemed sufficient.
- The Narrative Report and other information included in the Statement of Accounts with the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.
- We will complete our review of the Whole of Government Accounts Data Collection Tool (DCT) after we have completed our audit of the financial statements.

Other matters that require discussion or confirmation

- Discussion of issues identified by audit since 16 July Audit Committee and final schedule of adjusted and unadjusted misstatements.
- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Group and the Council in accordance with the Financial Reporting Council's Ethical Standard.

AUDIT RISKS OVERVIEW

As identified in our Audit Plan dated 21 January 2019 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant management estimates or judgement	Use of Experts Required	Error Identified	Significant Control Findings	Discussion points / Letter of Representation
Management override of controls	Significant	No	No	No	No	No
Revenue and expenditure recognition	Significant	No	No	No	No	No
PPE and investment property valuation	Significant	Yes	Yes	Yes	Yes	Adjustments made to carrying value of dwellings and assets to be demolished
Pension liability valuation	Significant	Yes	Yes	Yes	No	Impact of McCloud and GMP on pension liability
Presentation of income and expenditure in the CIES	Significant	No	No	No	No	No
Allowance for non-collection of receivables	Normal	No	No	No	No	No
Related party transactions	Normal	No	No	Yes	No	Omission of Open Door loan draw down
Renegotiated Brent Cross lease	Normal	No	No	Yes	No	Reclassified as finance lease disposal for 999 year lease
Classification and measurement of financial instruments (IFRS 9)	Normal	No	No	Yes	No	Corrected disclosures for classification of financial instruments
Revenue from contracts with customers (IFRS 15)	Normal	No	No	No	No	Additional disclosures requested for recognition policies

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

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

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

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

Work performed

We carried out the following planned audit procedures:

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

Results

Our detailed testing of a sample of journals has not identified any significant issues.

We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are set out in this report.

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.

REVENUE AND EXPENDITURE RECOGNITION

Under auditing standards there is a presumption that income recognition presents a fraud risk.

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

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 as these may be recognised as revenue in the comprehensive income and expenditure statement (CIES) before the performance conditions are satisfied.

In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 issued by the Financial Reporting Council. This states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure, where testing will be focussed.

Work performed

We carried out the following planned audit procedures:

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

Results

Our sample testing of revenue and capital grants confirmed that these were recognised when performance conditions attached to them had been satisfied. However, we noted that there is no formal review of grant documentation to ensure that conditions attached to grants, if any, are met prior to recognition in income. We have raised a recommendation to address this deficiency that may potentially result in an incorrect recognition point for grants received with unmet conditions.

Our audit work to confirm expenditure has been recorded in the correct period did not identify an issues.

PPE AND INVESTMENT PROPERTIES

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

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	■
Unadjusted error	■
Adjusted error	■
Additional disclosure required	
Significant Control Findings	■
Letter of Representation point	

Risk description

Local authorities are required to ensure that the carrying value of land, buildings, dwellings and investment properties is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.

The Council applies an annual revaluation process which is determined through consultation between the finance team and Principal Valuation Manager. High value properties, and those which are expected to be subject to significant valuation movements, are revalued on an annual basis. This covers approximately 90% of properties by value. Other properties are revalued on a rolling 5-yearly basis.

Due to the significant value of the Council's land, buildings, dwellings and investment properties and the high degree of estimation uncertainty, there is a risk over the valuation of these assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.

Work performed

We carried out the following planned audit procedures:

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

Results

Our review of instructions to the valuer including the valuer's skills and expertise did not identify any issues. We also confirmed basis of valuation for assets valued in year is appropriate and in line with Code.

Our work on the accuracy and completeness of asset information used as the basis of valuation did not identify any issues. However, we found that the valuer had not been informed of a number of dwellings earmarked for demolition and had not appropriately impaired the carrying value of those dwellings.

The results of our review of the assumptions and estimates used by the valuer for classes of assets is reported on the following pages.

PPE AND INVESTMENT PROPERTIES 2

Significant estimate - Dwellings

Council's dwellings at Open Market Value Social Housing discount value (£735 million)

< lower valuation		> Higher valuation

Council dwellings are valued at open market value and adjusted to 25% of this valuation to reflect the discounted social rents charged to tenants. The adjustment reflects information provided by DCLG in 2016 for regional (London) differences between market rents and social rents.

The Council's valuer applied valuation adjustments to those Beacons that had been subject to market value testing in year and applied an overall index increase of 1.1% to houses and a decrease of 1.9% to flats for all other Beacons for 2018/19, giving a total revaluation loss of £2.0 million. The index was calculated from the average of the Beacon review valuations and Land Registry indices data to December 2018. We reviewed land registry house price indices to March 2019 which indicated an average decrease in Barnet of 3.6% for houses and 6.0% for flats for the year. We challenged the use of the price index used by the valuer given the difference between indexation applied and our expected fall in values of dwellings.

We found there was a rounding error in the original December 2018 valuation of £471,000 resulting in an overstatement of the valuation. This has not been corrected by management (#Ref 4).

The valuer undertook Beacon valuations for only six flats and three houses out of the 403 separate Beacons architypes (to represent 9,780 dwellings). We noted some inconsistencies in the valuations given for two Beacons where the increase appeared to be out of line with price indices and the average Beacon valuations for other properties in that location. We requested additional information on those two Beacon valuations and an additional sample of 20 Beacons to check whether these valuations were appropriate. The valuer subsequently confirmed that the valuations attached to these two Beacons was not appropriate and amended the valuation down by £2.668 million, and these and are now in line with the other valuations to December 2018. This has been corrected by management (#Ref 5). We recommend that the valuers undertake a larger sample of Beacon properties for market testing each year and investigate thoroughly any market testing valuations for significant outlier valuations.

We found that some of the Beacons valued could not be priced to market where they were noted as being vacated and boarded up pending demolition. Upon further enquiries it was found that there were 8 buildings and 110 Flats in the same area where the Council had taken the decision before 31 March 2019 for the tenants to be relocated and the flats boarded up before the buildings were handed over for demolition and redevelopment. Dwellings agreed to be demolished should be impaired so that only the land value should be included in the valuation. This will reduce the carrying value of dwellings by £3.6 million. This has been corrected by management (#Ref 4).

We recommend that management provide additional information to the valuer ahead of the annual valuation exercise where the intentions of management on the existing use or planned redevelopment could impact on the carrying value of the assets.

We also found that a large part of the price falls reported by the Land Registry occurred between January and March 2019 and the valuer had not updated the valuation for market price movements since the December 2018 valuation. Applying the general market index for this final quarter would reduce the valuation by £23.5 million. We discussed this with the valuer who concurred that this was a reasonable assessment of the fall in values to March 2019 and was consistent with the valuation falls for the additional work undertaken on the 20 Beacon properties. This has been corrected by management (#Ref 1).

We are satisfied that, following the audit adjustments made by management, dwellings valuations are reasonable.

PPE AND INVESTMENT PROPERTIES 3

Significant estimate – Buildings at depreciated replacement cost

Council's buildings at Depreciation Replacement Costs including schools and leisure centres (£202 million)

< lower valuation | > Higher valuation

Council owned schools are valued at depreciated replacement cost on the basis of government guidance on the minimum required floor area per pupil for different types of school and estimated rebuild costs. Leisure centres are valued at depreciated replacement cost using the existing gross internal area and estimated rebuild costs. This valuation is reduced to reflect the age and remaining useful economic life of the building.

All 46 schools and all three leisure centres were revalued in the year using rebuild costs per square metre based on the upper quartile BCIS regional prices. This resulted in a valuation decrease 4.0% (£8.1 million) for schools and decreases of 8.4% (£0.9 million) for leisure centres.

The school valuations have been reviewed and agreed to the Modern Equivalent Asset DRC valuation guidance set by the Department of Education based mainly on RICS school sq/m build cost and published pupil numbers by the Department of Education. The schools decrease can largely be explained by the decrease in the remaining useful life and additional one year depreciation. The gross build costs are impacted by the RICS m2 Build costs which have decreased between 1 January 2018 and 31 December 2018 by 1.86% over 43 of the 46 of the primary schools with a partial offset by small increase on rebuild costs for secondary schools. There has also been a small decrease in the pupil numbers of 0.26% which impacts on the build cost element.

