LONDON BOROUGH OF BARNET

Annual Audit Letter

Year ended 31 March 2020

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EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the year ended 31 March 2020.

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

Responsibilities of auditors and the Council

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

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

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

BDO LLP

BDO LLP

25 March 2020

Audit conclusions

Audit area	Conclusion
Financial statements Council (and Group)	Unmodified opinion but with emphasis of matter over property valuations
Financial statements Pension Fund	Unmodified opinion
Use of resources	Unmodified conclusion
Audit certificate	We are unable to issue our audit certificate until we have completed our review of the Whole of Government Accounts return

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

FINANCIAL STATEMENTS

Council

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

We issued an unmodified audit opinion on the Council's and Group's financial statements on 28 January 2021. This means that we consider that the financial statements:

- Give a true and fair view of the financial position and its income and expenditure for the year; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2019/20.

We included an emphasis of matter in our audit report in relation to the material uncertainty around property valuations.

Materiality

Financial statements materiality was determined based on 1.5% of gross expenditure at £16.8 million for the Council and £17.8 million for the Group.

Corrected misstatements

There were a significant number of 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 by £41.5 million (to £148 million) and the Group surplus by £41.3 million (to £145 million). Net assets for the Council increased by £24.4 million (to £962 million) and the Group by £24.3 million (to £946 million).

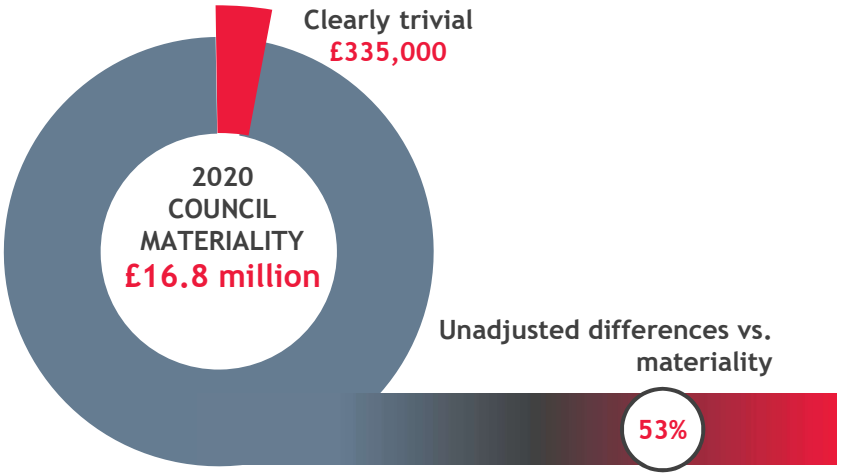
While these adjustments did not impact on the total General Fund and HRA balances, as they related to capital and financing items that are not statutory charges to the General Fund and HRA, the HRA reserve balance has increased by £97,000 following an adjustment to correct the HRA depreciation charge transferred to the Major Repairs Reserve.

Unadjusted audit differences

Other audit differences that have not been corrected by management would decrease the surplus on the provision of services for the Council by £1.7 million and the Group by £1.4 million. Net assets for the Council would decrease by £7.3 million (to £955 million) and decrease for the Group by £7 million (to £939 million).

These adjustments would also decrease the Council's General Fund and HRA balances by £5.9 million (down from £22.6 million to £16.7 million) where these relate to revenue items not subject to statutory adjustments.

There were also audit differences from the prior year that impact on the surplus for 2019/20. The impact of unadjusted differences in the current year (Council understated costs £1.7 million) and roll forward of prior year differences (Council overstated costs £10.6 million) has resulted in an understatement of the surplus on the provision of services for 2019/20 of £8.9 million for the Council and £9.7 million for the Group.



FINANCIAL STATEMENTS

Pension Fund

Audit opinion on the pension fund financial statements

We issued an unmodified audit opinion on the pension fund financial statements on 28 January 2021. This means that we consider that the financial statements:

- Give a true and fair view of financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than the liabilities to pay pensions and other benefits after the end of the scheme year; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2019/20.

