Report to the Audit Committee

LONDON BOROUGH OF BARNET COUNCIL

Audit Progress Report

Year ended 31 March 2020

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BDO

CONTENTS

WELCOME

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

It summarises the results of the work to date for the year ended 31 March 2020, 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 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.

We will provide an update on outstanding work at the Audit Committee.

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

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

8 October 2020

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OVERVIEW

Executive summary

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 Group and use of resources of the Council for the year ended 31 March 2020.

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 on going and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the Group's financial statements and the Council's use of resources for the year ended 31 March 2020 in line with the agreed timetable.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified other than those risks reported to you on 8 June 2020.

No restrictions were placed on our work.

Audit report

To date all material misstatements in the financial statements identified through our audit have been corrected by management.

We anticipate issuing an unmodified audit opinion on the consolidated Group financial statements and the Council's single entity financial statements.

We have no exceptions to report in relation to the arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

THE NUMBERS

Executive summary

Final materiality

Group and Council materiality was determined based on a benchmark of 1.5% of gross expenditure.

We have increased our materiality from £16.2 million to £16.8 million (Group materiality from £17.3 million to £17.8 million) as a result of increase in final outturn of gross expenditure compared to the prior year.

Material misstatements

There were 15 audit differences identified by our audit work that have been adjusted by management. This increased the surplus on the provision of services for the Council and the Group by £44 million, to £150.8 million for the Council and £147.6 million for the Group. Net assets for the Council and Group increased by £26.9 million, to £964.8 million for the Council and £948.3 million for the Group.

These adjustments did not impact on the total General Fund and HRA balances as they all related to capital and financing items that are not proper charges to the General Fund and HRA, and have been reversed to other reserves through the Movement in Reserves statement.

Unadjusted audit differences

There is one unadjusted audit difference identified by our audit work to date that would decrease net assets by £1.1 million but has no impact on the Surplus on the provision of services.

There are 8 audit differences from the prior year corrected in 2019/20 that impact on the Comprehensive Income and Expenditure Statement surplus on the provision of services for 2019/20. The impact of unadjusted differences in the current year and roll forward of prior year differences has resulted in an understatement of the Surplus on the provision of services for 2019/20 of £10.6 million for the Council and £11.1 million for the Group.

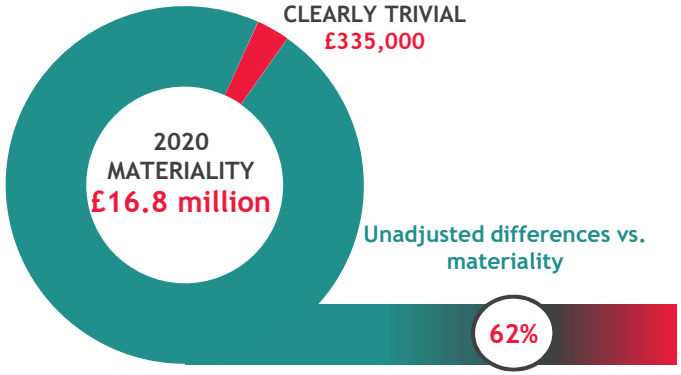
Audit scope

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.

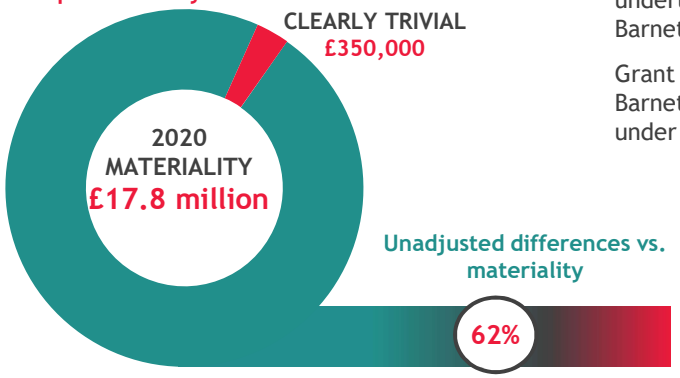
We have audited the Council's financial statements under the NAO Code of Audit Practice. We have undertaken specific procedures for Barnet (Holdings) Limited.

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

Council materiality



Group materiality



OTHER MATTERS

Executive summary

Financial reporting

- We have not identified any non-compliance with Group accounting policies or the applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.
- 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

- 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 Council and the Group in accordance with the Financial Reporting Council's (FRC's) Ethical Standard.

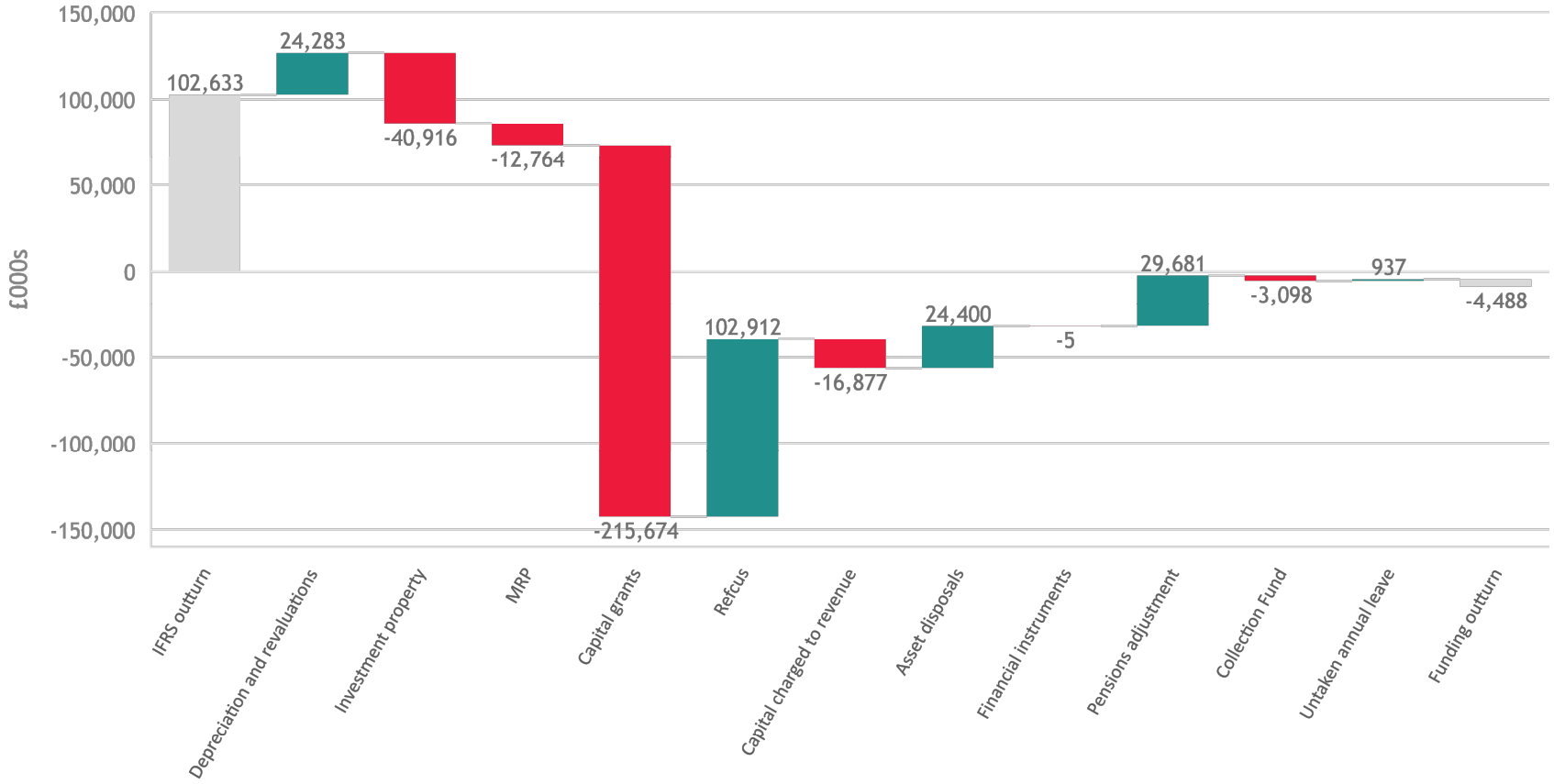
FINANCIAL OUTTURN

Executive summary

Reconciliation of CIES accounting outturn to funding outturn

The chart below highlights the statutory adjustments made to the CIES reported 'surplus on the provision of services' of £102.6 million (based on IFRS financial reporting requirements), per the draft accounts and before any audit adjustment, to the funding outturn deficit of £4.5 million.

This includes adjustments to remove capital charges (such as depreciation, revaluations and asset disposals) and replace with the statutory Minimum Revenue Provision, remove capital grants received and revenue funded from capital resources, include capital expenditure charged to revenue and replace the IAS 19 based pension costs for the year with amounts payable to the pension.



CORONAVIRUS IMPACT

The effects on year-end reporting and auditing

The emergence and spread of Coronavirus has had an effect on business and markets around the world. Guidance is now available to assist in identifying the potential corporate reporting and auditing issues and consequences of the virus, and there have been a number of Local Government specific issues, including relaxations to accounts preparation and audit timetables.