There was a formula error in the valuation spreadsheet which caused the remaining useful life of four schools not to be reduced by one year resulting in the valuation to be overstated by £506,000. This has not been corrected by management (#Ref 5).

BCIS Public Sector TPI index suggests that the leisure centres should have increased by 2.4% rather than decreased by 8.4%. This is mainly attributed to the decreased value of the Copthall leisure centre which has reached the end of it's useful life and is scheduled to be demolished in 2019/20 and the existing buildings have been fully impaired.

A new replacement leisure centre has been constructed alongside the existing leisure centre and is due to be opened in Summer 2019 at which point the old leisure centre will be closed and demolished.

We are satisfied that buildings valued at depreciated replacement cost are reasonable.

PPE AND INVESTMENT PROPERTIES 4

Significant estimate – Other land and buildings and surplus assets

Council's other land and buildings at Existing use value (£202 million)

< lower valuation | > Higher valuation

Other land and buildings valued at existing use current value have been revalued downwards by £0.9 million (-0.8%). MCSI regional capital growth indices (for buildings) show regional price movements of -4.1% for retail, +5.4% for office, and +23.9% for industrial, for the period Q1 2018 to Q4 2018 (as the effective date of the Council's valuations is 31 December 2018). The Council's other land and building comprise a mix of these asset types.

The net downward valuation is mainly due to the Council's ongoing policy of buying residential properties outside of the Borough for use as temporary homeless accommodation. The 46 properties acquired in 2017/18 had significant sums spent to bring them up to standard but when revalued at December 2018 those costs were found not to have added any significant value to the properties leading to a downward revaluation of £1.5 million. This has been offset the small rise in other land and buildings.

We are satisfied that operational land and buildings valued at existing use value are reasonable.

Council's surplus assets at fair value (£45 million)

< lower valuation | > Higher valuation

Surplus assets are valued at fair value (highest and best use) by reference to similar sales and potentially including an increase where the purchaser may be able to amend the consents for use and increase the value of the asset.

Surplus assets have seen an overall revaluation increase of £5.2 million (5.8%) whilst the MSCI Sector Capital (regional) index from the Gerald Eve report suggests an increase in values between Q4 2017 and Q4 2018 at the effective date of revaluation on 1 December 2018 of 1.5%. The higher valuations are due to the majority of these assets being revalued based on updated plans for residential redevelopment that attract higher market prices for development potential.

Based on the specific use for which these assets will be developed the valuations are reasonable.

However, as part of this review we found that a school that transferred to academy status continued to include the land value in surplus assets in the asset register as this had not yet legally transferred. Councils are obliged to transfer the legal ownership of land and buildings to an academy school at £nil value. Therefore, the land value £2.499 million awaiting legal transfer should be impaired to £nil. This has not been corrected by management (#Ref 9).

PPE AND INVESTMENT PROPERTIES 5

Significant estimate – Investment properties

Council's investment properties at fair value (£134 million)

< lower valuation | > Higher valuation

Investment properties are valued at fair value (highest and best use) usually based on the current and future potential rent yields. This could potentially include an increase where the purchaser may be able to amend the consents for use or develop the property and increase the value of the asset.

Investment properties have seen an overall increase in valuation of £9.9 million (10.7%) in year. MSCI Sector Capital (regional) index from the Gerald Eve report suggests an increase of 5.8% in values between Q1 2018 and Q4 2018 at the effective date of revaluation of 31 December 2018.

There are also a significant number of land assets now being held for capital appreciation as part of the Brent Cross Redevelopment which have increased by 25% between valuation dates (1 January 2018 and 1 December 2018) based on land value increases for large scale retail and commercial developments.

The Council's investment properties comprise a mix of asset types and large redevelopment assets being part of redevelopment schemes where the valuations include reversion to mixed-development land values which will significantly impact on the valuations of some assets.

We are satisfied that investment properties at fair value are reasonable.

PENSION LIABILITY VALUATION

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

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	■
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Note: The teachers pension scheme is accounted for on a defined contribution basis as employers are unable to identify their own share of the assets and liabilities.

Risk description

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

Work performed

We carried out the following planned audit procedures:

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

Results

Our audit work to agree the disclosures to the information provided by the pension fund actuary identified inconsistencies between the asset class and value per class in respect of the scheme assets disclosed in the accounts and the actuary's report. We have reported these as unadjusted disclosure. We also noted that the past service cost per the actuary's report was incorrectly disclosed. Management has updated this disclosure in the accounts.

In previous years, we have reported that the 2016 triennial valuation required significant data cleansing by the actuary and included a number of assumptions for members with incomplete data. We have previously reported some errors in these assumptions, mainly relating to assumed deferred members that were active, and the actuary has estimated that this would increase the pension liability by 0.2% (approximately £2.3 million). The actuary stated that this is well within his estimation range and that no adjustment is required to the liability calculation.

In an effort to address the existence, completeness and accuracy risk around membership data, the scheme is currently undertaking a Common Data cleanse with the actuary to prepare for the 2019 triennial valuation. The actuary highlighted in his report bulk transfer of membership in respect of some the employers of the scheme and this is consistent with the correspondence between the actuary and Council. Management confirmed that there are no other significant changes in membership data that have not been communicated.

PENSION LIABILITY VALUATION 2

Significant estimate – Pension liabilities

Council's pension liabilities (£1,268 million funded LGPS and £30 million unfunded promised retirement benefits)

< lower valuation | > Higher valuation

The Council's pension liability has increased from £1,196 million to £1,297 million and it's share of the scheme assets increased from £661 million to £686 million. The net deficit increased by £76 million to £611 million. The increased liability includes £68 million arising from changes to financial assumptions including annual salaries increases above CPI at 2.8% (previously 2.7%), annual pension increases of 2.5% (previously 2.4%), and a change in the rate of discounting scheme liabilities to 2.5% (previously 2.6%).

We have compared the key financial and demographic assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO.

	Actual used	Acceptable range	Comments
Financials:			
- RPI increase	3.5%	3.4 - 3.50%	Reasonable
- CPI increase	2.5%	2.4 - 2.50%	Reasonable
- Salary increase	2.8%	1.0 - 3.50%	Reasonable - short term assumption of +1% and post 2020 set in line with RPI
- Pension increase	2.5%	2.4 - 2.50%	Reasonable
- Discount rate	2.4%	2.4 - 2.50%	Reasonable
Commutation:	50%	50%	Reasonable
Mortality:			
- Male current	23.9 years	23.7 - 24.4	Reasonable
- Female current	26.5 years	26.2 - 26.6	Reasonable
- Male retired	21.9 years	21.5 - 22.8	Reasonable
- Female retired	24.3 years	24.1 - 25.1	Reasonable
Mortality gains	CMI 2013 (+1.25% improvement rate) with Club Vita local adjustments		Reasonable

We consider that the assumptions and methodology used by the Council's actuary are appropriate, and will result in an estimate of the net pension liability which falls within a reasonable range.

We note that the consulting actuary has stated that the assumptions used by Hymans Robertson do tend to produce slightly higher liabilities calculations than the other actuaries, and the relative liability compared to assumptions used by others could result in a liability being at 103.1% using an average of all the actuaries.

PENSION LIABILITY VALUATION 3

Significant estimate – McCloud and GMP equalisation

McCloud age discrimination

Following the ruling on age discrimination in the McCloud case, where members approaching retirement age received protected benefits moving to the career average relevant earnings scheme from the final salary scheme but employees more than 10 years from retirement did not received this underpin of benefits, Government will have to remedy the discrimination in the LGPS.

The Government Actuary Department has undertaken an LGPS-wide impact assessment and a worst case scenario suggests that the liability could increase by up to 3.2% for active members where the remedy would be for all staff to receive the underpin, and using a model with an average member age of 46 and salaries increasing at +1.5% above CPI.

