



**LONDON BOROUGH OF BARNET COUNCIL AND
PENSION FUND**

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2017

30 October 2017



EXECUTIVE SUMMARY

PURPOSE OF THE 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 2017. 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. It will be published on the website of Public Sector Audit Appointments Limited.

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), and to review and report on:

- The Council's and pension fund's financial statements
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to report where we have exercised our statutory powers under the Local Audit and Accountability Act 2014 in any matter.

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.

BDO LLP
30 October 2017

AUDIT CONCLUSIONS

FINANCIAL STATEMENTS

We issued our unmodified true and fair opinions on the Council's and pension fund's financial statements on 29 September 2017.

We reported our interim findings to the Audit Committee on 27 July and our Audit Completion Report on 19 September 2017. We identified a number of material misstatements in the draft financial statements that were corrected by management. We also reported on unadjusted audit differences that, if corrected, would increase the Council's surplus on the provision of services and net assets by £5.894 million and increase the group surplus and net assets by £5.881 million.

We reported our detailed findings on the pension fund financial statements to the Pension Fund Committee on 6 September 2017. We did not identify any material misstatements although we reported unadjusted audit differences that, if corrected, would increase the net assets of the Fund by £0.883 million to £1.053 billion.

USE OF RESOURCES

We are satisfied that the Council has adequate arrangements for setting and monitoring financial budgets, and that it has clearly identified its funding gap and savings requirements through to 2020.

As a result of the Ofsted inspection rating the Council's Children's services as inadequate, we were unable to conclude that the Council has adequate arrangements for the delivery of safe and effective services for Children's services. We issued our qualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 29 September 2017.

EXERCISE OF STATUTORY POWERS

We received a number of objections regarding the lawfulness of certain decisions and transactions included in the financial statements. This work remains on going although we were satisfied that these matters do not have a material effect on the financial statements or on our value for money conclusion.

FINANCIAL STATEMENTS

OPINION

We issued our unmodified true and fair opinions on the Council's and pension fund's financial statements on 29 September 2017.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Council's and pension fund's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Our audit was scoped by obtaining an understanding of the Council and pension fund and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

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 RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
There is a risk that revenue or capital grants that are subject to performance conditions may be inappropriately recognised as revenue before the condition have been met, revenue may not exist or be recognised in the wrong financial year.	<p>We tested an increased sample of revenue and capital grants subject to performance conditions to confirm that these were only recognised as revenue when the relevant conditions of the funding had been met.</p> <p>We found that some revenue grants that related to specific services were incorrectly classified within Taxation and non-specific grants in the Comprehensive Income and Expenditure Accounts and required reclassification as income to the relevant service areas.</p> <p>We also found the Council was incorrectly accounting for Community Infrastructure Levy (CIL) income on the basis of when cash is received, rather than at the point that a chargeable development commences. We estimated that income of £3.693 million recognised in the current year should have been recognised in a previous year and £1.958 million income should have been accrued in the current year. This error was not corrected by management.</p> <p>We tested an increased sample of fees and charges income throughout the year and confirmed that the amounts recorded agreed to underlying documentation for charges or services provided and that the revenue had been recorded in the correct period.</p>	We concluded that revenue was not materially misstatement but reported errors in the recognition of CIL income.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p>Local authorities are required to ensure that land, buildings and investment properties are regularly revalued.</p> <p>High value properties, and those which are expected to be subject to significant valuation movements, are revalued on an annual basis (covers approximately 90% of properties by value). Other properties are revalued on a rolling 5-year basis.</p> <p>We consider there to be a risk over the reasonableness of the valuations due to the estimation and judgments applied.</p>	<p>We responded to this risk by reviewing the instructions provided to the valuer to confirm that the planned scope of the valuation was appropriate and that the valuer was independent of the Council. We reviewed the valuer's skills and expertise and were satisfied that we could rely on this work.</p> <p>We checked whether accurate and complete data on assets held was provided to undertake the review and that the basis of valuation for assets was appropriate</p> <p>We reviewed valuation movements against indices of price movements for similar classes of assets and challenged valuations where the movement appeared unusual.</p> <p>Council dwellings increased by 5%. The overall housing price increases in the borough was 7.2% and the lower gain experienced by these dwellings reflects locality factors and the type of dwellings.</p> <p>Schools are valued using a modern equivalent asset basis and decreased by 2.7% to reflect the fall in pupil numbers. Rebuild costs applied were at the higher range of cost indices but within an acceptable range.</p> <p>Surplus assets increased significantly, particularly properties held in regeneration areas to reflect their development potential.</p> <p>Investment properties experienced small increases although there was some reduction in valuation for the Mill Hill Depot based on reduced gross development valuations provided by the development partners.</p> <p>Other land and buildings increased by 2.3% and is consistent with a blended general index for retail, office and development land.</p>	<p>We concluded that the valuations for land, buildings and investment properties were reasonable.</p>