Materiality

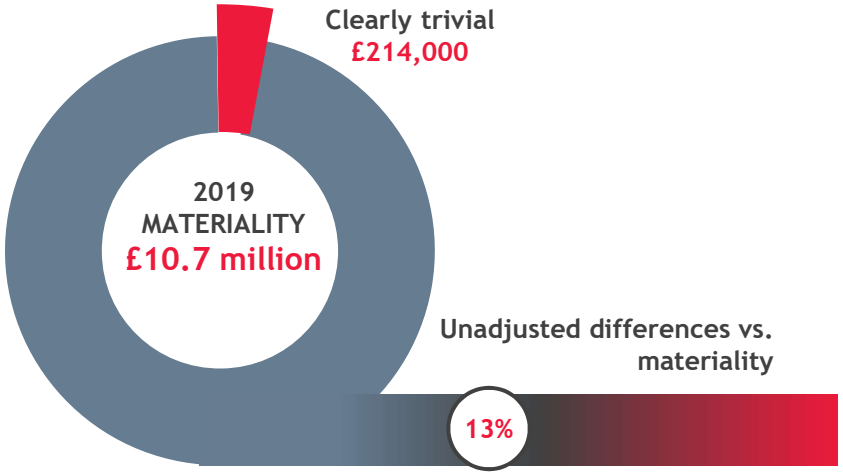
Materiality for the pension fund financial statements as a whole was calculated at £10.7 million based on a benchmark of 1% of the value of the fund's investment assets.

Specific materiality for the fund account of £3.1 million was based on 5% of contributions.

Adjusted audit differences

We identified audit differences that resulted in an overstatement of expenditure and understatement of net assets by £1.4 million.

There are also audit differences from the prior year that impact on net costs reported for 2019/20. The impact of the current year and prior year audit differences has resulted in the fund account understating net expenditure by £1.1 million.



FINANCIAL STATEMENTS

Audit Risks

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

Risk description	How the risk was addressed by our audit	Results
Management override of controls	We carried out the following planned audit procedures in response to management override risks: • Reviewed and verified large and unusual journal entries made in the year and agreed the journals to supporting documentation; • Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and • Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.	No issues were identified by our audit of journals and accounting estimates for management override of controls or management bias. Management has corrected for the larger audit differences identified and the remaining uncorrected audit differences are not indicative of management bias or deliberate misstatement of the financial statements.
Revenue recognition	We carried out the following planned audit procedures in response to the fraudulent revenue recognition risk: • Tested a sample of grants included in income to documentation from grant paying bodies and checked whether recognition criteria had been met.	Our sample testing of revenue and capital grants confirmed that these were recognised when performance conditions attached to them had been satisfied.

FINANCIAL STATEMENTS

Audit Risks

Risk description	How the risk was addressed by our audit	Results
Expenditure recognition and cut off	We carried out the following planned audit procedures in response to the fraudulent expenditure recognition risk: • Tested a sample of expenditure either side of year end to confirm that expenditure has been recorded in the correct period and that all expenditure have been recorded.	Our audit work to confirm expenditure had been recorded in the correct period did not identify any issues.
Impairment allowance for non collection of receivables	We carried out the following planned audit procedures in response to management's estimate of losses from non collection of receivables: • Reviewed the provision model for significant receivables balances to assess whether it appropriately reflected 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, future losses and assessed 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.	Management 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 are taking advantage of the deferred payment arrangements that 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. 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. However, we consider that the credit loss allowance of £7.5 million on the development funding for new housing to Open Door Homes Ltd is not required based on the refreshed business plan and security held over the development assets.