The Council has obtained an updated valuation of the liability to take account of the impact of this ruling. This suggests that the Council's liability could increase by £1.771 million and the Group's liability increase by £2.020 million. This is lower than forecast by GAD using a worst case scenario as the actuary has assumed a lower pay increase assumption that is in line with the main fund assumptions (CPI +0.3%), a greater number of withdrawals / leavers and reflected that the Council has a lower proportion of active members in the fund than assumed by GAD. These assumptions are reasonable.

Management has not corrected the financial statements to include this additional liability and we have reported this as an uncorrected misstatement (#Ref 2).

GMP equalisation

Following a ruling on gender discrimination in the Lloyds Banking Group case, the courts found that UK defined benefit schemes must equalise Guaranteed Minimum Pensions (GMP). The Government's interim solution, originally in place from 2016 to 2018, has been extended to 2021 and it is not yet clear whether the LGPS (through employers) or Government will fund these additional costs after 2021.

An LGPS wide assessment of additional liabilities arising from GMP equalisation for the interim solution between 2016 to 2018, the extension from 2018 to 2021, and potential post 2021 costs falling on the LGPS could increase liabilities by +0.3%.

The Council's actuary has confirmed that the calculation of pension liabilities has made no allowance for GMP equalisation costs. We have estimated that this could increase liabilities by £3.8 million for the Council and £4.1 million for the Group.

We have reported this as an uncorrected misstatement (#Ref 1).

NET INCOME AND EXPENDITURE CIES

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

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

In the prior years the draft accounts presented for audit included material ‘grossing up’ and 'netting off' errors in the CIES whereby both income and expenditure were overstated or understated. We also identified a number classification errors within the prior year draft accounts.

The Council has taken steps to improve the automation of the ledger for financial reporting purposes. However, a risk of material misstatement remains due to the level of manual adjustments required to the CIES to net down income and expenditure recorded in the ledger where the Council acts as an agent on behalf of other entities.

Work performed

We carried out the following planned audit procedures:

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

Results

During our interim audit testing we identified one payment of £98,000 made by the Council on behalf of Capita and repaid which was included in the ledger on a gross income and expenditure basis. This was brought to the attention of management and corrected ahead of the draft financial statements being prepared.

As part of its standard year end process, management has undertaken a review of the ledger to identify any further transactions recorded as gross income and expenditure but where the Council is acting as a payment agent for another party. This identified an additional £2.0 million that should be included on a net basis. Management had ensured that this value was accounted for correctly in the draft financial statements.

We did not identify any further issues with the classification and treatment of income and expenditure in the accounts.

NON-COLLECTION OF RECEIVABLES

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

Significant risk	
Normal risk	■
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

The Council recognises an allowance for the non-collection of receivables (arrears and debt), primarily in respect of council tax, NDR, housing benefit overpayments, housing rents and parking charges. The Council assesses each type of receivable separately in determining how much to allow for non-collection. There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied.

The implementation of IFRS 9 financial instruments has also changed the basis for estimating losses for non-collection of receivables and debt from an incurred loss model to an expected credit loss model that takes in account assumptions about the future credit losses. However, this includes only receivables and debt deemed to be financial instruments and excludes receivables under statute such as council tax, NDR and parking charges that CIPFA has stated will continue to be accounted for on an incurred loss model.

Work performed

We carried out the following planned audit procedures:

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

Results

The Council has applied the historical default rates (incurred losses) using system data to determine the credit losses on trade receivables within the scope of IFRS 9, but has not updated this to reflect expected (future) credit losses. However, this is unlikely to result in a material difference in the amount of credit losses recognised. The disclosures around forward looking information used, the use of the simplified approach and the type of debtors this has been applied to should also be improved.

Our review of the appropriateness of the allowance for non-collection of receivables is noted on the following pages.

NON-COLLECTION OF RECEIVABLES 2

Significant estimate – Credit losses on impairment of receivables

Council tax arrears (Total collection fund £36 million the Council's share £28 million)

< lower valuation | > Higher valuation

The Council has recognised an allowance for non-collection in relation to its share of the council tax arrears of £14 million against its share of the arrears of £28 million (total collection fund arrears is £36 million). The Council's provision has decreased from £300,000 from the prior year.

The provision is estimated using historic collection rate information of recovered debt over 5 years and applying this flat percentage to all debt aged up to 5 years and fully impairing debt over 5 years old. This average flat provision approach does not take into account the higher level of recovered debt for younger debt and reduced collections for older debt that may impact on the provision where the aging of debt changes each year. Therefore, we undertook a more detailed review of recoverability of debt for each subsequent year of non-collection and applied these recovery rate percentages to the debt for each year of aging at 31 March 2019. This calculation confirmed that the provision applied by management was reasonable.

However, our work found that some debt remains recoverable after 5 years and should not be fully impaired. As the additional amount potentially recoverable amount was not significant we did not undertake any additional testing to quantify this potential error.

NDR arrears (Total collection fund £12 million the Council's share £8 million)

< lower valuation | > Higher valuation

The Council has recognised an allowance for non-collection in relation to its share of the NDR business rates arrears of £5.5 million against its share of the arrears of £8 million (total collection fund arrears is £12 million). The Council's provision has increased by £3.6 million from the prior year to reflect the new NDR pooling arrangements across London where local authorities now hold a greater share of the debt and provision rather than allocating amounts to CLG.

The provision is estimated using historic collection rate information from last three years. The provision was found to be reasonable although again we found that some debt over three years old continues to be recovered. As the additional amount potentially recoverable was not significant we did not undertake any additional testing to quantify this potential error.

NON-COLLECTION OF RECEIVABLES 3

Significant estimate – Credit losses on impairment of receivables

Housing benefits overpayment debt (£26 million)

< lower valuation | > Higher valuation

The Council has recognised an allowance for non-collection of housing benefit overpayment debt of £25 million on total debt of £26 million. In the prior year a provision of £23 million was raised against arrears of £24 million.

The provision is estimated based on historical benefit overpayment recovery data.

We have reviewed the methodology and we are satisfied that this falls within reasonable range for non-collection of debt.

Housing rents arrears (£5 million)

< lower valuation | > Higher valuation

The Council has recognised an allowance for non-collection of housing rents arrears of £3 million on total debt of £5 million. In the prior year a provision of £3 million was raised against rent arrears of £5 million.

The provision is estimated using historic collection data.

We have reviewed the methodology and we are satisfied that this falls within reasonable range for non-collection of debt.

RELATED PARTY TRANSACTIONS

There is a risk that related party disclosures are not complete and accurate.

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	■
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management and the Audit Committee.

There is a risk that related party disclosures are not complete or accurate.

Work performed

We carried out the following planned audit procedures:

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

Results

We did not identify any undisclosed related party transactions within the draft accounts however we noted that loan drawn down by Open Door Ltd was not updated at year end.

Management has updated the revised accounts to reflect amount drawn to date at year end.

RENEGOTIATED BRENT CROSS LEASE

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

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	■
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

During 2018/19 the Council renegotiated the Brent Cross lease with Hammerson and Standard Life to surrender the existing lease and agree a new lease to support the redevelopment of the area.

The Council will need to assess the accounting treatment for this transaction and the potential impact on the financial statements. There is a risk that the accounting treatment of the lease may not be appropriate.

Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the Council to assess the accounting treatment and potential impact on the financial statements.

Results

Management reported that the existing lease and the renegotiated lease are operating leases and there are no accounting entries required as a result of this transaction. The renegotiated lease covers the land around the Brent Cross South development for 999 years, with annual lease payment of £390,000.

Leases for 999 years are usually classified as finance lease if there are no exercisable lease options within the lease that the tenant would be expected to exercise.

Management has now reclassified this land from property, plant and equipment (and operating lease) as a disposal as a finance lease at £10.4 million (#Ref 3).

We understand that the joint venture partners for the redevelopment of the Brent Cross Shopping centre have paused any development on the site due to the financial difficulties with the current retail environment.

FINANCIAL INSTRUMENTS (IFRS 9)

There is a risk that financial instruments are not classified and measured in accordance with IFRS9.

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	■
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

IFRS 9 financial instruments has been implemented for 2018/19 and requires all relevant financial instrument assets (principally investments and loans provided to others) and liabilities (principally borrowing) to be categorised under new criteria based on their business model and contractual cash flows that will determine their classification and basis of valuation.