However, given the fast moving and ever changing nature of the situation, aspects of this corporate guidance will change over time. The outbreak is an in-year event and will impact the valuations, estimations and disclosures reflected in the financial statements for periods ending on or after 31 March 2020.

Going concern

In respect of going concern, the Chief Finance Officer is required to consider events that have occurred both before and after the balance sheet date when determining whether there is a material uncertainty over the ability to continue as a going concern. Consequently, forecast financial information, sensitivity analysis (which may require additional and/or different potential variances to be included) and compliance with bank and other covenants will need to factor in the estimated effects of the Coronavirus pandemic.

A common approach that is developing, and which BDO is encouraging, in relation to each set of financial statements that is prepared for audit is:

- The assessment of going concern that the Chief Finance Officer is required to undertake needs to explicitly consider the impact of Coronavirus to accommodate the uncertainty prevailing and must cover the period of at least 12 months from the date of signing the financial statements. The assessment may not be limited to this period if there are foreseen events or conditions beyond this period which may influence the economic decisions of users.
- The assessment needs to consider the entity's resilience through three lenses - operational capability (closed locations, reduced workforce through illness, breakdown in supply chain), demand for services (effect on income and expenditure) and structural finance (liquidity and access to committed facilities).
- If the Chief Finance Officer considers that there are material uncertainties, this will need to be referenced in the relevant disclosure and will result in a material uncertainty reference in the audit report (albeit the audit opinion is not qualified).
- The going concern disclosures in the basis of preparation note in the financial statements will also need to be enhanced.

Within local government, the Government's commitment to ensure that local authorities are adequately compensated for additional expenditure incurred or income lost directly as a result of the Coronavirus pandemic, removes some of the uncertainty faced by public sector entities. However, the assessment of going concern, and associated disclosures in the financial statements, are still expected to fully consider and record the impact of Coronavirus.

The auditor's review of Chief Finance Officer's assessments must be greater than normal, will require more evidence, and will continue to be performed through to the point of signing the audit report. While our assessment is iterative, our current view is that management has a good understanding of the impacts of coronavirus on year end reporting and auditing and the budget requirement in the coming years. See page 27 and 42

Grant funding

Grant funding received before 31 March 2020 to fund expenditure related to the Coronavirus pandemic will need to be assessed for conditions and recognised in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Valuations of financial and non-financial assets and liabilities

Data used in valuations of financial and non-financial assets and liabilities should be based on forecasts, projections and assumptions that were reasonable and supportable at the balance sheet date. For 31 March 2020 year ends, given that the significant development and spread of Coronavirus occurred within the financial year and that the World Health Organisation announced a global health emergency on 31 January 2020, the estimated impact of the Coronavirus pandemic will need to be factored into this data.

CORONAVIRUS IMPACT

The effects on year-end reporting and auditing

Subsequent events disclosure

Significant income and expenditure incurred as a result of the Coronavirus pandemic after 31 March 2020 and up to the date of signing may need to be disclosed as a non-adjusting post balance sheet event, if considered of such importance as to affect the ability of users of the financial statements to make proper evaluations.

Narrative reporting implications

The Annual Governance Statement should clearly set out the risks arising from Coronavirus.

Local authorities will need to monitor developments and ensure that they are providing up-to-date and meaningful disclosures when preparing their Statement of Accounts.

Other guidance

The National Audit Office (NAO) has published a Guide for audit committees on financial reporting and management during the Cornavirus pandemic. This guide aims to help audit committee members support and challenge the organisations they work with in the following areas: annual reports, financial reporting, control environment and regularity of expenditure.

The NAO has set out some questions to help audit committee members understand and challenge activities. Each section can be used on its own, although the NAO would recommend that audit committee members consider the whole guide, as the questions in other sections may be interrelated.

The guide may also be used as organisations and audit committees consider reporting in the 2020/21 period when more specific and detailed reporting on the outbreak will be required.

https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/

Implications for auditors

As part of our on-going risk assessment procedures, we need to think about other specific areas and balances where Coronavirus might cause an issue and if this presents an additional risk:

- Valuation and disclosure of financial and non-financial assets including property, plant and equipment (PPE), investment properties, intangibles, investments and accounts receivable
- Going concern and/or working capital assessment and disclosure
- Risk disclosures
- Subsequent event disclosures.

Personnel from audited entities may be unable to carry out their roles on site and/or be available to meet physically with our audit teams. Likewise, our people may be unable to work at audited entity sites or to travel to our offices, thereby potentially affecting the performance, review and supervision of the engagement team, including that of component or other auditors. We need to:

- Consider the impact on the audited entity
- Consider alternative ways of working including the use of our technology
- Consider implications for the quality of audit evidence and reporting.

Valuers are also encouraged by updated RICS guidance to include caveats within valuation reports relating to potential material uncertainties in their assessed valuations. In these cases, such caveats should be included within the financial statements and may be referred to by the auditor in their opinion/report.

AUDIT RISKS OVERVIEW

As identified in our updated Audit Planning Report dated 8 June 2020 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 estimate or judgement	Use of experts required	Error identified	Significant control findings	Discussion points / Letter of Representation
Management override of controls	Significant	No	No	-	-	Work still in progress on journals testing
Recognition of grant income	Significant	No	No	Yes	No	Incorrect classification of grant income
Expenditure cut-off	Significant	No	No	-	-	Work still in progress
Valuation of PPE and investment property	Significant	Yes	Yes	Yes	Yes	Corrections to valuations including updating valuations from December 2019 to 31 March 2020 and corrections to errors in asset data
Valuation of pension liability	Significant	Yes	Yes	No	No	No
Consolidation of group entities	Significant	No	No	-	-	Work still in progress
Allowance for non-collection of receivables	Significant	Yes	No	-	-	Work still in progress on loans to subsidiaries
Going concern	Significant	No	No	No	No	No
Related party transactions	Normal	No	No	No	No	No

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

Risk description

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.

Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.

Significant risk	■
Normal risk	
Significant management estimate or judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Work performed

We carried out the following planned audit procedures:

- Reviewed and verified 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 review of management estimates has not identified the existence of any systemic bias.

We did not identify any evidence to suggest unadjusted audit differences are indicative of bias or deliberate misstatement by management.

Work outstanding

Our audit of journals is in progress. Work completed to date has not identified any issues.

Conclusion

Work outstanding to be completed before we are able to conclude on this risk.

RECOGNITION OF GRANT INCOME

Risk description

Under auditing standards there is a presumption that income recognition presents a fraud risk. We consider there to be a significant risk in respect of the existence (recognition) of grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement(CIES).

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

Significant risk	■
Normal risk	
Significant management estimate or judgement	
Use of experts	
Unadjusted error	
Adjusted error	■
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Work performed

We tested a sample of grants included in income to documentation from grant paying bodies and checked whether recognition criteria have been met.

Results

Our audit work on grants confirmed that these were recognised when performance conditions attached to them had been satisfied.

However, we identified that one specific revenue grant of £7.89 million that should be have been presented as a service grant (and included in net cost of services) was incorrectly classified as non specific grant in the Comprehensive Income and Expenditure Statement. This has been corrected by management (Adjusted Ref#3).

Conclusion

Grant income has been appropriately recognised when the grant conditions have been met.

EXPENDITURE CUT-OFF

Risk description

For net-spending bodies in the public sector there is also risk of fraud related to recognition of expenditure. We consider the risk of fraud to be in respect of the cut-off of expenditure at year-end.

For public sector bodies the risk of fraud related to expenditure is also relevant.

Significant risk	■
Normal risk	
Significant management estimate or judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Work performed

We 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.

Work outstanding

Our audit of expenditure cut off and recognition is in progress. Work completed to date has not identified any issues.

Conclusion

Work outstanding to be completed before we are able to conclude on this risk.

PPE AND INVESTMENT PROPERTY

Risk description

Local authorities are required to ensure that the carrying value of land, buildings and dwellings 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. There is a risk over the valuation of these assets due to the high degree of estimation uncertainty and where updated valuations have not been provided for a class of assets at the year-end.

RICS has issued guidance to valuers regarding material uncertainties in valuations due to prevailing market conditions. A RICS Material Valuation Uncertainty Leaders Forum meets weekly and regularly provides updates to practitioners. The Council's valuers are engaged to provide valuations at 1 December and to refresh these valuations to 31 March. There is a significant risk that the valuers will not be able to provide valuations without reporting a material uncertainty over certain classes of assets.

The valuation of land, buildings, dwellings and investment property is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	
Significant management estimate or judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	■
Additional disclosure required	
Significant control findings to be reported	■
Letter of representation point	■

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;
- Reviewed assumptions used by the valuer in light of the prevailing market conditions to support the valuations including any material uncertainty for classes of assets;
- Followed up valuation movements that appear unusual or outside of our expectations; and
- Confirmed that assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct

Results

Our review of instructions to the valuer including the valuer's skills and expertise did not identify any issues. We 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 identified a number of issues that are reported on the following pages. The results of our review of the assumptions and estimates used by the valuer for classes of assets are also reported on the following pages.

The valuer has reported that his valuations as at 31 March 2020 are subject to material uncertainty, in line with the RICS guidance issued to valuers, due to the impact of Covid-19 and reduced market activity.