FINANCIAL STATEMENTS

Audit Risks

Risk description	How the risk was addressed by our audit	Results
Valuation of land, dwellings, buildings and investment properties	We carried out the following planned audit procedures in response to the valuation of land, dwellings, buildings and investment properties: • Reviewed the instructions provided to the valuers and reviewed the valuers' skills and expertise in order to determine if we can rely on the management expert; • Confirmed that the basis of valuation for assets valued in year was appropriate based on their usage; • Reviewed accuracy and completeness of asset information provided to the valuer such as rental agreements and sizes; • Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets and followed up valuation movements that appear unusual; and • Confirmed that assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct.	Our review of instructions to the valuer and assessment of their skills and expertise did not identify any issues. Our work on the accuracy and completeness of asset information used as the basis of valuation identified a number of material and other errors and also found that some assets were misclassified by asset type. This included: • Incorrectly treating 213 properties as disposed of in year and recognised a loss of £13.2 million 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; • Not uplifting the dwellings valuations for the increase from the December 2019 valuations to 31 March 2020; • The new Barnet leisure centre was inadvertently included twice in the financial statements; and • Not removing schools that had transferred to academy status. We have reported a significant deficiency in controls for maintaining complete and accurate asset data. The valuer has reported that his valuations as at 31 March 2020 was subject to material uncertainty, in line with the RICS guidance issued to valuers, due to the impact of Covid and reduced market activity. We have referred to this in our audit report.

FINANCIAL STATEMENTS

Audit Risks

Risk description	How the risk was addressed by our audit	Results
Valuation of pension liabilities	We carried out the following planned audit procedures in response to the valuation of pension scheme liabilities: • 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 had been communicated to the actuary; • Assessed how the actuary had 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.	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. We found that one school became an academy during the year but no adjustment had been made to transfer the share of assets and liability from the Council's net pension liability. The pension liability includes an estimate of the costs in respect of the McCloud (age discrimination) case and GMP indexation, but does not include the costs in respect of the recent Goodwin (spousal benefits) case. We consider that the assumptions and methodology used by the actuary are appropriate, and will result in an estimate of the pension liability that falls within a reasonable range. Our actuary has provided an estimate of the overall strength of assumptions and this indicates that the estimate had tended towards a slightly prudent (higher) liability mainly due to using the CMI 2018 mortality gains rather than the latest available CMI 2019 tables.

FINANCIAL STATEMENTS

Audit Risks

Risk description	How the risk was addressed by our audit	Results
Valuation of pension scheme investment assets	We carried out the following planned audit procedures in response to the valuation of unquoted infrastructure and property funds pension scheme investment assets: • Obtained direct confirmation of investment valuations from the fund managers; and • Assessed whether the impact of Covid had been taken into account by the fund managers at 31 March 2020 and if there is material uncertainty over the valuation of the underlying assets or infrastructure projects.	One of the pooled property fund managers, with a focus on UK property, noted that some tenants had requested to defer rents due or to move to monthly rather than quarterly rents in advance. The fund valuation was also subject to material uncertainty in accordance with the RICS valuation guidance and the fund manager suspended redemptions on 18 March. The pension fund had initially used a December 2019 valuation for a property fund and an adjustment was required to reflect the fall in valuation at 31 March 2020. The infrastructure fund was appropriately updated at 31 March 2020 to reflect the impact of Covid and market conditions.
Completeness of pension contributions	We carried out the following planned audit procedures in response to the risk that pension contributions are complete and accurate: • Tested a sample of normal and additional contributions due for active members including checking to employer payroll records; • Reviewed contributions receivable and ensure that income is recognised in the correct accounting period; • Performed tests over capital cost income for pension strain due to early retirement; and • Carried out audit procedures to review contributions income in accordance with the Actuary's Rates and Adjustments Certificate, including specified increased rates to cover the minimum contributions to be paid.	We agreed the total contributions payable by the Council and other scheduled bodies to the amounts received in the pension fund. Our testing and recalculation of employee contributions identified small differences in the contributions deducted against expected rates. We identified that the fund had not billed employers for the stain cost for nine members who retired before their pension age with unreduced benefits. Our review of contributions income, including specified increased rate to cover minimum contribution to be paid as set out in Certificate did not identify any issues. However, some employers have rolled up deficit contribution fixed amounts into additional percentage rate to payroll but this had resulted in a shortfall of contributions against the expected amounts payable.