There is a risk that relevant financial assets and liabilities are not classified and measured in accordance with the new accounting standard. There is also the risk that components who report under UK GAAP may be consolidated into the Group financial statements without the required adjustments to ensure the Group financial statements comply with the requirement of the new standard.

Work performed

We carried out the following planned audit procedures:

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

Results

We noted that debtors of £105.98 million was incorrectly classified as fair value through other comprehensive income instead of amortised cost.

We also note that £60.38 million of money market funds classified as fair value through other comprehensive income instead of amortised cost.

Management has now corrected this disclosure.

REVENUE FROM CONTRACTS (IFRS 15)

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

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	■
Significant Control Findings	
Letter of Representation point	

Risk description

IFRS 15 revenue from contracts with customers has been implemented for 2018/19 and requires all relevant revenue streams to be reviewed under a new '5-step model' to determine the appropriate point at which revenue can be recognised. CIPFA has published guidance to assist with the required review including what revenue falls within IFRS 15 or IPSAS 23 revenue from non-exchange transactions, and the process for determining the correct recognition points and amounts for revenue. The Council will need to undertake a review of all relevant revenue streams to determine the appropriate recognition date and amounts in the financial statements.

There is a risk that relevant revenue streams are not recognised in the financial statements in accordance with the new standard. There is also the risk that components who report under UK GAAP may be consolidated into the Group financial statements without the required adjustments to ensure the Group financial statements comply with the requirement of the new standard.

Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the Council to assess the impact of the new '5-step model' on revenue streams on both the Council and the component bodies in the Group; and
- Reviewed the disclosures required relating to the adoption of the new accounting standard.

Results

Our review of the revenue streams suggests that the recognition of revenue in terms of IFRS 15 is not different to how revenue was not recognised previously and no restatement in opening reserve would be required for the Council.

Whilst we have concluded that IFRS 15 does not change how revenue was previously recognised, the Council did not make any disclosures in its accounting policy to reflect this new standard. We have reported this as a disclosure omission.

OTHER MATTERS

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
We identified that the prior year comparatives CIES in the group accounts did not agree to signed accounts. This is was due to formula error in the working papers and spreadsheet.	Management has corrected this.
The Code and IAS 7 has introduced an additional cash flow disclosure this year to reconcile the movement in financial liabilities in the balance sheet with the cash flow statement for cash movements and other non-cash movements.	Management has not corrected this. We have reported this as a presentation misstatement.
We identified that that the Council had raised a debtor of £1.492 million in respect of surpluses generated by North London West Authority which it intends to use to offset future levies. The reduction in levies will benefit the Council only in the year reduction takes place. NLWA is not a joint operation and therefore councils cannot take a share of surpluses into its own accounts in that year. This has resulted in understatement of expenditure and overstatement of debtors.	We have reported this as unadjusted error (#Ref 3).
In previous years, the Code has required that debtors and creditors should be presented by analysis of the type of counter party, such as amounts due from Government or NHS bodies. This year, the Code has removed this requirement and refers to IAS 1 presentation of financial statements and provides an example in the template financial statements, showing an analysis (for receivables) by trade customers, receivables from related parties, prepayments and other amounts.	The debtors and creditors notes should be analysed by the nature of the type of debtor and creditor rather than by the counter party. We have reported this as a presentation misstatement.
We identified that the actuary's estimated return on scheme assets in the pension fund (based on an estimated outturn before year end) at 4.61% had understated the actual return of 5.70%. We have estimated that this has resulted in understatement of the Council's share of scheme assets by £5.437 million and consequently would decrease the net liability.	We have reported this as unadjusted error (#Ref 6).

OTHER MATTERS 2

Issue	Comment
During the year the Group purchased the share capital of Cricklewood Limited. The Council had previously agreed an option to acquire this company in 2015 at the forward price of £10 million. The company holds options to acquire land from Network Rail in the Brent Cross South development zone. The company was deemed to be a shell company holding these land options rather than trading as a business, although the land options were not carried at any value in the balance sheet of the company. Therefore, the correct accounting treatment is to recognise the fair value of the assets and liabilities acquired rather than showing this as the acquisition of a business. The Council has recorded the entire £10 million as the acquisition of an intangible asset that represents its value of the land purchase options. The transaction, however, required the purchase of the joint venture shares in the company through two separate entities. To facilitate this, the Council advanced £5 million to its subsidiary Barnet (Holdings) Limited, and the Council and its subsidiary both acquired 50% of the company shares for £5 million each. The correct accounting treatment would require that the Council reports that it has a debtor through its loan to a subsidiary of £5 million and an intangible asset of £5 million to reflect its share of the land purchase option. The Group financial statements would continue to show that the Group has the benefit of the entire £10 million intangible asset. Management has stated that it intends to transfer to the Council for beneficial ownership the land purchased by the subsidiary which will be used to repay the loan from the Council. However, as this transfer has not yet taken place, the current presentation of the entire £10 million in the Council's balance sheet is incorrect.	The Council should report the £10 million outflow of cash as £5 million loan to a subsidiary (debtor) and £5 million intangible asset to reflect its 50% beneficial interest in the land purchase option. The loan to Barnet (Holdings) Limited will also need to be disclosed as a related party transaction. Management has corrected this (#Ref 2).

OTHER MATTERS 3

Issue	Comment
We noted there was unclaimed VAT of £1.546 million included in receivables at year end. This is made of £648,000 schools input VAT from 2015/16 financial year. This has been long outstanding and it is doubtful whether this will be recovered. The remaining £898,000 arises from an accounting error resulting in an under claim of input VAT. We believe total input VAT of £1.546 million included in receivable should be reversed as it is unrecoverable.	We have reported this as unadjusted error (#Ref 7).
Our audit work identified that there was no proper bank reconciliation done to reconcile the schools bank balance per bank statement to the general ledger balance at year end. A complete bank reconciliation is a key internal control in order to confirm the accuracy of the cash balance on the balance sheet and the reconciling item should relate to timing differences. Our review indicated sixteen school accounts with a total unreconciled difference of £651,000 between bank statement balance and general ledger. There was also one school that had excluded one bank account with a balance of £870,000 from its bank reconciliation and posting summary for the year. Cash balances could be understated by up to £1.521 million with a corresponding misstatement in income and expenditure.	We have reported this as unadjusted error (#Ref 8) and reported a significant control deficiency.
We identified that Council had reclassified the value of assets under construction at the beginning of the year to the relevant asset category and the additional capital spend in the year to complete the asset was included as additions under the asset category the brought forward value was reclassified to thereby effectively splitting the asset into two parts with the brought forward part of the asset being reclassified before they were completed and brought into use. The Council should include the in year spend as additions under asset under construction before the asset is reclassified in it's entirety from asset under construction to the relevant asset category. The adjustment made to the accounts was a material reclassification amount of £14.2 million.	Management has corrected this presentational error.

OTHER MATTERS 4

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
During the audit of the Group consolidation we noticed that the Council has transferred £8.503 million of assets to Open Door Ltd at nominal values of £1. The £8.503 million was charged as a loss on disposal in the Council accounts. In the Open Door Ltd accounts the nominal amounts paid for the assets of £1 were included in asset under construction. Management failed to process consolidation journals to eliminate the loss and restore the value of the assets transferred in the group accounts.	Management has corrected this (#Ref 6).
We also note that RTB grants and other income amounting to £10.270 million had been passed to Open Door Ltd to enable them to fund the new Social Housing developments. In the Council accounts these contributions were charged to the CEIS. However in the company this income was not recognised in the income statement but included on the balance sheet as a deferred grant to be amortised over the course of the life of the buildings when constructed and brought into use. The Council failed to process a consolidation journal to eliminate this inter-company transaction in the group accounts.	Management has corrected this (#Ref 7).
The original contracts with Capita for outsourced services for back office functions (CSG) and Regional Enterprises (Re) in 2013 required the Council to fund mobilisation costs that are abated from the annual contract costs over the 10 year life of the contracts. The Council in-sourced parts of the CSG contract on 31 March 2019 and Capita was required to pay a contract performance penalty. At 31 March 2019, mobilisation costs for CSG of £2.535 million and Re of £17.621 million remain as prepayments to be recovered from ongoing payments to Capita. We requested that management provide legal advice or confirmation from Capita that the remaining CSG mobilisation costs can be recovered against ongoing contract payment schedules and that no adjusted is required resulting from the in-sourcing of part of the contract.	Management stated that this position had been agreed with Capita and that scheduled payments to date for 2019/20 had been abated by the original contract schedule reductions on the CSG contract without query by Capita. As we have not been provided with an agreed contract variation or written confirmation from Capita that the remaining balance of mobilisation costs can be transferred to the ongoing contract payment schedule, we have requested that management confirm this in the Letter of Representation.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Fraud

Whilst the members and Director of Finance 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 you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the audit plan to the Audit Committee.

Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

Internal audit

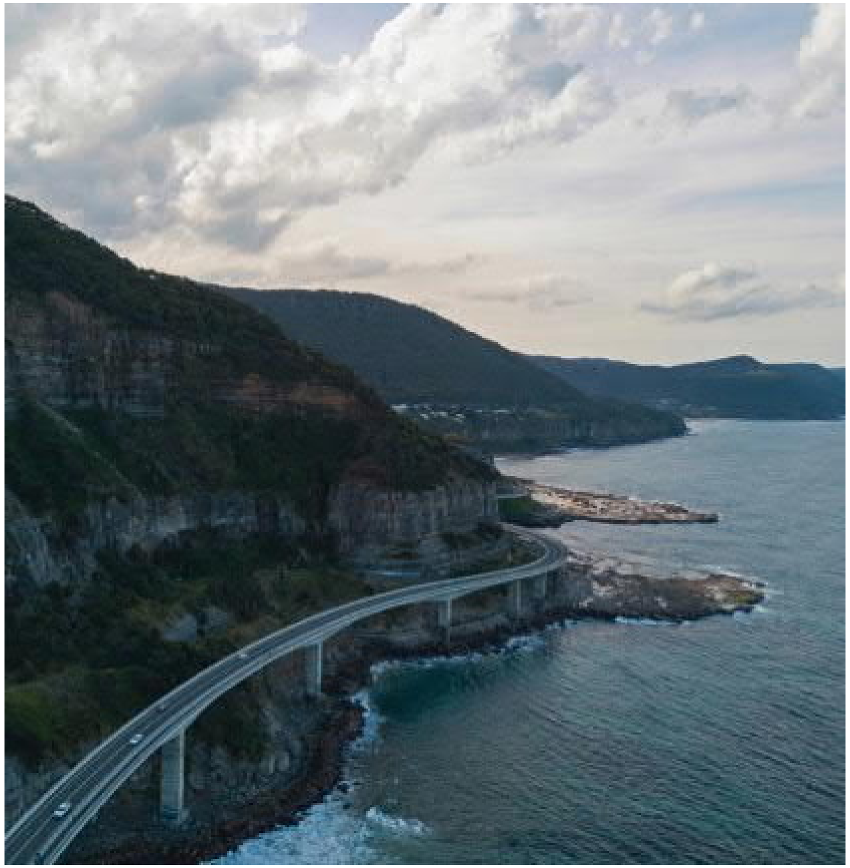
We reviewed the audit work of the Council’s internal audit function to assist our risk scoping at the planning stage.

Group matters

We have received the component auditors working papers.

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year



We are required to bring to your attention unadjusted differences and we request that you correct them.

There are nine unadjusted audit differences identified by our audit work which would further increase the deficit on the provision of services for the Council by £10.564 million to £33.697 million (Group deficit increased by £11.113 million to £15.016 million).

You consider the differences to be immaterial in the context of the financial statements as a whole.

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UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Council					Group				
	Income and expenditure			Balance sheet		Income and expenditure			Balance sheet	
Unadjusted audit differences	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Deficit on the provision of services before unadjusted audit differences	23,133					3,903				
1: Increase in pension liability due to GMP equalisation										
DR Central Expense	3,800	3,800				4,100	4,100			
CR Pension liability					(3,800)					4,100
2: Increase in pension liability due to McCloud Judgement										
DR Central Expenses	1,771	1,771				2,020	2,020			
CR Pension liability					(1,771)					(2,020)
3: Understatement of expenditure due to taking a share of the NLWA surplus										
Dr Expenditure	1,492	1,492				1,492	1,492			
Cr Debtors					(1,492)					(1,492)
4: Council dwellings rounding formula error on valuations – impairment charged to expenditure										
DR Housing Needs & Resources	471	471				471	471			
CR Council dwelling assets					(471)					(471)

UNADJUSTED AUDIT DIFFERENCES: DETAIL 2

Details for the current year

	Council					Group				
	Income and expenditure			Balance sheet		Income and expenditure			Balance sheet	
Unadjusted audit differences	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
5: Schools rounding formula error on valuations – impairment charged to expenditure										
DR Children's Services	506	506				506	506			
CR School assets					(506)					(506)
6: Impact of net pension liability on using actual return on assets rather than actuary's estimated returns										
DR Pension reserve				5,437					6,198	
CR Pension liability					(5,437)					(6,198)
7: Write off of unrecoverable input VAT										
DR Expense	1,546	1,546				1,546	1,546			
CR Debtors					(1,546)					(1,546)
8: Schools bank reconciliation differences										
DR Bank				1,521					1,521	
CR Income/Expense	(1,521)		(1,521)			(1,521)		(1,521)		

UNADJUSTED AUDIT DIFFERENCES: DETAIL 3

Details for the current year

	Council					Group				
	Income and expenditure			Balance sheet		Income and expenditure			Balance sheet	
Unadjusted audit differences	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
9: Impairment of land to be transferred to academy										
DR Children's Services	2,499	2,499				2,499	2,499			
CR Surplus Assets					(2,499)					(2,499)
Total unadjusted audit differences	10,564					11,113				
Deficit on the provision of services after differences	33,697					15,016				

UNADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

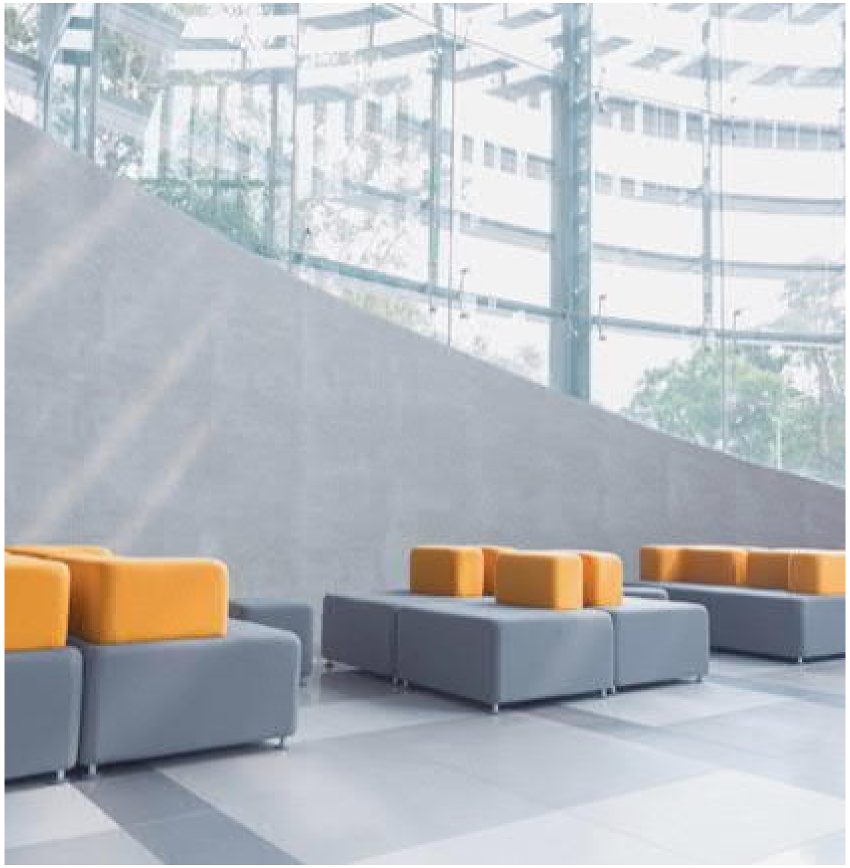
We are required to bring to your attention other financial reporting matters that the Audit Committee is required to consider.