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p>An estimate of the Council's pension fund liability is calculated by an actuary with specialist knowledge and experience.</p> <p>The estimate is based on the membership data used by the actuary for the 2016 triennial valuation and updated for local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>We considered there to be a risk that the valuation was not based on accurate membership data or used inappropriate assumptions to value the liability.</p>	<p>We received and reviewed a report from a consulting actuary, commissioned by the National Audit Office, that confirmed that the actuary was independent of the Council and suitably experienced and qualified.</p> <p>We reviewed the accuracy of the data recorded in the membership records and the information provided to the actuary. Our testing found a significant number of errors in the membership data at 31 March 2017. We discussed this with the actuary who confirmed that significant data cleansing was performed on these records when preparing the 2016 triennial valuation and that he was satisfied that the data used in the roll-forward valuation was materially accurate based on his cleansed dataset.</p> <p>We checked and confirmed that there had been no significant changes in employee numbers relating to the Council to be communicated to the actuary that could require amendment to the 2016 roll-forward data.</p> <p>We reviewed the reasonableness of the assumptions used by the actuary against other local government actuaries and other observable data. The actuary has applied a discount rate to future liabilities at the lower end of the range that tends to produce a 'strong' valuation that places a higher present value on those liabilities. Overall, we were satisfied that the assumptions used were within an acceptable range.</p> <p>Our audit procedures found that the estimate of the Council's share of fund assets used to calculate the net pension liability was based upon index returns, as the actuary had not been provided with actual investment return information at the time of drafting the report. We requested that management obtain an updated valuation report based upon actual returns that found that the initial estimate had understated the Council's net pension liability by £82.348 million. This was corrected by management.</p>	<p>We concluded that the actuarial valuation of the Council's pension fund liability was reasonable.</p>

FINANCIAL STATEMENTS

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the Council and group financial statements as a whole was set at £16 million. This was determined with reference to a benchmark of gross expenditure (of which it represents 1.5 per cent) which we consider to be one of the principal considerations for the Council in assessing the financial performance.

The materiality for the pension fund's financial statements as a whole was set at £10.5 million. This was determined with reference to a benchmark of net assets (of which it represents 1 per cent) which we consider to be one of the principal considerations for the pension fund in assessing the financial performance.

We agreed with the Audit Committee that we would report all individual audit differences in excess of £320,000. We agreed with the Pension Fund Committee that we would report all individual audit differences in excess of £210,000.

AUDIT DIFFERENCES - COUNCIL

We identified a number of material misstatements in the draft financial statements that were corrected by management. While these corrections did not impact on the Council or group surplus on the provision of services for the year, it reduced net assets and reserves of the Council by £82.348 million and the Group by £89.295 million.

In addition we found 10 audit differences not corrected in the final financial statements which would, if corrected, increase the Council's surplus on the provision of services and net assets by £5.894 million and increase the group surplus and net assets by £5.881 million.

We consider that these uncorrected misstatements did not have a material impact on our opinion on the Council's financial statements.

AUDIT DIFFERENCES - PENSION FUND

We did not identify any material misstatements impacting on the Fund Account or Net Assets Statement.

