LONDON BOROUGH OF BARNET

Annual Audit Letter

Year ended 31 March 2019

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EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the year ended 31 March 2019.

It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

Responsibilities of auditors and the Council

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

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice (the Code). Under the Code, we are required to report:

- Our opinion on the Council's and Pension Fund's financial statements; and
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

BDO LLP

BDO LLP

11 October 2019

Audit conclusions

Audit area	Conclusion
Financial statements Council	Unmodified opinion
Financial statements Pension Fund	Unmodified opinion
Use of resources	Unmodified conclusion
Audit certificate	We are unable to issue our audit certificate until we have completed our review of the Whole of Government Accounts return and objections in previous years.

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

FINANCIAL STATEMENTS

Council

Audit opinion on the Council's and Group's financial statements

We issued an unmodified audit opinion on the Council's and Group's financial statements on 30 September 2019. This means that we consider that the financial statements:

- Give a true and fair view of the financial position and its income and expenditure for the year; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2018/19.

Materiality

Financial statements materiality was determined based on 1.5% of gross expenditure at £16.9 million for the Council and £17.3 million for the Group.

Corrected misstatements

We identified material and other misstatements that have been corrected by management. These corrections related principally to the valuation of HRA dwellings and did not impact on the General Fund or HRA balances.

The misstatements increased expenditure for the Council by £29.8 million (Group by £11 million) and amended the reported surplus of £6.6 to a deficit of £23.1 million (Group deficit £4 million).

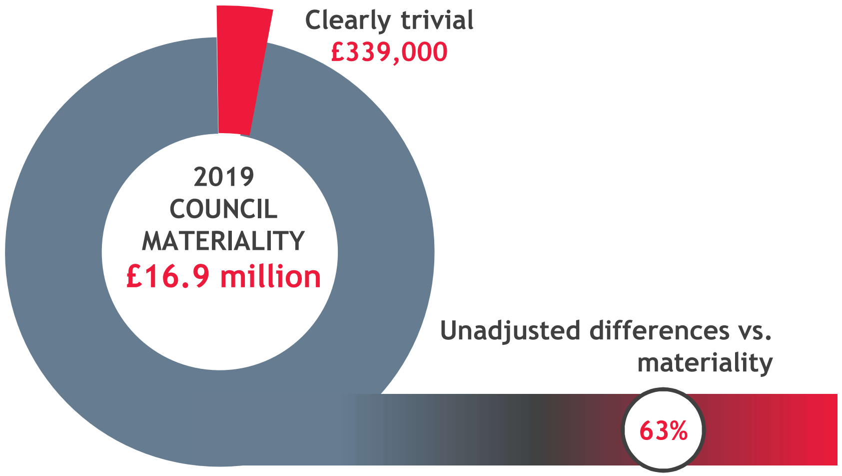
Unadjusted audit differences

There are nine unadjusted audit differences identified by our audit which would further increase the deficit on the provision of services for the Council by £10.6 million to £33.7 million (Group deficit increased by £11 million to £15 million).

The audit differences that impact on the deficit for the year relate to additional pension liabilities arising from the GMP obligation to equalise gender benefits (£3.8 million) and the McCloud age discrimination (£1.8 million), understatement of expenditure for the North London Waste Authority levy (£1.5 million), errors arising from the spreadsheets used for the valuations of dwellings (£0.5 million) and schools (£0.5 million), write off unrecoverable VAT (£1.5 million), gains from unreconciled school bank reconciliations (£1.5 million) and write down of school land to be transferred to an academy (£2.5 million).

One audit difference resulting from the gain in the share of the pension fund assets (£5.4 million) impacts only on the balance sheet.

Management has not corrected the financial statements for these misstatements.



FINANCIAL STATEMENTS

Pension Fund

Audit opinion on the pension fund financial statements

We issued an unmodified audit opinion on the pension fund financial statements on 30 September 2019. This means that we consider that the financial statements:

- Give a true and fair view of financial transactions of the pension fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019, other than the liabilities to pay pensions and other benefits after the end of the scheme year; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2018/19.

Materiality

Materiality for the pension fund financial statements as a whole was calculated at £11.4 million based on a benchmark of 1% of the value of the fund's investment assets.

Specific materiality for the fund account of £2.9 million was based on 5% of contributions.