Conclusion

Management has made corrections to PPE and investment property valuations as noted on the following pages, including updating valuations from December 2019 to 31 March 2020 and corrections to errors in asset data.

The assumptions and estimates used in the valuations are reasonable although we are required to refer to the material uncertainty over valuations of classes of assets in our audit report.

PPE AND INVESTMENT PROPERTY

Significant estimate – Dwellings valuations

Council dwellings at Open Market Value Social Housing discount value £757 million

< lower | Impact of assumptions on the estimate | higher >

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 MHCLG in 2016 for regional (London) differences between market rents and social rents. The draft financial statements reported that council dwellings valuations increased by 3.52% (£25 million) but adjustments noted below increased this to 7.0% (£50 million).

Historically only a small number of the 403 Beacons have been valued each year and an average price movement then applied to all other Beacons. This has led to some atypical differences in value arising between similar properties but with different number of bedrooms where not subject to valuations for some years. This year the valuer has undertaken valuations for 76 Beacon properties as at December 2019 using recent sales of three similar properties by size, type and location for each with some adjustments made to sales prices to reflect differences with the Beacon dwelling. We checked that the properties used and any adjustments were appropriate and that the correct sales prices had been used. For Beacon properties not subject to valuation this year, the valuer has applied an adjustment of +/- 15% for each extra / fewer bedrooms against the valuations obtained for similar Beacons. We have reviewed Beacon valuation differentials where similar Beacons but with different bedroom numbers have been valued this year and this found that the average differential was 17.4%. We consider the +/-15% adjustment applied is therefore reasonable. We have also checked to ensure properties have been grouped into appropriate beacons.

The Council had incorrectly treated 213 properties as disposed of in year and recognised a loss of £13.2 million (159 of these properties being HRA council dwellings). This was due to Barnet Homes providing inadequate information to the Council to account for its major works programme, new property purchases and out of borough property acquisitions. We recommend that all Council departments involved in regeneration / redevelopment provide the Finance team and Barnet Homes with plans, agreements and transfer documents so that assets disposals and acquisitions can be managed and accounted for correctly. After reinstating the depreciation charge the net adjustment of £12.8 million has been corrected by management (Adjusted Ref#4).

We compared Land Registry price movements from January to 31 March 2020 to assess whether there had been a material change in value since the December valuation. This reported a further increase of 3.19% for Houses and 3.67% for Flats across the borough. Applying the market index for the final quarter and including the valuation gains for the year on the properties noted above that were initially recorded as disposals would materially increase the value of dwellings. We also noted that the valuations spreadsheet provided for audit contained formulae errors causing duplications in the valuation schedules. The net impact has been to increase the valuation by £26.741 million. This has been corrected by management (Adjusted Ref#11).

We found that 35 properties purchased for £11.5 million had been incorrectly classified as council dwellings but should have been recorded as investment properties. This has been corrected by management (Adjusted Ref#6).

We are satisfied that the December valuations are reasonable and based on similar recent sales applied to Beacons. However, a material uplift in valuations for the final quarter had not been adjusted for and there were errors in the underlying dwelling numbers and the valuation spreadsheets. Following the corrections to the financial statements, we are satisfied that the valuations and estimates used are reasonable.

PPE AND INVESTMENT PROPERTY

Significant estimate – Buildings at depreciated replacement cost valuations

Buildings at Depreciation Replacement Cost DRC £287 million

< lower **Impact of assumptions on the estimate** **higher >**

Council owned schools are valued on the basis of government guidance on the minimum required floor area per pupil for different types of school, rather than the actual size of the existing school, using estimated rebuild costs. Leisure centres are valued using the existing gross internal area and estimated rebuild costs. These valuations are then reduced to reflect the age of the building. The draft financial statements reported that schools had increased in value by 7.46% (£13.7 million) but adjustments noted below increased this to 9.0% (£16.6 million).

The school rebuild sizes used have been agreed to 2018/19 published pupil numbers by the Department for Education, showing a small reduction in pupil numbers of 0.5% from the previous year. The latest school pupil numbers for the 2019/20 academic year were recently released and show a further reduction in pupil numbers that would further reduce the required school replacement cost by £1.1 million. Pupil numbers are not normally published until October/November and were published early this year in September. Valuation was based on latest available pupil numbers at the time of valuation(which was the 2018/19 published pupil numbers).Latest pupils number shows an immaterial reduction in replacement cost by £1.1 million and this has not been reflected in the valuation (Unadjusted Ref#1).

RICS published build costs per sqm. have increased to December 2019 by between 8% to 14% depending on the type of school. The valuer has applied the upper quartile rebuild rates rather than the average regional rate based on recent schools projects where the Council has tended to over-specify the minimum requirements for school buildings. This is reasonable but does tend to result in a higher valuation than required by the guidance.

The age allowance adjustment for each buildings is based on a reduction in the replacement valuation of 2% each year using the estimated useful life of 50 years. This is considered to be a reasonable approximation for the age / obsolescence allowance for the valuation.

However, a formula error in the valuation spreadsheet resulted in the valuation of schools to be overstated by £0.987 million (Adjusted Ref#15). We also found that valuation provided by the valuer was incorrectly entered into the asset register resulting in understatement of schools value by £4.3 million (Adjusted Ref#2). We also noted that the Council had not derecognised a school that became an independent academy school during the year. Under the terms of the transfer to an academy, the local education authority transfers ownership of the school to the Department for Education for nil consideration. This resulted in an overstatement of schools values by £4.9 million (Adjusted Ref#1). These have been corrected by management.

Leisure centres valuations have been indexed by the increase in RICS build costs for the year to December 2019 and the rebuild costs used remain within the upper and lower sqm. costs for new leisure centres. The two new leisure centres have been valued for the first time in 2019/20 and show a decrease in value of £3 million compared to the construction costs. This is not unusual on initial valuation since DRC valuations assume no overruns or over-specification of the buildings.

The RICS build costs index movement from January to March 2020 is +0.3% and the use of the December 2019 build costs remains reasonable.

However, £16.5 million of cost for the new Barnet leisure centre was still recorded in Assets under Construction and the asset was then revalued and recorded as a new asset in the asset register, resulting in the asset being recorded twice. This has been corrected by management (Adjusted Ref#10). We also found that the Valuer had undervalued the new Copthall leisure centre by £2.6 million as the Council had supplied the incorrect build cost data which was used for the valuation. This has been corrected by management (Adjusted Ref#13).

Subject to the data errors corrected above, we are satisfied that buildings valued at depreciated replacement cost are reasonable, although the use of the upper quartile rebuild cost for schools does tend to place a higher valuation on schools.

PPE AND INVESTMENT PROPERTY

Significant estimate – Other land and buildings valuations

Other land and buildings at Existing Use Value £239 million

< lower **Impact of assumptions on the estimate** **higher >**

Other land and buildings (such as libraries, out of borough temporary accommodation, garages, depots and cemeteries) are valued using the most appropriate of market value or income method. Those assets with large elements of land have been valued using the latest available published land values at £6.9 million per hectare. The valuer has revalued 144 out of the 259 larger asset at December 2019 resulting in an overall reduction of £9.4 million. The new Council office (currently carried at £50 million) is not due to be revalued until 2020/21.

We compared valuation movements to expectations using MCSI regional capital growth indices (for buildings) that reported a reduction of 11.6% for retail units, an increase of 0.4% for offices and an increase of +2.4% for industrial buildings for year to December 2019. Where valuations fell outside of these expectations, we discussed these with the valuer to understand the reasons for the differences. We were able to obtain assurances from the valuer for valuations that fell outside of our expectations including those noted below.

The key valuation changes included spending on residential properties outside of the borough for use as temporary homeless accommodation, where 82 properties purchased in 2018/19 had significant amounts spent on them to bring them up to standard but where this was found to have added only limited value, resulting in a write down of £2.3 million of improvement. The new Tarling Road Community centre cost £5.6 million to build but has been valued on an existing use basis at only £1.3 million as it has low rental potential, resulting in a write down of £4.3 million. Barnet garages have fallen in value by £1.9 million due to their poor state of repair .

We are still waiting for the valuation reports for the out of borough temporary homeless accommodation.

We reviewed MSCI indices from January to 31 March 2020 that suggests a small increase in values of garages £0.5 million since the December valuation and management has updates the valuations to March 2020 (Adjusted Ref#9).

We are satisfied that other land and buildings valued on existing use basis are reasonable and valuation movements are consistent with recent MSCI indices and other public data.

PPE AND INVESTMENT PROPERTY

Significant estimate – Surplus assets valuations

Surplus assets at fair value £149 million

< lower **Impact of assumptions on the estimate** **higher >**

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.

The surplus assets category now includes all of the consolidated Brent Cross South development assets valued at £97 million, £91 million of which have been reclassified from investment properties in 2019/20. These assets mainly include land previously valued with future development potential and are now valued as land with active residual developments. These assets include land previously valued at a comparable best industrial land value as advised by CBRE at £4.4 million per acre totalling £61 million. As the development is actively progressing, the land is now valued on a residual method basis based on the residual value arising from the 203 individual developments. For the Council there are currently 34 residual method developments in Phases 1-4. We have reviewed the key inputs into the financial models for 20 of these development using independent advisor reports from consultants to the BXS LP developers in which the Council has a 50% shareholding. These give rise to most of the Council's forecast returns on the Brent Cross South development. The change in valuation methodology equates to a land value of £7.4 million per acre for gross receipts before present value adjustments. Some audit work remains in progress due to delays obtaining supporting information from the Council and Argent.