FINANCIAL STATEMENTS

Audit Risks

Risk description	How the risk was addressed by our audit	Results
Group accounts consolidation	We carried out the following planned audit procedures in response to the group consolidation risk: • Reviewed the consolidation workings to ensure that interc ompany 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.	The Group consolidation was initially prepared using draft financial information provided by the finance team from The Barnet Group subsidiary and this required amendment for the final audited outturns. We identified a number of errors in adjusting for transactions recognised differently in the subsidiary financial statements to the accounting policies required by the CIPFA Code, such as reversing the adoption of IFRS 16 accounting for leases in the subsidiary and appropriate basis of valuations for social housing. Amendments were also required to appropriately allocate reserves and balances of the subsidiary into the group movement in reserves statement and between group usable and unusable reserves as per the CIPFA Code based definitions.

USE OF RESOURCES

Audit Risks

Audit conclusion on use of resources

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

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

Risk description	How the risk was addressed by our audit	Results
Sustainable finances	We carried out the following planned audit procedures in response to the financial sustainability risk: • Reviewed the assumptions used in the Medium Term Financial Strategy and assessed 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 • Review the strategies to close the budget gap after 2020/21.	The Council budgeted for £20 million savings in 2019/20 and delivered £18.3 million. The reserves for future policy purpose or contingencies increased from £64 million to £68 million, although this includes £8.8 million of Covid grant that was not spent by 31 March 2020. The 2020/21 budget requires £17.3 million of savings and the Council had forecasted 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 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. 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. The effects of Covid and the required recovery plan have been reflected in the Quarter 1 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 and other short term pressures.

OBJECTIONS AND LEGAL POWERS

The following objections have been resolved and the fees approved by PSAA in 2019/20.

Objection	Findings	Action taken	Fees
Lender Option Borrower Option loans	The Council had appropriate powers to enter into this borrowing. Statement of reasons issued 6 March 2019	No action taken	£6,690
Parking PCN income accruals	The basis for accruing PCN income was appropriate and lawful. Statement of reasons issued 16 April 2019	No action taken	£4,446
Gainshare payments	The basis for paying gainshare on the Capita contract was lawful. Statement of reasons issued 29 January 2020	No action taken	£11,652

We have yet to issue our statement of reasons in respect of the following objections:

- Vitoria Lodge property disposal
- PCN income received on housing land not subject to Traffic Management Orders
- NSL parking enforcement contract extension
- Housing grant funding received.

REPORTS ISSUED AND FEES

Fees summary

	2019/20 Final £	2019/20 Planned £	2018/19 Final £
Audit fees:			
• Council and Group	(1) 250,919	170,919	164,741
• Pension Fund	(2) 36,170	36,170	34,478
Total audit fees	287,089	207,089	199,219
Objections concluded in 2019/20:			
See previous page for each objection	22,788	--	--
Non-audit assurance services:			
Fees for reporting on government grants:			
• Housing benefits subsidy claim	(3) n/a	n/a	21,500
• Pooling of housing capital receipts return	2,750	2,750	2,750
• Teachers' pensions return	5,000	5,000	5,000
Fees for other non-audit services	7,750	7,750	29,250

(1) The PSAA initial scale fee for the Council audit in 2019/20 was £130,919 and we increased this to £170,919 in the Audit Plan to reflect increased risks and audit issues in recent years. Significant further audit costs have been incurred this year due to issues on property valuations and the impact of Covid. We have agreed further overrun additional fees of £80,000 so that final costs above the PSAA initial scale fee is £120,000. This fee variation is currently subject to PSAA review and approval.

(2) The PSAA initial scale fee for the pension fund audit in 2019/20 was £16,170 and we increased this to £36,170 in the Audit Plan to reflect increased risks, audit issues in recent years and testing of the triennial data submission. This fee variation is currently subject to PSAA review and approval.

(3) The housing benefit subsidy assurance review is now undertaken by KPMG LLP.

Communication

Reports (dated)	Presented to Committee
Council Audit Plan (22 Jan) / Updated Audit Plan (8 June)	Audit Committee 30 January / 14 July 2020
Pension Fund Audit Plan (3 March)	Pension Fund Committee 27 July 2020
Council Progress Report (8 Oct) / Completion Report (27 Jan)	Audit Committee Progress Report 19 Oct / Completion Report 28 Jan 2021
Pension Fund Progress Report (5 Oct) / Completion Report (27 Jan 2021)	Pension Fund Committee Progress Report 7 Oct 2020

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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