Corrected misstatements

Management has made corrections in respect of £0.8 million of deficit contributions paid by government on behalf of Middlesex University that had not been accrued and £0.1 million unreconciled contributions due from the Council.

This has increased the fund's net assets by £0.9 million and income in the Fund Account increased from £54.7 million to £55.6 million.

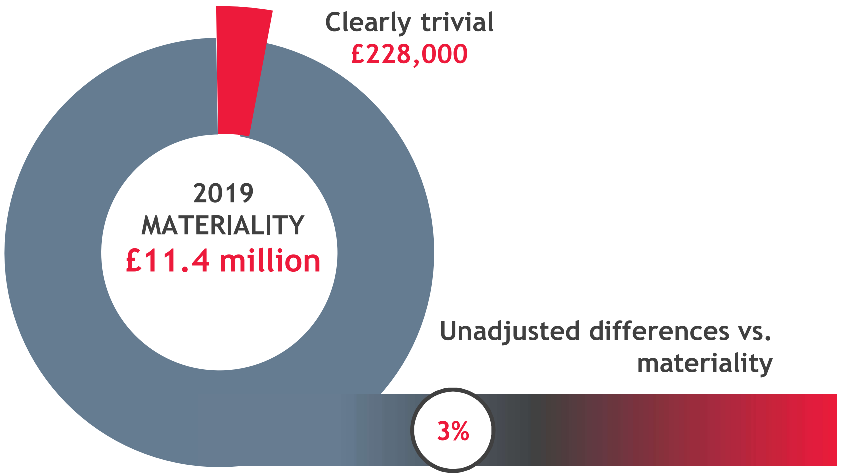
Unadjusted audit differences

There are five unadjusted audit differences identified by our audit which would increase the net assets by £0.3 million.

The audit differences relate to lump sum payments not accrued (£130,000), transfer payments that should be charged to the following year (£227,000), a late increase in investment valuations by a fund manager (£230,000), pension strain income not accrued (£132,000) and a unreconciled bank difference to expense (£139,000).

We also identified additional pension liabilities in respect of the McCloud age discrimination and GMP gender discrimination legal judgements that would increase the fund liability to pay future pensions by £9.6 million. While the pension liability is not reported in the net asset statement, it is a material disclosure that highlights the solvency of the fund under the financial reporting standards.

Management has not corrected the financial statements for these misstatements.



FINANCIAL STATEMENTS

Audit Risks

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

Risk description	How the risk was addressed by our audit	Results
Management override of controls	We carried out the following planned audit procedures: • Reviewed and verified large and unusual journal entries made in the year and agreed the journals to supporting documentation; • 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.	No issues were identified by our audit of journals and accounting estimates for management override of controls or management bias. Whilst the total value of uncorrected audit differences in the Council's and Group's financial statements remains high, the majority of these differences relate to the net pension liability and valuations of Property, Plant and Equipment that do not impact on the General Fund or HRA revenue balances and therefore are not indicative of management bias or deliberate misstatement of the financial statements.

FINANCIAL STATEMENTS
Audit Risks

Risk description	How the risk was addressed by our audit	Results
Revenue and expenditure recognition	We carried out the following planned audit procedures in response to the fraudulent revenue and expenditure recognition risk: • 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 have been recorded.	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. Our audit work to confirm expenditure has been recorded in the correct period did not identify any issues.

FINANCIAL STATEMENTS

Audit Risks

Risk description	How the risk was addressed by our audit	Results
Valuation of land, dwellings, buildings and investment property	We carried out the following planned audit procedures: • Reviewed the instructions provided to the valuers and reviewed the valuers' 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.	Our review of instructions to the valuer and assessment of their skills and expertise did not identify any issues. We confirmed basis of valuation for assets was appropriate for their use. 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. We found a number of errors in the valuations of the HRA dwellings that have been corrected by management. These include a fall in value from the December valuation to the end of March 2019 (£23.5 million), incorrect valuations for two Beacon group dwellings (£2.7 million) and dwellings earmarked for demolition not impaired (£3.6 million). We requested additional numbers of Beacon valuations to be undertaken to provide assurance that the overall market index applied to other dwellings was appropriate. We also found errors arising from the spreadsheets used for the valuations of dwellings (£0.5 million) and schools (£0.5 million), and land to be transferred to an academy school for no consideration that had not been written down (£2.5 million) that have not been corrected.