The remaining surplus assets revalued in the year has decreased by £4.3 million as a result of planning consent for the previous developments having lapsed and the proposed new developments comprising a larger elements of social housing.

Our review of surplus assets against recent disposals identified one parcel of land that was being actively marketed for sale before year end and recently completed, and therefore should be reclassified to Assets held for sale. This had a current sales estimated value of £10.3 million although we found that the covenants on the previous acquisition by the Council will require that it pays £2.3 million of the proceeds to London Borough of Camden Council due to the change in planning consents increasing the value for the land. The valuation should therefore be reduced to the lower of the carrying value or fair value less cost sell, being a reduction to £8.2 million. This has been corrected by management (Adjusted Ref#7).

We also found that £1.7 million of surplus assets relating to the Brent Cross South development were included in the 213 properties incorrectly treated as disposals (see page 15). This has been corrected by management (Adjusted Ref#5).

Subject to the data errors corrected above, we are satisfied that surplus assets valued at fair value are reasonable.

PPE AND INVESTMENT PROPERTY

Significant estimate – Investment property valuations

Investment properties at fair value £92 million.

< lower **Impact of assumptions on the estimate** **higher >**

Investment properties are valued at fair value (highest and best use) usually based on the current and future potential rent yields.

The Council acquired 35 Buy Back assets in the year (previously council owned dwellings re-purchased at open market value) for £11.5m that had been incorrectly recorded as council dwellings rather than investment properties (Adjusted Ref #6). Further investigation found an additional 29 properties acquired pre April 2018 also incorrectly included in council dwellings at £1.4 million (Adjusted Ref#5) and erroneously recorded as disposals in the 213 properties (see page 15). This resulted in 64 Buy Back assets being reclassified to investment properties.

Updated valuations as investment properties resulted in an overstatement of the assets by £3.9 million. This has been corrected by management (Adjusted Ref#12).

For other investment properties, we agreed the rental income used in the valuations to the tenant leases and assessed whether the yields applied are reasonable. We compared valuation movements to expectations using MCSI regional capital growth indices that reported an increase of 5.8% while MSCI Rental All index reported a decrease of 0.5% for the year to December 2019. Where valuations fell outside of these expectations, we discussed these with the valuer to understand the reasons for the differences.

Subject to the data errors corrected above, we are satisfied that investment properties valued at fair value are reasonable.

PENSION LIABILITY VALUATION

Risk description

The valuation of the defined benefit obligation is a complex calculation involving a number of significant judgements and assumptions. The actuarial estimate of the pension fund liability uses information on current, deferred and retired member data and applies various actuarial assumptions over pension increases, salary increases, mortality, commutation take up and discount rates to calculate the net present value of the liability.

The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	
Significant management estimate or judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

There is a risk that the membership data submitted in the 2019 triennial valuation and 2018/19 cash flows provided to the actuary at year end may not be accurate, and that the actuary uses inappropriate assumptions to value the liability. Relatively small adjustments to assumptions used can have a material impact on the Council's share of the scheme liabilityWork performed.

Work performed

We carried out the following planned audit procedures:

- Reviewed the competence of the management expert (actuary);
- Reviewed the controls in place for providing accurate membership data to the actuary and testing the data provided at the triennial valuation through our audit of the pension fund;
- Checked that any significant changes in membership data since the triennial submission have been communicated to the actuary;
- Assessed how the actuary has addressed recent discrimination cases in the liability calculation; and
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.

Results

Our review of the competence of the actuary did not identify any issues.

The pension scheme undertook a Common Data cleanse with the actuary to ensure the existence, completeness and accuracy membership data prior to the 2019 triennial valuation. The final report from the actuary indicated that after the data validation stage, the membership data submitted by the Fund for the 2019 valuation was suitable for the purpose of a funding valuation. This membership data is rolled forward for use in the 31 March 2020 accounting valuation.

Enquiry of the pension fund scheme and other audit work carried out confirmed that there were no significant changes in the membership data subsequent to the triennial submission.

PENSION LIABILITY VALUATION

The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty

Results (continued)

The following discrimination cases covering GMP gender equality, McCloud age discrimination and Goodwin spousal pensions are currently subject to remedy action that is likely to impact on liability to pay future pensions.

The actuary has applied full GMP indexation for members at state pension age this year. This is consistent with all other local government actuaries. We understand that in the previous year, indexation only for the 2016 to 2018 interim solution period was included in the liability and we previously reported an estimated audit difference of £3.8 million in 2018/19. We have sought confirmation from the actuary of the amount included in the liability for GMP indexation covering the 2016-2018, 2018-2021 and post 2021 periods.

The actuary has calculated the impact of McCloud at £3.124 million. However, it is not clear from the actuary report what year a member needed to be a scheme member to benefit from the final salary underpin. Will have sought confirmation of the assumptions used by the actuary in calculating this additional liability. The Government has recently issued a consultation document that suggests that members in the scheme at 2012 will qualify for the scheme amendments. No liability was included in the previous year and we previously reported an audit difference of £1.8 million based on information provided by the actuary last year. This liability has been reported as a past service cost in the Comprehensive Income and Expenditure Statement this year.

In July, HM Treasury announced that it would be amending the Teachers Pension scheme to remove the differential in survivor pensions for same sex marriage or civil partnerships following the Goodwin case, and that this will also apply to other public sector pension schemes. This is expected to result in lower survivor pensions although the actuary has not yet assessed the impact on the pension liability. Initial discussions with actuaries suggests that the impact will not be material.

The results of our review of the reasonableness of the assumptions used in the calculation against other local government actuaries and observable data is reported on the following page.

Work outstanding

To agree the 2019/20 cash flows for contributions, benefits paid and investment returns used by the actuary to the payroll data and pension fund asset returns.

Conclusion

The defined benefit obligation has been appropriately calculated and the assumptions used are reasonable.

PENSION LIABILITY VALUATION

Significant estimate – LGPS pension liabilities

Council pension liabilities £1,073 million funded LGPS and £26 million unfunded promised retirement benefits

< lower **Impact of assumptions on the estimate** **higher >**

The Council's pension liability has decreased from £1,297 million to £1,099 million and it's share of the scheme assets decreased from £686 million to £586 million. The net deficit decreased by £98 million to £513 million. The reduction in the liability includes £88 million savings from changes to financial assumptions such as reduced annual salary increases above CPI at 2.6% (previously 2.8%), reduced annual pension increases at 1.9% (previously 2.4%) offset by a fall in the rate of discounting scheme liabilities to 2.3% (previously 2.4%); £33 million savings from demographic assumptions and reduced longevity of members; and £115 million reduction from updates to membership information from the 2019 triennial update including transfer of staff to other employers. The share of scheme assets has reduced by £109 million due to falling investment values in the pension fund and reallocation of assets to other employers for transferred staff.

We have compared the key financial and demographic assumptions used to an acceptable range provided by our a consulting actuary.

	Actual used	Acceptable range	Comments
Financials:			
- RPI increase	2.90%	2.7 - 2.90%	Reasonable
- CPI / pensions	1.90%	1.8 - 2.00%	Reasonable
- Salary increase	2.60%	1.8 – 2.90%	Reasonable - short term assumption of lower rate and increasing long term assumption
- Discount rate	2.30%	2.30%	Reasonable
Commutation:	50%	50%	Reasonable
Mortality:			
- Male current	22.9 years	21.6 - 23.3	Reasonable
- Female current	25.7 years	24.6 - 26.3	Reasonable
- Male retired	21.7 years	20.5 - 22.2	Reasonable
- Female retired	24.0 years	22.9 - 24.3	Reasonable
Mortality gains	CMI 2018 (+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 pension liability which falls within a reasonable range. Our actuary has provided an estimate of the overall strength of assumptions and this indicates that the estimate has tended towards a slightly prudent (higher) liability mainly due to using the CMI 2018 mortality gains rather than the latest available CMI 2019 tables.

CONSOLIDATION OF GROUP ENTITIES

Risk description

With increasing inter-company activities and different accounting frameworks applied by group entities, there is risk of errors in the consolidation of group entities where transactions and balances are not eliminated appropriately.

There is a risk over the consolidation of group entities.

Significant risk	■
Normal risk	
Significant management estimate or judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Work performed

We carried out the following planned audit procedures:

- Reviewed the consolidation workings to ensure that intercompany transactions and balance have been treated appropriately, with emphasis on reviewing asset transfers between group entities; and
- Reviewed the principal accounting policies applied by group entities and ensure that they have been consistently applied in the group financial statement.

Work outstanding

Our audit of the group consolidation is in progress.

Conclusion

Work outstanding to be completed before we are able to conclude on this risk.

NON-COLLECTION OF RECEIVABLES

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.

There is an increased risk of customer default over collection of receivables where the losses are measured using either the Incurred Credit Loss model for statutory debt (eg council tax and NDR) or Expected Credit Loss (contract receivables). For some receivables, the Council may have suspended recovery action or offered deferred payment terms, and some customers that may be taking advantage of these arrangements may be in financial difficulty.