The following unadjusted disclosure matters were noted:

- Analysis of debtors and creditors by nature of balance rather than by counter party
- Analysis of reconciliation of financial liabilities
- Inconsistencies between asset class and value per class in respect of the scheme assets disclosed in the accounts and the actuary’s report
- Analysis of statutory debts past due not impaired.

ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year



We identified material and other misstatements that have been corrected by management that increased expenditure for the Council by £29.768 million (Group £10.995 million) and amended the reported surplus of £6.635 to a deficit of £23.133 million (Group deficit £3.903 million).

These corrections related principally to valuation of assets and did not impact on the General Fund or HRA balances.

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Council					Group				
	Income and expenditure			Balance sheet		Income and expenditure			Balance sheet	
Unadjusted audit differences	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Surplus on the provision of services before adjustments	(6,635)					(7,092)				
1: Impact of downward dwelling values in the last quarter of the year charged as impairment to expenditure										
DR Expenditure	23,500	23,500				23,500	23,500			
CR Property, plant and equipment					(23,500)					(23,500)
2: Joint acquisition of Cricklewood Limited										
DR Long term investments				5,000						
Dr Long term debtors				5,000						
Cr Intangible					(10,000)					
3: Finance lease where Council is the lessor treated as operating lease										
DR Long term debtor				10,075					10,075	
DR Short term debtor				375					375	
CR Investment property					(10,450)					(10,450)

ADJUSTED AUDIT DIFFERENCES: DETAIL 2

Details for the current year

	Council					Group				
	Income and expenditure			Balance sheet		Income and expenditure			Balance sheet	
Unadjusted audit differences	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
4: Impairment of dwellings earmarked for demolishing at year end charged to expenditure										
DR Expenditure	3,600	3,600				3,600	3,600			
CR Property, plant and equipment					(3,600)					(3,600)
5: Valuation errors for two beacon properties charged as impairment to expenditure										
DR Expenditure	2,668	2,668				2,668	2,668			
CR Property, plant and equipment					(2,600)					(2,668)
6.Consolidation journal to account for asset transferred to a subsidiary at a loss										
Dr Property, plant and equipment									8,503	
Cr Other operating expenditure						(8,503)		(8,503)		
7.Consolidation journal to adjust grant to a subsidiary accounted for as deferred income by subsidiary										
Dr Deferred income									10,270	
Cr Expenditure						(10,270)		(10,720)		
Total adjusted audit differences	29,768					10,995				
Deficit on the provision of services	23,133					3,903				

ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Audit Committee is required to consider.

The following adjusted disclosure matters were noted:

- Presentation of Group CIES
- Classification financial assets and liabilities in terms of IFRS9
- Note supporting £38 million net cash flows from financing activities
- Presentation of long and short term investments in the cash flow notes
- Disclosure of audit fees.

Other reporting matters

REPORTING ON OTHER INFORMATION

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

Matter	Comment
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.	We are satisfied that the other information in the Narrative Report consistent with the financial statements and our knowledge.
We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.

WHOLE OF GOVERNMENT ACCOUNTS

Matter	Comment
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 Council for use by the Ministry for Housing, 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.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 28 June 2019. The Council met this deadline. We are planning to issue our opinion on the consistency of the DCT return with the audited financial statements once we have completed the audit of the financial statements.

AUDIT RISKS OVERVIEW

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:

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

As identified in our Audit Plan we assessed the following matters as being the most significant risks regarding use of resources.

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Sustainable finances	Sustainable resource deployment	Significant	None
Family service	Informed decision making	Significant	None
Contract management	Working with partners and other third parties	Normal	None

SUSTAINABLE FINANCES

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

Significant risk	■
Normal risk	
Sustainable resource deployment	■
Informed decision making	
Working with partners and other third parties	
Significant control findings	

Risk description

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

Work performed

We carried out the following planned audit procedures:

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

Results and conclusion

The updated MTFS shows an anticipated budget gap of £65 million over the period 2019-24. The council is working on a Priorities and Spending Review project to identify how the organisation will strategically respond to this significant challenge. The reduced use of reserves to balance the gap is in keeping with the Council's overarching financial strategy of eradicating the use of one-off funding to balance the budget over the MTFS period.

Over the course of the MTFS the Council’s available revenue reserves are expected to reduce to £29 million with the crucial measure of non ring-fenced revenue reserves reducing to £20.4 million at the end of 2023/24.

SUSTAINABLE FINANCES 2

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

Significant risk	■
Normal risk	
Sustainable resource deployment	■
Informed decision making	
Working with partners and other third parties	
Significant control findings	

Results

The General Fund revenue budget was £295 million during 2018/19. The net budget variance was overspend of £822,000 however this was after the Council contributed £1.333 million to its reserves.

This is an improvement on the previous year where the Council had to draw down from specific and general earmarked reserves some £5.594 million and also reported an adverse variance of £7.885 million (2.8%) to budget on a budget of £277 million. The budget is funded mainly by council tax, business rates, better care fund allocation, ring fenced and non ring fenced grants and to a lesser extent from General Fund reserves.

The Council delivered 91.2% of the planned saving in 2018/19 compared to 88.4% in the prior year. It is evident that there has been improvements managing resources and sustainable finances. However, more still needs to be done.

Although the use of reserves to fund budget gaps has reduced it is important that reserves are protected and not be seen as the fall back option for overspends and budget pressures.

We are satisfied that the Council has a good understanding of the budget requirement in the coming years, has arrangements in place to identify and manage the delivery of required savings.

Conclusion

The Council has adequate arrangements in place for planning finances effectively to support the sustainable delivery of strategic priorities.

FAMILY SERVICES

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

Significant risk	■
Normal risk	
Sustainable resource deployment	
Informed decision making	■
Working with partners and other third parties	
Significant control findings	

Risk description

The Ofsted inspection report published in July 2017 found that the following services were assessed as inadequate: Children who need help and protection, Children looked after and achieving permanence and Leadership, management and governance.

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

Work performed

We carried out the following planned audit procedures:

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

Results

Our review of the monitoring reports throughout the year indicated a positive direction of travel and the full inspection carried out in May 2019 concluded that Children's service are rated as 'Good'. The Ofsted report states that 'Leaders and managers have made purposeful progress, at pace, to establish a child-focused service that is delivering good outcomes'. It also found that children in care now receive a good service from workers who know them well. Carers also provide stable homes and are supportive and ambitious for the children in their care.

Conclusion

We are able to remove our qualification of the use of resources conclusion referring to the previous weaknesses reported by Ofsted in Children's services.

CONTRACT MANAGEMENT

Returning the Capita contract services in-house will be a significant project and will require robust project management

Significant risk	■
Normal risk	
Sustainable resource deployment	
Informed decision making	■
Working with partners and other third parties	
Significant control findings	

Risk description

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

Work performed

We carried out the following planned audit procedures:

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

Results

Strategic HR and Finance from the Capita CSG contract was insourced from 1 April 2019..

We have reviewed the project management arrangements put in place to ensure a smooth transition of the Capita contracts back in house. Most of the actions in the project plan to ensure a smooth transition were rated Green with a small number of Amber and red ratings to be addressed.

Subsequent reports shows these actions are now green and no issues with transition since 1 April 2019.

Conclusion

We have no matters to report.