FINANCIAL STATEMENTS
Audit Risks

Risk description	How the risk was addressed by our audit	Results
Valuation of pension liabilities	We carried out the following planned audit procedures: • Assessed the qualifications and competence of the 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 actuaries and other observable data.	We have previously reported that the 2016 triennial data required significant data cleansing by the actuary and that some assumptions relating to deferred members were not correct and 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 of membership data, the scheme is currently undertaking a Common Data cleanse with the actuary to prepare for the 2019 triennial valuation. Initial review of this data cleansing has been positive. We compared the key financial and demographic assumptions used by the actuary to an acceptable range provided by a consulting actuary commissioned for local public auditors by the National Audit Office. The assumptions and methodology used by the actuary are appropriate, and will result in an estimate of the pension liability which falls within a reasonable range. The Council obtained an updated valuation of the liability to take account of the McCloud age discrimination ruling that would increase the Council’s liability by £1.8 million. The actuary confirmed that the liabilities has made no allowance for GMP equalisation costs. We have estimated that this could increase liabilities by £3.8 million for the Council. We identified that the estimated return on scheme assets in the pension fund had been understated and the Council’s share of scheme assets would increase by £5.4 million. The McCloud, GMP and scheme assets audit differences have not been corrected by management.

USE OF RESOURCES
Audit Risks

Audit conclusion on use of resources

We issued an unmodified conclusion on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources. This means that we consider that in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We set out below the risks that had the greatest effect on our audit strategy.

Risk description	How the risk was addressed by our audit	Results
Sustainable finances	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.	The MTFS shows a budget gap of £65 million over the period 2019 to 2024. The Council is working on a Priorities and Spending Review project to identify how to strategically respond to this significant challenge. The reduced use of reserves is in keeping with the Council's overarching financial strategy of eradicating the use of one-off funding to balance the budget. Over the course of the MTFS the available revenue reserves are expected to reduce to £29 million with non ring-fenced revenue reserves reducing to £21 million in 2023/24. The net budget overspend in 2018/19 of £0.8 million was after the a contribution to reserves of £1.3 million. This is a significant improvement on previous years financial performance. The Council delivered 91.2% of the planned saving in 2018/19 compared to 88.4% in the prior year. There has been improvements in managing resources and finances although more still needs to be done. The use of reserves to fund budget gaps has reduced and 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.

USE OF RESOURCES

Audit Risks

Risk description	How the risk was addressed by our audit	Results
Children's services	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.	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. We were able to remove our qualification on the previous use of resources conclusion referring to the weaknesses reported by Ofsted in Children's services.

REPORTS ISSUED AND FEES

Fees summary

	2018/19 Final £	2018/19 Planned £	2017/18 Final £
Proposed audit fee			
• Council and Group	[(1)] 168,741	130,919	[(2)] 197,262
• Pension Fund	[(1)] 35,978	21,170	[(2)] 43,810
Total audit fees	TBC	152,089	241,072
Non-audit assurance services:			
Fees for reporting on government grants:			
• Housing benefits subsidy claim	In progress	19,000	[(3)] 27,410
• Pooling of housing capital receipts return	In progress	2,750	[(3)] 4,771
• Teachers' pensions return	In progress	5,000	[(3)] 9,556
Fees for other non-audit services	In progress	26,750	41,737

Communication

Reports	Addressed to Audit Committee	Addressed to Pension Committee
Audit plan	21 January 2019	11 February 2019
Audit completion report	Initial 10 July 2019	Initial 26 July 2019
	Final 27 September 2019	Final 28 August 2019

[(1)] Additional audit costs have been incurred due to issues with HRA dwelling valuations, pension liabilities and resolving other misstatements included in this report. We have incurred additional costs of £37,822 on the Council and Group audit and £14,808 on the pension fund audit at PSAA contract rates.

[(2)] The planned Code audit fee for 2017/18 was £170,025 for the Council and £21,000 for the pension fund. Additional fees were agreed with management to resolve audit issues in that year.

[(3)] Additional work on grants and returns was required in 2017/18:

- DWP request to quantify the potential errors in Rent Officer Determinations in 2017/18.
- Pooled housing receipts technical clearance over transfer of 1-4-1 retained receipts to a controlled entity.
- Inadequate returns from schools with their own payroll providers and errors in the form.

FOR MORE INFORMATION:

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