Estimating potential losses from defaults on amounts due will be subject to a greater degree of estimation than in previous years, historical collection rates may offer only some indication of potential future losses and assigning key economic metrics that may reflect patterns of historic default rates may be imperfect in the current conditions.

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

Significant risk	■
Normal risk	
Significant management estimate or judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Work performed

We carried out the following planned audit procedures:

- Reviewed the provision model for significant receivables balances to assess whether it appropriately reflects potential default losses in light of current conditions using historical collection rates, an assessment of potential defaults for customers making use of deferral arrangements and aging of debt, and future losses and assessing the sensitivities to the impairment calculation and assumptions used by management; and
- Reviewed business plans to support recoverability of amounts due as receivables or loans from group entities.

Results

Our review of the appropriateness of the allowance for non-collection for each type of significant receivable balance is noted on the following pages. Management has applied historical default rates (incurred losses) using system data to determine the credit losses on both the statutory debt and on trade receivables that fall within the scope of IFRS 9. The Council does not have the data to establish which customers taking advantage of the deferred payment arrangements may be in financial difficulties and historical collection rates may only offer some indication of potential future loss for these customers.

Therefore, the estimated credit loss has then been increased by a further £3 million to take into account the increased risk of losses due to the economic impact of Covid-19. This additional loss allowance was not substantiated by any forward looking data or modelled against specific receivable type, and has been included by management to provide some headroom for future losses and debt write off. This suggests that the credit loss allowance has tended towards being prudent but not unreasonable based the uncertainty inherent in the current environment.

Work outstanding

The Council has advanced loans of £32 million to Open Door Ltd, a subsidiary of the Council, and included an expected credit loss provision of £4.1 million this year. We have requested for evidence to support this loss provision.

We have also requested an analysis by age of sundry receivables to assess the reasonableness of the allowance.

Conclusion

Work outstanding to be completed before we are able to conclude on this risk.

NON-COLLECTION OF RECEIVABLES

Significant estimate – allowance for credit losses

Gross receivables £213 million and total credit loss allowance £75 million

< lower **Impact of assumptions on the estimate** **higher >**

Council tax arrears (Collection fund £41 million the Council's share £32 million)

The Council has recognised an allowance of £18 million for non-collection of its share of the council tax arrears of £32 million. The Council's share of the arrears has increased by £4 million and the credit loss allowance has also been increased by £4 million.

The credit loss allowance is estimated using recovery rates achieved for aged arrears in recent years for each year up to 6 years old. For debts over 6 years a flat provision rate of 80% is applied. We checked that the data used to calculate collection rates for arrears up to 6 years old is correct and the provisioning rates have been correctly applied to aged debt at 31 March 2020. We extended the review to cover actual collection rates for debts over 6 years and this suggests that the flat rate 80% may be slightly over prudent but well within an acceptable range.

NDR arrears (Collection fund £15 million the Council's share £7 million)

The Council has recognised an allowance of £4.5 million for non-collection of its share of the NDR business rates arrears of £7 million. The Council's share of the arrears has decreased by £1 million and the credit loss allowance has also been decreased by £1 million.

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 any potential overstatement of the credit loss allowance.

Housing benefits overpayment debt (£25 million)

The Council has recognised an allowance of £24 million for non-collection of housing benefit overpayment on total debt of £25 million. In the prior year an allowance 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 (£13 million)

The Council has recognised an allowance for non-collection of housing rents arrears of £10.3 million on total debt of £13.4 million. In the prior year a provision of £9 million was raised against rent arrears of £12 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.

(continued next page)

NON-COLLECTION OF RECEIVABLES

Significant estimate – allowance for credit losses

Gross receivables £213 million and total credit loss allowance £75 million

Parking arrears (£11 million)

The Council has recognised an allowance for non-collection of parking arrears of £7 million on total debt of £10.7 million. In the prior year a provision of £5 million was raised against rent arrears of £7.8 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.

Sundry receivables (£83 million)

Sundry receivables includes £36 million of government debtors that does not need to be included within the expected credit losses model since Government debt is not considered to be at risk.

An expected credit loss allowance of £2.5 million has been provided for against the remaining £47 million of sundry receivables. The majority of the receivables are still within current payment terms and is not considered to be at risk of non-collection.

We have requested an analysis of the aging of this debt to ensure that the expected credit loss estimate is reasonable.

Additional allowance for expected credit losses

As noted above, management has applied historical default rates (incurred losses) using system data to determine the credit losses on both the statutory debt and on trade receivables that fall within the scope of IFRS 9. The Council does not have the data to establish which customers taking advantage of the deferred payment arrangements may be in financial difficulties and historical collection rates may only offer some indication of potential future loss for these customers.

Therefore, the estimated credit loss has then been increased by a further £3 million to take into account the increased risk of losses due to the economic impact of Covid-19. This additional loss allowance was not substantiated by any forward looking data or modelled against specific receivable type, and has been included by management to provide some headroom for future losses and debt write off. This suggests that the credit loss allowance has tended towards being prudent but not unreasonable based the uncertainty inherent in the current environment.

Loans to subsidiaries (£32 million)

The Council has advanced loans of £32 million to Open Door Ltd, a subsidiary of the Council, and included an expected credit loss provision of £4.1 million this year.

We have requested for evidence to support this loss provision.

GOING CONCERN

Risk detail

It is management's responsibility to make an assessment of an entity's ability to continue as a going concern and provide appropriate disclosures relating to how that assessment was performed and its results.

We are required to highlight any judgements about events or conditions that may cast significant doubt over the entity's ability to continue as a going concern

Significant risk
Normal risk
Significant management estimate or judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant control findings to be reported
Letter of representation point

The assessment of going concern under the effects of the coronavirus outbreak will need to incorporate unprecedented shocks to forecasts. The increased demand on services, decline in income from services, deferrals of normal payment terms or impairment of debt, decreases in asset values and supply chain disruptions may be dissimilar to any previously encountered 'real world' scenario, making forecasting the precise results difficult.

The effects of the coronavirus are likely to affect the level of uncertainty that may exist in an assertion that the entity will be able to continue as a going concern. Regardless of the result of management's assessment, many entities will need to disclose key judgments and estimates it used to arrive at this conclusion.

Key areas in a going concern assessment may include: sources of assumed liquidity and cash flows, forecasts of future revenue or additional expenditure, and support from government.

Planned audit approach

Our audit procedures will include the following:

- Reviewed management's assessment of going concern, including sensitivities of the assumptions and impact on cash flows and available reserves; and
- Understood how management would address a shortfall in cash available to meet liabilities as they fall due.

Results

Management's assessment of cash flows and its financial position supports the going concern basis of preparation of the financial statements. The Council has access to significant cash balances to support on going spending commitments and loss of income arising from Covid-19. Additional information on financial sustainability is included later in the report to support the use of resources assessment.

Management has provided enhanced disclosures in the financial statements to support its assessment of going concern.

Conclusion

We have reviewed management's cash flow forecasts and budgets, including stress testing some of the assumptions, and we concur that there are no material uncertainties to the going concern of the Council.

RELATED PARTY TRANSACTIONS

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.

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

Significant risk
Normal risk
Significant management estimate or judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant control findings to be reported
Letter of representation point

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 reviewed 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 issues with related party transactions, balances and disclosures in the financial statements.

Conclusion

Related party transactions have been appropriately reported in the financial statements.

OTHER MATTERS

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

Issue	Comment
The Code was amended last year to change the presentation requirements for the analysis of debtors and creditors from the type of counter party (eg Government or NHS) to the nature of the receivables or payables (eg for receivables by trade customers, receivables from related parties, prepayments and other amounts). The presentation of the debtors and creditors analysis has not been updated to reflect the changes to the Code last year.	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.
In 2018/19 the Council acquired an entity that provided it with an option to purchase land from Network Rail in the Brent Cross South development zone. The acquisition of this entity was as a joint venture through the Council and a separate wholly owned subsidiary. The Council advanced a £5 million loan to the subsidiary for it to purchase its share of the entity. The acquisition cost of £10 million reflected the value of the option to purchase the land. This year, the Council has written down the value of the £5 million loan to the subsidiary and its own £5 million investment in the entity to £nil on the basis that the land purchase option now has no value. We challenged the assumptions made by management and discussed the latest financial model for the Brent Cross South development to assess whether this land purchase option should be impaired to £nil in the entity to support the write down of the Council's investment and loan. The financial model indicates that there remains a healthy developers margin in the project that exceeds the £10 million acquisition cost and therefore no indication that the loan and investment should be impaired or written off. Management has agreed to reverse the impairment in the single entity's financial statements and the in the group accounts to reverse impairment of the option which was recognised as intangible asset.	The financial model for the Brent Cross South development on this land does not support the impairment of the investment or loan to the subsidiary. This has been corrected by management (Adjusted Ref#8).
We identified that proceeds from sale of a general fund asset was misclassified as proceeds from HRA asset disposals.	General fund assets disposals of £0.8 million are misclassified as HRA disposals. This has been corrected by management (Adjusted Ref#14).