SIGNIFICANT DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Annual review of dwellings valuations	The valuer undertook Beacon valuations for only six flats and three houses out of the 403 separate Beacons architypes (to represent 9,780 dwellings). We noted some inconsistencies in the valuations given for two Beacons where the increase appeared to be out of line with price indices and the average Beacon valuations for other properties in that location.	We recommend that the valuers undertake a larger sample of Beacon properties for market testing each year and investigate thoroughly any market testing valuations for significant outlier valuations.	Management agree with recommendation and a review of the current Beacons list will be taken in 2019/20 valuations.
Information provided to the valuer	We found that some of the Beacons valued could not be priced to market where they were noted as being vacated and boarded up pending demolition. Upon further enquiries it was found that there were 8 buildings and 110 Flats in the same area where the Council had taken the decision before 31 March 2019 for the tenants to be relocated and the flats boarded up before the buildings were handed over for demolition and redevelopment.	We recommend that management provide additional information to the valuer ahead of the annual valuation exercise where the intentions of management on the existing use or planned redevelopment could impact on the carrying value of the assets.	Valuer were provided with information in relation to planned redevelopment in 2018/19, but the policy was to keep such properties as council dwelling until they were hoarded. The policy will be changed in 2019/20 to take into account the timing of the decision and not the actual date of transfer.
Schools bank reconciliation	Our audit work identified that there was no proper bank reconciliation done to reconcile the schools bank balance per bank statement to the general ledger balance at year end. A complete bank reconciliation is a key internal control in order to confirm the accuracy of the cash balance on the balance sheet and the reconciling item should relate to timing differences. The cash balance could be materially misstated if reconciling items are not appropriate timing difference.	Management should review processes for preparing cash and bank analyses and supporting bank reconciliations. Balances within clearing codes should be cleared down with equal and opposite entries and the total population of reconciling items should be identified, in order to appropriately prepare the bank reconciliations.	Work has taken place in 2018/19 to improve the reconciliations provided by schools. Management agree further improvements can be made to the reconciliations to the balance sheet.

OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Debtors analysis and identification and allocation of misclassifications receipts at year end	Our audit work identified a £900,000 credit in debtors analysis which is mainly due to unallocated receipt from customers or cash in transit. Unallocated receipt could lead to overstatement of debtors and understatement of creditors where receipt from customers are payment in advance. This could also lead to a misstatement in income.	Management should ensure that there is a timely allocation or application of receipt to outstanding customer balances and where receipts are payment in advance from customers these are reclassified to creditors.	Payments received without the correct referencing require some investigation to allocate to the correct customer. Management will work with debtors throughout the year to ensure correct references are being used so there are no unallocated receipts, especially at year end.
Payroll reconciliation	Whilst management has prepared a payroll reconciliation, management could not provide us with reports from the payroll system on time to support the amounts reported in the reconciliation workings. It is important that payroll working papers with supporting evidence are maintained to ensure accuracy and completeness of the payroll amount in the accounts	Management should ensure that adequate evidence supporting amounts in the payroll reconciliation workings are maintained at all times and made readily available for audit.	Payroll data was receive from payroll to complete the reconciliations however management agree that the reports available from payroll need improving. Management will carry out a review of the payroll reports.
Revenue recognition	We identified that there is no formal review of grant documentation to ensure that conditions attached to grants, if any, are met prior to recognition in income. This could result in premature recognition of grant income	A detailed review of all grants and supporting documentation should be carried out to ensure that grants are only recognised when conditions attached to the grants have been met.	As demonstrated to the external auditors a central grants register exists that Business Partners use to satisfy themselves that grant conditions are met through monthly budget monitoring. Management agrees that the central grants register can be enhanced and will take steps to ensure this happens.

OTHER DEFICIENCIES 2

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Area	Observation & implication	Recommendation	Management response
HRA capital projects	The Council use Barnet Homes Ltd to control and manage large amounts of revenue and capital expenditure not least the major works program for HRA properties and acquisition of out of Borough properties and subsequent improvement works expenditure. The narrative information on the invoicing and information from Barnet Homes Ltd is poor. Invoices are typically 1 line requests for funding with no additional detail provided to the Council. During audit testing we had to request support for the expenditure for some of the capital and revenue invoices being tested which had to be obtained from Barnet Homes Ltd as the Council had not been provided with the underlying information at the outset.	Barnet Homes Ltd must provide clear detailed invoices and supporting information so that the Council know exactly what they are paying for.	Actions have already been taken to improve invoicing with Barnet Homes Ltd.
Thameslink AUC	The Council use a combined AUC code to post their own owned assets additions and REFCUS additions for Thameslink.	These should be clearly segregated on different AUC codes to ensure REFCUS and own asset additions can be clearly distinguished.	The recommendation has already been actioned in 2019/20 capital monitoring and AUC.
School transfer Codes	The School transfer codes are not being controlled and reconciled using balance sheet control accounts. Instead they are included in the CEIS making it difficult to identify the correct elements of expenditure included.	The School transfer codes should be taken to a balance sheet control account and regularly reconciled and agreed.	Agree with recommendation

OTHER DEFICIENCIES 3

Area	Observation & implication	Recommendation	Management response
Supporting working papers provided for audit	There were considerable delays in obtaining working papers for Debtors and Creditors that identified the composition of amounts that made up the closing debtor and creditor balances. Instead we were provided with working papers comprising the entire years general ledger transactions. This considerably delayed the testing of an closing balances until the Council were able to eliminate all of the contra entries to only show the closing balances and transactions.	The Council need to ensure they provide clear working papers that disclose only the balances and transactions that make up the closing balances having previously eliminated all in year reversing journals and transactions.	The Debtors and creditors working paper will be reviewed and improved in 2019/20 to meet the auditor requirements.
Consolidation	We have encouraged the Council to make substantial improvements to the quality of the Group consolidation this year as well as highlighting to large errors that the Council had to correct as part of the Group consolidation. The consolidation is becoming increasingly more complex as the activities of the subsidiaries continue to grow. This will become even more complex when the large scale redevelopments begin.	The Council need to insist that it's subsidiaries fully co-operate and provide adequate information and working papers to the Council to facilitate with the Group consolidation in future. This will be particularly important where there are reporting differences between the Local Government Code and Company reporting standards. It is now getting to the stage that the Group subsidiaries will need to provide a detailed consolidation working paper pack to highlight where they have included intra Group transactions and how they have been treated in the Company accounts.	Management agree with recommendation and more regular group consolidation will be carried out in 2019/20.

OVERVIEW

Opinion on financial statements

We anticipate issuing an unmodified opinion on the Group and the Council financial statements.

There are no matters that we wish to draw attention to by way of 'emphasis of matter'.

Conclusion on use of resources

We are proposing to issue an unqualified use of resources conclusion.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Council's or Group's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

Other information

We have not identified any material misstatements that would need to be referred to in our report.

Annual Governance Statement

We have no matters to report in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information we are aware of.

INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our 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 partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2019.

Details of services, other than audit, provided by us to the Group during the period and up to the date of this report are set out in the appendices and were provided in our Audit Plan. We understand that the provision of these services was approved by the Audit Committee in advance in accordance with the Group's policy on this matter.

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.

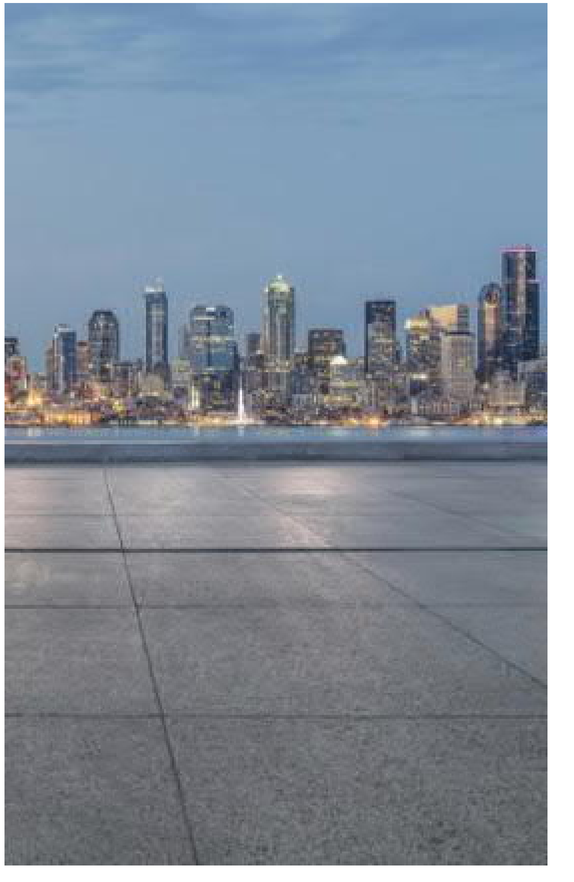
We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Council and the Group.