The fund performance for the year was an increase in net assets of £135.8 million. However, there were a significant number of prior year errors cleared through the 2016/17 Fund Account that resulted in net additional costs of £0.550 million relating to previous years being charged to the current year.

There were three remaining unadjusted audit differences identified by our audit work which, if corrected, would increase the net assets of the Fund by £0.883 million to £1.053 billion.

We consider that these uncorrected misstatements did not have a material impact on our opinion on the pension fund financial statements.

FINANCIAL STATEMENTS

OTHER MATTERS WE REPORT ON

Narrative report

The information given in the narrative report in the Statement of Accounts for the financial year was consistent with the financial statements.

Regulations require that this report should be fair, balanced and understandable. In our view, the non-financial performance section of the report focusses on the positive aspects of the Council's performance, which is in contrast to the significant issues identified in the Annual Governance Statement and our qualified use of resources opinion. In this context, we have reported that management should consider whether the narrative report is fair and sufficiently balanced in reporting on performance for the year.

Annual governance statement

We concluded that the annual governance statement was not misleading or inconsistent with other information we were aware of from our audit, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.

However, we noted that statement was prepared following the core principles of the CIPFA/SOLACE 2012 Framework Delivering Good Governance in Local Government but should have reported on the new CIPFA/SOLACE Framework 2016. Management intends to report under this new framework in 2017/18.

INTERNAL CONTROLS

We reported significant deficiencies in internal controls during the course of our audit covering:

- Accounts preparation and quality assurance review processes
- High level oversight of controls
- Bank and other control account reconciliations
- Accuracy of membership records for the pension scheme.

A number of other areas for improvement were identified which we have discussed with management.

WHOLE OF GOVERNMENT ACCOUNTS

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding certain non-current assets); liabilities (excluding pension liabilities); income or expenditure.

We have completed our review in accordance with the Group Audit Instructions issued by the National Audit Office. This requires that we compare the information in your Data Collection Tool (DCT) submission with the audited financial statements, undertake testing of completeness and accuracy of WGA counter party transactions and balances, and provide an assurance statement to the National Audit Office.

The DCT was amended as a result of the audit to reclassify a number of balances for consistency with the financial statements and to include amounts against counter-parties where balances or transactions had not been reported. Following these corrections, we were able to conclude that the revised DCT was consistent with the audited financial statements.

USE OF RESOURCES

CONCLUSION

As a result of the Ofsted inspection rating the Council's Children's services as inadequate, we were unable to conclude that the Council has adequate arrangements for the delivery of safe and effective services for Children's services. We issued our qualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 29 September 2017.

SCOPE OF THE AUDIT OF USE OF RESOURCES

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources 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.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

OUR ASSESSMENT OF SIGNIFICANT RISKS

Our audit was scoped by our cumulative knowledge brought forward from previous audits, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Council including internal audit, information disclosed or available to support the governance statement and annual report, and information available from the risk registers and supporting arrangements.

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

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p>The required level of savings in the coming years will be a significant challenge and is likely to require difficult decisions around service provision and delivery models. There is a risk that savings may not be delivered as planned, placing additional pressures on reserves and sustainable finances in the medium term.</p>	<p>We reviewed the Medium Term Financial Strategy (MTFS), the key assumptions and savings schemes required to address reduced Government funding.</p> <p>The MTFS was updated in March 2017 and forecasts a budget gap of £54 million over the 3 year period from 2017/18 to 2019/20. The Council has delivered on savings plans to date and has developed fully identified savings plans for 2017/18. However, the savings targets remain significant and achievement of these will be challenging.</p> <p>Net expenditure in 2016/17 was overspent by £8.3 million mainly on Adults and communities (£5.43 million) and Housing needs (£1.8 million). These overspends were funded from draw down of earmarked reserves and from the General Fund balance.</p> <p>The 2017/18 budget has provided additional funds for Adults social care. It draws £9.5 million support from earmarked reserves and includes a savings programme of £19.8 million. Savings required in 2018/19 and 2019/10 are £16.7 million and £17.4 million.</p> <p>While the Council currently has healthy levels of reserves, many of these are earmarked for major capital and regeneration schemes. Management intend to undertake a fundamental review of the MTFS and Council Plan from 2020 as it is acknowledged that continued support from reserves after this will not be viable.</p>	<p>We are satisfied that the Council has adequate arrangements for setting and monitoring financial budgets, and that it has clearly identified its funding gap and savings requirements through to 2020.</p> <p>We acknowledge that management intend to undertake a fundamental review of its corporate and financial plans ahead of the 2020 refresh and note that continued support of revenue expenditure from reserves is unlikely to be available from this date.</p>