OTHER MATTERS

Issue	Comment
Our review of the draft accounts identified a number of presentational misstatements. For example: • Re-measurement of defined benefit liability of £132.324 million in the group CIES did not agree to notes in the accounts showing changes in fair value of plan assets and defined benefit obligation; • Group property, plant and equipment is material and should include a separate Group note to explain the movement; • Group cash flows from investing and financing activities are material and should include a separate Group note to explain the movement; • Government grants and contribution per income and expenditure analysis by nature note did not agree to grant income note; • Prior year comparative disclosures for property plant and equipment note did not agree to the prior year financial statements; • Debtors and creditors at amortised cost in the financial instrument note included statutory debts that should be excluded from this analysis; • The surplus on provision of services in the unusable reserve note did not agree to the comprehensive income and expenditure statement; • The fair value of pension scheme assets in the scheme asset reconciliation note did not agree to the actuary's report; • Council dwellings depreciation per HRA statement did not agree to property plant and equipment notes; and • Capital receipts and other contributions in the capital expenditure and financing note in the HRA statement did not agree to the adjustment between accounting and funding basis notes.	Presentational errors in the notes and disclosures in the financial statements should be corrected and additional information provided for the Group financial statements where the Group amounts are material. Management has corrected these presentational errors.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Fraud

Whilst the Chief Finance Officer and members have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud.

Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Planning Report.

Laws and regulations

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.

Group matters

We have not yet received the component auditors working papers.

AUDIT DIFFERENCES

Audit adjustments

There were 15 audit differences identified by our audit work that have been adjusted by management. This increased the surplus on the provision of services for the Council and the Group by £44 million, to £150.8 million for the Council and £147.6 million for the Group.

Net assets for the Council and Group increased by £26.9 million, to £964.9 million for the Council and £948.3 million for the Group.

Details of all audit adjustments are shown on pages 33 to 36.

These adjustments did not impact on the total General Fund and HRA balances as they all related to capital and financing items that are not proper charges to the General Fund and HRA, and have been revered to other reserves through the Movement in Reserves statement.

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

There is one unadjusted audit difference identified by our audit work to date that would decrease net assets by £1.1 million but has no impact on the Surplus on the provision of services (see page 37).

There are 8 audit differences (page 38) from the prior year corrected in 2019/20 that impact on the Comprehensive Income and Expenditure Statement surplus on the provision of services for 2019/20. These therefore result in a misstatement of the underlying reported outturn for the current year. These are no longer audit differences at 31 March 2020 and we do not ask that you correct these as a prior period adjustment as the impact is not material.

The impact of unadjusted differences in the current year and roll forward of prior year differences has resulted in an understatement of the Surplus on the provision of services for 2019/20 of £10.6 million for the Council and £11.1 million for the Group.

ADJUSTED AUDIT DIFFERENCES

	Council									
	Income and expenditure			Balance Sheet		Income and expenditure			Balance sheet	
Adjusted audit differences	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000	DR £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
(Surplus) on the provision of services / net assets for the year before adjustments	**(106,813)**			937,941		**(103,656)**			921,419	
Adjustment 1: Transfer of a school property that changed to academy status										
Dr Other operating expend (loss on disposal) **	**4,899**	4,899				**4,899**	4,899			
Cr Schools asset					(4,899)					(4,899)
Adjustment 2: Input errors on the Schools MEA valuations										
Dr Schools assets				4,300					4,300	
Cr Revaluation gains CIES **	**(3,220)**		(3,220)			**(3,220)**		(3,220)		
Cr Revaluation reserve *					(1,080)					(1,080)
Adjustment 3: Reclassification of grants as taxation and non-specific grants instead of specific service grant										
Dr Taxation and non specific grant income		7,891					7,891			
Cr Adult social care income			(7,891)					(7,891)		
Adjustment 4: Assets incorrectly treated as disposals										
Dr Council dwellings				12,786					12,786	
Cr Other operating expenditure **	**(12,786)**		(12,786)			**(12,786)**		(12,786)		
Adjustment 5: Reclassification of investment property and surplus asset classified as council dwelling (includes dwellings in disposals per Adj 4)										
Dr Investment property				1,371					1,371	
Dr Other operating expenditure **	**1,671**	1,671				**1,671**	1,671			
Cr Council dwellings					(3,042)					(3,042)

ADJUSTED AUDIT DIFFERENCES

	Council					Group				
	Income and expenditure			Balance Sheet		Income and expenditure			Balance sheet	
Adjusted audit differences	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjustment 6: Reclassification of investment property classified as council dwelling										
Dr Investment properties				11,498						
Cr Council dwellings					(11,498)					
Adjustment 7: Reclassification Asset held for sale classified as surplus assets										
Dr Assets held for sale				8,230					8,230	
Cr Surplus assets					(10,305)					(10,305)
Dr Revaluations reserve *				2,075					2,075	
Adjustment 8: Reversal of impairment investment and loans to subsidiary										
Dr Long term investments				5,000					5,000	
Dr Long term debtors				5,000					5,000	
Cr Financing expenditure (impairments) **	**(10,000)**		(10,000)			**(10,000)**		(10,000)		
Adjustment 9: Indexation Q4 garages										
Dr Other land and buildings				542					542	
Cr Revaluations reserve *					(542)					(542)
Adjustment 10: Duplicated New Barnet Leisure Centre										
Dr Revaluation loss CIES **	**852**	852				852	852			
Dr Revaluation reserve *				15,691					15,691	
Cr Assets under construction					(16,543)					(16,543)

ADJUSTED AUDIT DIFFERENCES

Adjusted audit differences	Council					Group				
	Income and expenditure			Balance Sheet		Income and expenditure			Balance sheet	
	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjustment 11: Indexation of Council dwellings, formula error in valuer's spreadsheet and valuation of gain of 159 properties treated as disposals										
Dr Council dwellings indexation				26,741					26,741	
Cr Council dwellings formula error										
Cr Revaluation gains CIES **	**(26,741)**		(26,741)			**(26,741)**		(26,741)		
Adjustment 12: Valuation movement to adjust for misclassified investment properties										
Dr Financing expenditure **	**3,919**	3,919				**3,919**	3,919			
Cr Investment property					(3,919)					(3,919)
Adjustment 13: Adjustment to correct undervaluation of Copthall leisure centre										
Dr Other land and buildings				2,631					2,631	
Cr Revaluation gains CIES **	**(2,631)**	(2,631)				**(2,631)**	(2,631)			
Adjustment 14: Reclassification of GF proceeds classified as HRA proceeds										
Dr Other operating expenditure (HRA)		756					756			
Cr Other operating expenditure (General Fund)			(756)					(756)		
Adjustment 15: Adjustment to correct valuation errors for a school										
Dr Revaluation reserve *				929					929	
Dr Revaluation loss CIES **	**58**	58				**58**	58			
Cr Schools asset					(987)					(987)

ADJUSTED AUDIT DIFFERENCES

Adjusted audit differences	Council					Group				
	Income and expenditure			Balance Sheet		Income and expenditure			Balance sheet	
	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjustment 16:										
Dr										
Cr										
Adjustment 17:										
Dr										
Cr										
Adjustment 18:										
Dr										
Cr										
Total adjusted CIES / net assets audit differences	**(43,979)**			26,906		**(43,979)**			26,906	
(Surplus) on the provision of services / net assets for the year after adjustments	**(150,792)**			**964,847**		**(147,635)**			**948,325**	
Items marked as * above in the balance sheet are reserve adjustments				17,073					17,073	

Impact on General Fund and HRA balances		
Balance before adjustments	22,513	
CIES adjustments above	(43,979)	
Statutory adjustments through MIRS **	43,979	Adjustments 1, 2, 4, 5, 8, 10, 11, 12, 13 and 15
Balance after adjustments	22,513	

Items marked as ** above in the CIES are subject to statutory override for capital adjustments that are reversed through the Movement in Reserves Statement (MIRS) and therefore do not impact on the General Fund balance or HRA balance.

UNADJUSTED AUDIT DIFFERENCES

Unadjusted audit differences	Council					Group				
	Income and expenditure			Balance Sheet		Income and expenditure			Balance sheet	
	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 / net assets for the year	**(149,045)**			963,100		**(145,888)**			946,578	
Unadjusted 1: Valuation of schools on MEA service provision rebuild basis for updated pupil numbers										
Dr Revaluation reserve *				1,100					1,100	
Cr School assets					(1,100)					(1,100)
Unadjusted 2:										
Dr										
Cr										
Unadjusted 3:										
Dr										
Cr										
Total unadjusted audit differences	**0**			(1,100)		**0**			(1,100)	
(Surplus) on the provision of services / net assets for the year if adjusted	**(149,045)**			**962,000**		**(145,888)**			**945,478**	
Items marked as * above in the balance sheet are reserve adjustments				1,100					1,100	

PRIOR YEAR UNADJUSTED AUDIT DIFFERENCES

The following items are audit differences corrected in 2019/20 that impact on the Comprehensive Income and Expenditure Statement surplus on the provision of services for 2019/20, but relate to prior year unadjusted audit differences. These therefore result in a misstatement of the underlying reported outturn for the current year. These are no longer audit differences at 31 March 2020 and we do not ask that you correct these as a prior period adjustment as the impact is not material.

However, we report these to show the impact on the underlying surplus on the provision of services for 2019/20 .