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

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

FEES

Fees summary		2018/19 Actual £	2018/19 Planned £	2017/18 Actual £
Audit fee				
• Code audit fee		TBC	(1) 130,919	(2) 197,262
Non-audit assurance services		TBC	26,750	41,757
Fees for reporting on government grants:				
• Housing benefits subsidy claim		Work in progress	19,000	27,430
• Pooling of housing capital receipts return		Work in progress	2,750	4,771
• Teachers' pensions return		Work in progress	5,000	9,556
Total fees		TBC	157,669	239,019



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

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

APPENDICES CONTENTS

RESPONSIBILITIES AND REPORTING

Responsibilities and reporting

Contents

Our responsibilities and reporting

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

We read and consider the 'other information' contained in the Statement of Accounts such as the Narrative Report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report where we consider that the Group has not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We review the Whole of Government Accounts Data Collection Tool provided to HM Treasury and express an opinion on whether it is consistent with the audited financial statements.

What we don't report

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

ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

COMMUNICATION AND REPORTS ISSUED

Those Charged with Governance (TCWG)

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

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date communicated	To whom
Audit Plan	21 January 2019	Audit Committee
Audit progress report	15 April 2019	Audit Committee
Initial Audit Completion Report	10 July 2019	Audit Committee
Final Audit Completion Report	27 September 2019	Audit Committee
Annual Audit Letter	By end October 2019	Audit Committee

AUDIT REPORT

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

Opinion on the financial statements

We have audited the financial statements of London Borough of Barnet ("the Council") and its subsidiaries ("the group") for the year ended 31 March 2019 which comprise the Council and group Movement in Reserves Statements, the Council and group Comprehensive Income and Expenditure Statement, the Council and group Balance Sheets, the Authority and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the group as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion on the financial statements

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), the Code of Audit Practice issued by the National Audit Office in April 2015 ("Code of Audit Practice") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Council and the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

AUDIT REPORT 2

Other information

The Director of Finance is responsible for the other information. The other information comprises the Narrative report together with all other information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts is consistent with the financial statements.

Conclusion on use of resources

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office in November 2017, we are satisfied that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we are required to report by exception

We have nothing to report in respect of the following other matters which the Code of Audit Practice requires us to report to you if:

- we have been unable to satisfy ourselves that the Annual Governance Statement is misleading or inconsistent with other information that is forthcoming from the audit;
- we issue a report in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit;
- we designate under section 24 of the Local Audit and Accountability Act 2014 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;

AUDIT REPORT 3

- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

Responsibilities of the Director of Finance and the Council

As explained more fully in the Statement of the Director of Finance Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which comprises the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view.

In preparing the financial statements, the Director of Finance is responsible for assessing the Council's and group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council intends to cease operations of the Council or group or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

In respect of our audit of the financial statements our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Auditor's responsibilities in respect of the Council's use of resources

We are required under Section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criterion specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

AUDIT REPORT 4

Certificate of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack, completed the work necessary to conclude on objections to the accounts received from local government electors. We are satisfied that this work does not have a material effect on the Council and group financial statements or on our use of resources conclusion.

Use of our report

This report is made solely to the members of London Borough of Barnet, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in the Responsibilities of the Audited Body and Responsibility of the Auditor within Chapter 2 of the Code of Audit Practice published by the National Audit Office.

Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members, as a body, for our audit work, for this report, or for the opinions we have formed.

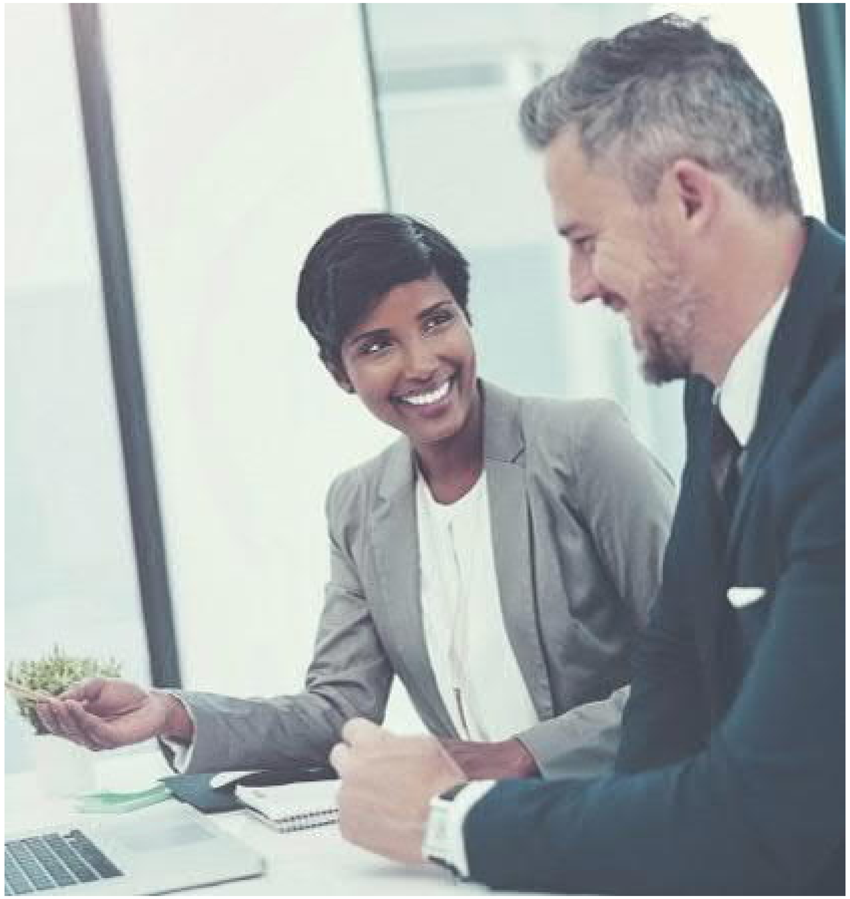
Leigh Lloyd Thomas

For and on behalf of BDO LLP, Appointed Auditor

London, UK

xx September 2019

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 a 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 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

Letter of representation

[Client name and Letter headed paper]

BDO LLP
55 Baker Street
London
WIU 7EU

Dear Sirs

Financial statements of London Borough of Barnet for the year ended 31 March 2019

We confirm that the following representations given to you in connection with your audit of the Group and the Council' financial statements for the year ended 31 March 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council and other Group entities.

The Director of Finance has fulfilled her responsibilities for the preparation and presentation of the Group and the Council financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Group and the Council as of 31 March 2019 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 of the Council 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 management and other meetings have been made available to you.

Going concern

We have made an assessment of the Group and the Council's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Group and 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. Furthermore, we confirm that the disclosures included in note 1.2 of the accounting policies to the financial statements are sufficient.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Group and the Council's ability to continue as a going concern.

Laws and regulations

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.

Post balance sheet events

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.

Fraud and error

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 made the results available to you.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

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

Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below.

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 as a whole.

Related party transactions

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.

Other than as disclosed in note 30 to the financial statements, there were no loans, transactions or arrangements between any Group entity and Council members or their connected persons at any time in the year which were required to be disclosed.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the consolidated Group and Council financial statements.

Accounting estimates

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): 2.5%

Rate of increase in salaries: 2.8%

Rate of increase in pensions: 2.5%

Rate of discounting scheme liabilities: 2.4%

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

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

Litigation and claims

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

Prepayment to Capita

We confirm that the remaining Capita mobilisation prepayment of £17.621 million and the Customer Support Group (CSG) prepayment of £2.535 million at 31 March 2019 are recoverable under the terms of the arrangement with Capita through reductions to the annual payments under the contract payment schedules, and following the termination of the CSG contract on 31 March 2019 this prepayment can be recovered from the contract payment schedules for the Regional Enterprises contact.

Confirmation

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

Yours faithfully

Anisa Darr	Rohit Grover
Director of Finance	Chair of the Audit Committee
[date]	[date]

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 your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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