USE OF RESOURCES

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p>Ofsted completed a review of the Council's services for children in need of help and protection, children looked after and care leavers and reported concerns over these services.</p>	<p>We reviewed the findings of the report and the action plan to address weaknesses in governance, policies and processes.</p> <p>The Ofsted inspection assessed services as follows:</p> <ul style="list-style-type: none"> • Children who need help and protection - Inadequate • Children looked after and achieving permanence - Inadequate • Leadership, management and governance - Inadequate <p>The inspection was critical of the Council and found widespread poor practice and failures in arrangements to ensure the safety of children and young people. Ineffective risk assessments resulted in poor care planning and case notes were poor.</p> <p>There was also inadequate information sharing across the multi-agency safeguarding hub.</p> <p>We recognise that management were aware of some deterioration in performance for the service and the Children's Services director had commissioned a review of the service in January 2016.</p> <p>As a result of this initial diagnostic review, the Council has provided additional funding and is committed to improving the service. A Family Services Improvement action plan has been developed to drive improvements required. However, improving services will take time.</p>	<p>Due to these significant failings we were unable to conclude that the Council has adequate arrangements for the delivery of safe and effective services for Children's services.</p>

EXERCISE OF STATUTORY POWERS

REPORT BY EXCEPTION

We received objections from local taxpayers regarding the lawfulness of certain decisions and transactions included in the financial statements.

OBJECTIONS RECEIVED FROM TAXPAYERS

We received the following objections from local taxpayers regarding the lawfulness of certain decisions and transactions included in the financial statements:

- Legal authority for the sale of Victoria Park Lodge (carried from 2015/16)
- Lawfulness of income raised from parking charges on housing land (carried from 2015/16)
- Basis of accounting for parking income
- Lawfulness of the gain share payments made to Capita
- Lawfulness of decision to take borrowing in the form of Lender Option Borrower Option (LOBO) loans.

This work remains on going on these objections although we were satisfied that these matters do not have a material effect on the financial statements or on our value for money conclusion.

We will formally respond to the objectors upon completion of our work.

AUDIT CERTIFICATE

We are unable to issue the audit certificate to close the audit until we have completed our investigations and responded to objectors for the matters raised.

APPENDIX

REPORTS ISSUED

We issued the following reports since our previous annual audit letter.

REPORT	DATE
Audit plan - Council	3 April 2017
Audit plan - pension fund	3 March 2017
Audit completion report - Council	29 September 2017
Audit completion report - pension fund	29 September 2017
Annual audit letter	30 October 2017

FEES

We reported our original fee proposals in our audit plans.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Council audit - scale fees	⁽¹⁾ 170,025	170,025
Pension fund audit - scale fees	⁽¹⁾ 21,000	21,000
Housing benefits subsidy certification fees	20,310	20,310
Fees relating to investigating objections	⁽²⁾ TBC	-
Total audit fees	211,335	211,355
Pooled housing receipts certification	2,750	2,750
Teachers pensions return	5,000	5,000
Audit related services fees	7,750	7,750
Other non-audit services	-	-
Total assurance services	219,085	219,085

⁽¹⁾ Additional audit work was required to complete the audit of the Council's financial statements and pension fund financial statements. We will review the impact of this work on proposed fees.

⁽²⁾ Work remains on-going dealing with objections and these will be billed upon completion of this work.



FOR MORE INFORMATION:

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

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