Unadjusted audit differences	Council CIES £'000	Group CIES £'000
Roll over prior year audit differences		
GMP pension liability - additional liability that should be charged to 2018/19 but taken to 2019/20	(3,800)	(4,100)
McCloud pension liability - additional liability that should be charged to 2018/19 but taken to 2019/20	(1,771)	(2,020)
NLWA credit - credit incorrectly taken to 2018/19 and reversed as a charge in 2019/20	(1,492)	(1,492)
Dwellings valuation – impairments that should be charged to 2018/19	(471)	(471)
Schools valuation – impairments that should be charged to 2018/19	(506)	(506)
Unrecoverable input VAT – VAT write off that should be charged to 2018/19	(1,546)	(1,546)
Unrecorded schools – income that should have been credited to 2018/19	1,521	1,521
School academy transfer – loss on asset on transfer to academy that should have been charged to 2018/19	(2,499)	(2,499)
Impact of current year and roll over unadjusted audit differences	**(10,564)**	**(11,113)**

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 is 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 30 September 2020. The Council is expecting to meet this deadline. We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of financial statements.

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 Planning Report 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

SUSTAINABLE FINANCES

Risk description

The MTFS presents a balanced budget for 2020/21 with a total gap of £72 million from 2020/21 to 2024/25. Savings proposals to mitigate £35 million have been identified, leaving a gap to close of £37 million. The Council's reserves are forecast to total £42 million at the end of 2020/21. Over the course of the MTFS this is expected to reduce to £38 million, with the non ring-fenced revenue reserves expected to be £30 million at the end of 2024/25.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.

The Council will need to deliver it's savings and achieve income targets to maintain financial sustainability in the medium term and there is a risk that these projections will not be met.

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

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 2019/20 and the plans to reduce services costs and increase income from 2020/21; and
- Reviewed the strategies to close the budget gap after 2020/21.

Results

The Council budgeted for £20 million savings in 2019/20 and delivered £18.3 million, representing 91.5% of the target. The Council's reserves for future policy purpose or contingencies increased from £64 million to £68 million, although this includes £8.8 million of Covid-19 grant that was not spent by 31 March 2020. Reserves excluding unspent Covid-19 grant of £59 million exceeds the budgeted reserve position. The 2020/21 budget requires £17.3 million of savings and the Council forecasted in July 2020 to deliver £11.3 million of this. There is a risk that if remaining savings are not delivered this will impact on the delivery of savings for 2021/22. The Council still intends to follow its overall financial strategy of not using earmarked reserves to balance the 2020/21 budget.

The budget gap for 2021/22 to 2024/25 reported in March 2020 was £36.9 million. This has since been revised to £61.3 million to reflect the impact of Covid-19. Proposed savings of £38.4 million have been identified leaving a savings gap still to address of £22.9 million. However, the majority of the savings required are in the later years through to 2025 to allow management time to identify and develop these savings .

The Council maintained its general reserve balance above £15 million at 31 March 2020. The effects of Covid-19 and the required recovery plan have been reflected in the Q1 risk register. The Council's policy of not using earmarked reserves to balance the 2020/21 budget means earmarked reserves will be available to mitigate against some of the Covid-19 and other short term pressures.

Conclusion

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

SIGNIFICANT DEFICIENCIES

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

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

Area	Observation & implication	Recommendation	Management response
Dwellings acquisitions and disposals	We identified 213 properties that had been incorrectly treated as disposals during the year due to Barnet Homes Limited not providing adequate management information to the Council to correctly account for its major works programme, new property purchases and new out of borough properties. There is a risk that Council's record of properties owned and valuation of asserts in the financial statements may be materially incorrect if this data is not corrected.	Council departments involved in regeneration / redevelopment provide the Finance team and Barnet Homes Limited with plans, agreements and transfer documents so that assets disposals and acquisitions can be managed and accounted for correctly.	Management agrees with the recommendation. Specific reporting requirements and deadlines have been included within the revised Management Agreement with the Barnet Group to address this issue.
Annual review of dwellings valuations	The valuers undertake valuations of PPE and investment property as at December during the financial year but do not provide an update for material changes in values to year end (31 March). In the past two years we have identified material corrections to dwelling valuations as a result of movements in house prices in the last quarter.	To undertake a review of local house price indices between January and March and apply this to dwelling valuations at December where this indicates a material change in value.	Management agrees with the recommendation and will build this additional requirement into the Closing timetable for 2020/21 and beyond.
Asset data	We identified errors in the data provided to the valuer, such as incorrect build cost for leisure centres, double counting of assets or misclassified assets in the asset register, and the transfer of a school to an academy not updated. The majority of the audit differences that have been corrected relate to errors in asset data or the asset register.	To improve controls over annual checking and verification of the accuracy of asset data in the asset register and information provide to the valuer.	Management agrees with the recommendation. The CIPFA Asset Register will be used for 2020/21 onwards which will reduce manual errors to asset data. Further we are building a control into the Closing Timetable to check the DfE website for schools converting to academies in the financial year.

OTHER DEFICIENCIES

We also bring to your attention other deficiencies noted during the audit.

Area	Observation & implication	Recommendation	Management response
Termination of leavers access to IT systems- Integra	Nine staff members who had left the employment of the Council during the year but their access to the system was not terminated after the Council's 30 day access termination policy. There is a risk that a leaver's profile can be accessed by a different staff member after they have left which could result in gaps in the audit trail or accountability and potential breach of IT segregation of duties and other related access controls. We have reviewed login reports from the system and have confirmed that none of these staff members logged into the system post their leave date.	Management should review leavers report from Human Resources and check that access to all critical systems have been terminated on time.	Management accepts the finding and similar findings were made and reported by Internal Audit. We have already implemented improvements and we'll continue to review and improve these controls and processes. The Council is part way through implementing a more efficient Starters, Leavers and Movers process, further improving access controls across all core systems.
No regular user access right review of Integra, Logotech and Civica IT systems	There are no periodic or regular user access and access rights reviews for Integra, Logotech or Civica. There is a risk that user access rights may not be appropriate for their roles resulting in authorised access to data.	Management should conduct periodic access rights review to ensure that access rights are appropriate for users roles.	Management accepts the finding and similar findings were made and reported by Internal Audit. We have already implemented improvements and we'll continue to review and improve these controls and processes. A review of Logotech users took place in March 2020. Action was taken to update user access leaving only an appropriately small core of users with three levels of access. The Treasury Team will undertake quarterly reviews of user access to ensure users and their levels and data access are appropriate for their work functions. A review of the Civica users is covered in the audit carried out by CST annually, as part of that CSG will review that access rights are appropriate for users roles.

OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Weak IT password policy for Logotech	The password control is of minimum strength that may result in exposure of unauthorised access to Logotech.	Improve mandatory password strength to the Logotech system such as new passwords every 30/60/90 days, the 6 previous passwords cannot be re-used, minimum 6 characters and at least 1 special character and at least 1 number	Management agrees with the recommendation and will investigate the changes required with the software provider.

PRIOR YEAR DEFICIENCIES

We have followed up progress on addressing control deficiencies we have reported in the previous year

Area	Issue and impact	Original recommendation	Progress	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.	Valuers increased the beacons valued in year from 9 to 76 beacons this year [Closed]. However we noted that dwellings were still not uplifted to reflect market price movement in Q4. We have moved this into significant deficiencies above.	See current year significant deficiencies response (page 43 - significant deficiencies - Annual review of dwellings 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.	We continue to identify issues with information provided to the valuer.	See current year significant deficiencies response (page 43- significant deficiencies - Annual review of dwellings valuations)

PRIOR YEAR DEFICIENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
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.	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.	We did not identify and issues with the bank reconciliations provided for audit this year however there were still some delays in obtaining the finalised bank reconciliation. [Closed]	N/A
Debtors analysis and identification and allocation of misclassifications receipts at year end	We 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.	We identified £1.9 million creditors in debtors balance this year related to unallocated receipts.	Management accepts the progress statement but the actions outlined in the original recommendation have been implemented. The unallocated receipts were received late in 2019/20. It is not possible to process a manual journal to individual debtors accounts as the AR system is 'real time' and closes on 31st March and journals cannot be posted to prior period debtors balances. An analysis is undertaken to ensure the receipts received relate to the right financial year, then a manual reconciliation is performed to assign the unallocated receipts to the individual debtor and ensure the necessary adjustments are made to the reported balance. The balance was netted off against total debtors to ensure we were are minimising the risk of not overstating debtors in our published accounts

PRIOR YEAR DEFICIENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
Payroll reconciliation	Whilst management had prepared a payroll reconciliation, it 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.	We noted that management had carried out timely payroll reconciliations for the audit this year and reports from the system had been agreed back to ledger. [Closed]	N/A
Revenue recognition	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.	We noted that management has formalised the review of grants to ensure conditions attached to grants are met prior to recognition. [Closed]	N/A

PRIOR YEAR DEFICIENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
HRA capital projects	The narrative information on the invoicing and information from Barnet Homes Limited for revenue and capital expenditure is poor. Invoices are typically single 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.	Barnet Homes Limited must provide clear detailed invoices and supporting information so that the Council know exactly what they are paying for.	As noted earlier, we identified errors in asset details for dwellings due to Barnet Homes Limited not providing adequate management information to the Council to correctly account for its major works programme, new property purchases and new out of borough properties. Information provided appears to have deteriorated this year with Barnet Homes Limited only providing copies of their own General Ledgers at year end. To progress the audit we have had to request information directly from Barnet Homes Limited as the information held by the Council was not adequate.	See current year significant deficiencies response(page 43 - significant deficiencies - Annual review of dwellings valuations)
Thameslink development expenditure	The Council use a combined Asset under Construction code to record expenditure on its directly owned assets and for spending on behalf of Thameslink that should be classified as Revenue expenditure for capital under statute (REFCUS).	These should be clearly segregated on different Asset under Construction codes to ensure REFCUS and own asset additions can be clearly distinguished.	The Council continues to use a combined Asset under Construction Code to post additions and REFCUS additions for Thameslink. We are currently investigation whether up to £2 million of capitalised expenditure may be REFCUS. The Council is undertaking a review of capitalised sums.	Management have started the process to decouple additions and REFCUS addition for Thameslink. This will be signed off in 2020/21 and reflected in the 20/21 asset register.

PRIOR YEAR DEFICIENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
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.	Council continue to include school transfers in the CIES and at year end there was £2 million that could not be properly supported or explained by management.	Management agrees with the recommendation. Action is being taken in 2020/21 to re-design the chart of accounts for the balance sheet. Each school will have its own balance sheet code and each schools accounts will be reconciled separately at 2020/21 year end.
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.	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.	We noted an overall improvement in the quality of workings provided for audit. [Closed]	N/A

PRIOR YEAR DEFICIENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
Consolidation	We have encouraged the Council to make substantial improvements to the quality of the Group consolidation 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.	To require that subsidiaries fully co-operate and provide adequate information and working papers to the Council to facilitate with the Group consolidation. 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 subsidiaries' accounts.	Our audit of group accounts is still in progress.	Management believe the treatment is correct but will wait to see the outcome of audit review.

OVERVIEW

Opinion on financial statements

Subject to satisfactory completion of the outstanding audit testing, we anticipate issuing an unmodified opinion on the Group and the Council financial statements.

As the valuer has reported a material uncertainty over the valuation of land, buildings, dwellings and investment properties due to the impact of Covid-19 on the property and real estate market, we will refer to this material uncertainty in our audit report as an 'emphasis of matter'. However, this is not a modification or qualification of our true and fair opinion.

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 for the Council or the 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 2020.

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 Planning Report. 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 Planning Report.

We have not identified any 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 Group.

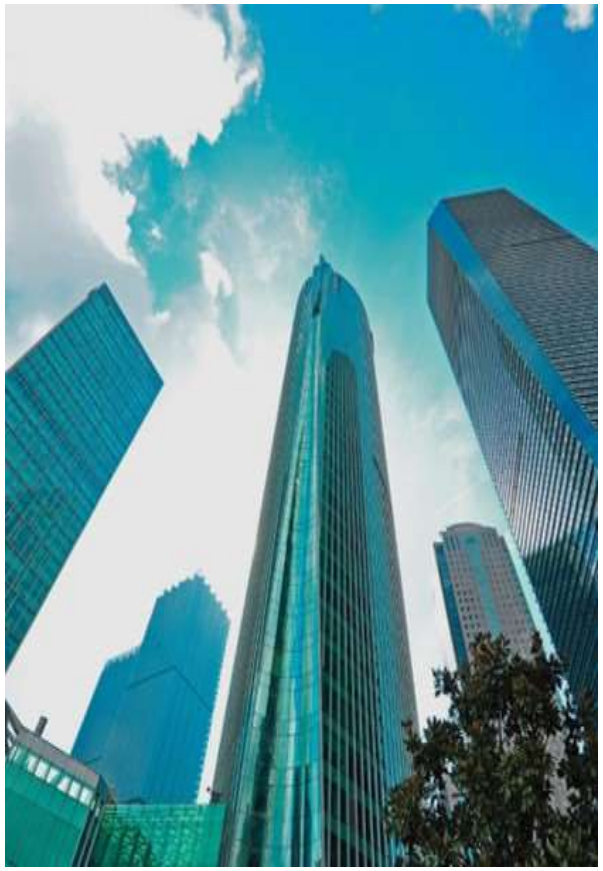
We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council and the Group.

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

FEES

Fees summary	2019/20 Actual £	2019/20 Planned £	2018/19 Actual £
Audit fee			
• Code audit fee:	TBC	130,919	130,919
• Additional audit fees	TBC	40,000	33,822
Total Audit fees	TBC	**170,919**	**164,741**
Fees for reporting on government grants:			
• Housing benefits subsidy claim	TBC	19,000	21,500
• Pooling of housing capital receipts return	TBC	2,750	2,750
• Teachers' pensions return	TBC	5,000	5,000
Non-audit assurance services	TBC	**26,750**	**29,250**
Total fees	**TBC**	**197,669**	**193,991**

In our audit plan, we proposed a fee variation to the PSAA scale fee for 2019/20 to be discussed with the Council's Finance staff and the Audit Committee. This reflects the additional audit work required in response to issues encountered in recent years, the increased complexity of the Group structure and component entities controlled by the Council, and significantly greater pressure on auditors to deliver higher quality audits and to demonstrate greater professional scepticism when carrying out their work. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.



APPENDICES CONTENTS

OUR RESPONSIBILITIES

Responsibilities and reporting

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 consolidated 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 Council had 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
Significant difficulties encountered during the audit.	The audit has been very challenging as a result of the Covid-19 lockdown. This has meant that staff on both sides are often remote working and therefore the face to face communication/ review of files has not been possible resulting in increased time being spent to both sides in relation to the audit.
Written representations which we seek.	We enclose a copy of our draft representation letter.
Any fraud or suspected fraud issues.	No exceptions to note.
Any suspected non-compliance with laws or regulations.	No exceptions to note.
Significant matters in connection with related parties.	No exceptions to note.
Group matters	
Limitations on the audit where information was restricted.	No exceptions to note.
Any issues with the quality of component auditors work.	Our review of component auditor's work has not yet commenced.
Any fraud or suspected fraud at group or component level.	Our review of component auditor's work has not yet commenced.

COMMUNICATION WITH YOU

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.

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

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 (to be) communicated	To whom
Audit Planning Report	30 January 2020	Audit Committee
Updated Audit Planning Report	8 June 2020	Audit Committee
Audit progress Report (this report)	19 October 2020	Audit Committee
Audit completion Report	TBC	Audit Committee

AUDIT REPORT

To be drafted and agreed once outstanding testing has been completed.

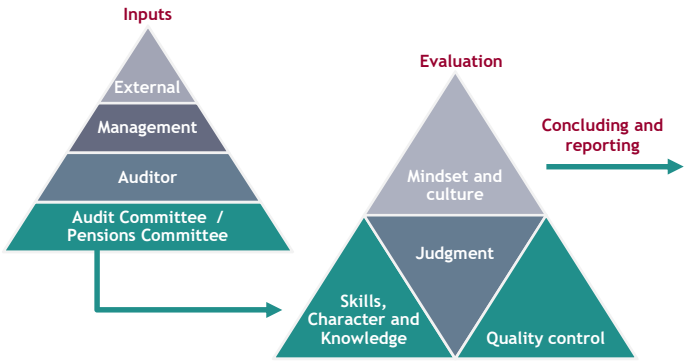
FRC PRACTICE AID FOR AUDIT COMMITTEES

The FRC issued an updated practice aid for audit committees in December 2019 and a full copy can be found on the **FRC website**. In their practice aid the FRC note: 'The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company's internal control framework. A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and worthy basis for taking decisions.'

The practice aid then discusses how the role of audit committee in serving the interests of investors and other stakeholders is through their independent oversight of the annual corporate reporting process including the audit. The FRC highlight that the responsibility for appointing the external auditor, approving their remuneration and any non audit services work, ensuring their independence and challenging them over the quality of their work falls to the audit committee and can play a key role in facilitating a high quality audit (see note below).

It gives guidance for audit committee in the following areas:

- Audit tenders and the tender process including audit fee negotiations and auditor independence
- A model for use by audit committees in making an overall assessment of an external auditor including inputs, evaluations and concluding:



- Transparency - reporting to the Board on how the audit committee has discharged these responsibilities
- Some guidance on key areas of audit judgement

The provision of high quality audits are a key focus of FRC and the new Executive Director of Supervision, David Rule, sent a letter to all audit firms in November 2019 explaining the factors he would expect to see in place in order to facilitate the delivery of high quality audits. A copy of the letter can be found on the **FRC website**.

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 2020

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 2020 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 Finance Officer 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 2020 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 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 identified no significant risks.

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.

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

LETTER OF REPRESENTATION

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 20 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

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): 1.9%
- Rate of increase in salaries: 2.6%
- Rate of increase in pensions: 1.9%
- Rate of discounting scheme liabilities: 2.3%
- 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 land, buildings, dwellings 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, other land and buildings, and investment properties 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 allowances for expected credit losses on receivables are reasonable based on collection rate data and adjusted for forecast losses arising from the impact on Covid-19.

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.

Other 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 director and member has taken all the steps that they ought to have taken as a director or 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 - Director of Finance
Rohit Grover - Chair of the Audit Committee

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 FRC'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

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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