

# The Audit Findings for Barrow Borough Council

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Year ended 31 March 2016

September 2016

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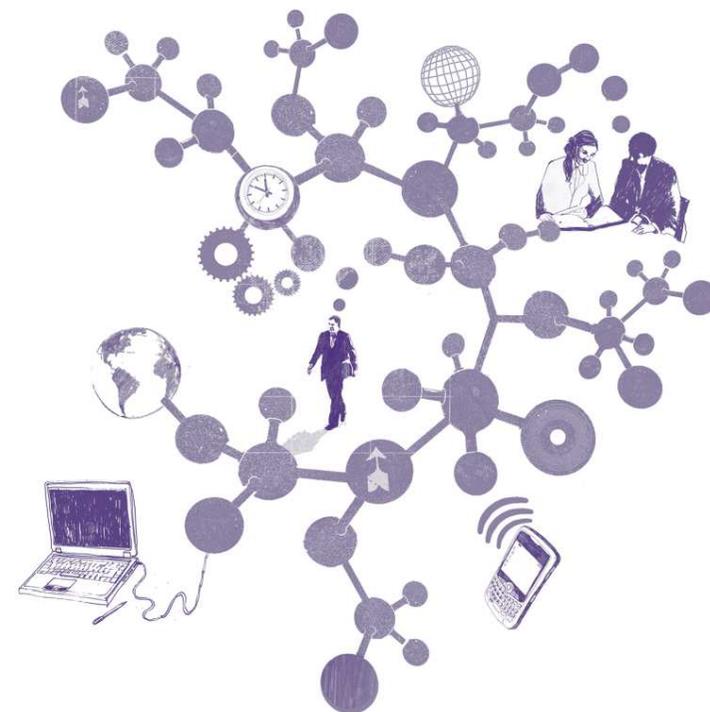
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15 September 2016

Dear Members of the Audit Committee,

#### **Audit Findings for Barrow Borough Council for the year ended 31 March 2016**

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Barrow Borough Council, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Jackie Bellard

#### **Chartered Accountants**

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# Section 1: Executive summary

**01. Executive summary**

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

## Purpose of this report

This report highlights the key issues affecting the results of Barrow Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);

- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan and presented to the Audit Committee on 3 March 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- obtaining assurance over the receipt of amounts held in the Balance Sheet at 31 March 2016 in respect of Council Tax, Business Rates and Housing Rent debtors
- obtaining and reviewing the management letter of representation;
- review of the final version of the Annual Governance Statement;
- updating our post balance sheet events review, including consideration of significant business rate appeals settled after the year-end to the date of signing the opinion; and
- providing our assurance statement in respect of the Whole of Government Accounts return.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

With effect from the 2017/18 financial year, a change in the regulations governing the audit timetable comes into effect. Authorities will be required to publish their unaudited accounts by 31 May and the audit will need to be concluded by 31 July. We are currently discussing with management whether there is scope to undertake a 'dry run' next year in advance of the implementation of the new timetable.

## **Key audit and financial reporting issues**

### **Financial statements opinion**

We did not identify any adjustments affecting the Council's reported financial position. The draft and audited financial statements for the year ended 31 March 2016 recorded a deficit on the provision of services of £1.677M. We did, however, agree a material change to Other Comprehensive Income as a debit to Other Comprehensive Income of £4.075M had been mistakenly posted as a credit. This adjustment does not impact on the reported financial performance for the year. Additionally, we agreed one classification change and four amendments to disclosures with management to improve presentation and ensure full compliance with the CIPFA Code of Practice on Local Authority Accounting. Details of the agreed changes are set out on pages 19-20 of this report.

The key message arising from our audit of the Council's financial statements is:

- the finance team continue to produce good quality draft accounts which are supported by comprehensive working papers.

Further details are set out in section two of this report.

We anticipate providing an unqualified audit opinion in respect of the financial statements (see Appendix B).

### **Other financial statement responsibilities**

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

## **Controls**

### **Roles and responsibilities**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

### **Findings**

Our work has identified control weaknesses concerning the Council's information systems which we wish to highlight for your attention. These matters were also reported in the previous year's audit findings report and we have considered the progress made since we undertook our previous audit. Details are set out on page 18.

## **Value for Money**

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further details of our work on Value for Money are set out in section three of this report.

## **Other statutory powers and duties**

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

## **Grant certification**

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and will be completed in line with the national deadline of 30 November 2016. We will report the outcome of this certification work through a separate report to the Audit Committee after the work has been completed.

## **The way forward**

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Resources and her team.

We have made six recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Director of Resources and the finance team.

## **Acknowledgement**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
**September 2016**

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £973,000 (being 2% of gross revenue expenditure in the previous year's audited accounts). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality level.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have determined that misstatements below £48,650 are clearly trivial in the context of our audit. This remains the same as reported in our audit plan.

As we reported in our audit plan, we have identified the following items where we have applied a lower level materiality level.

Balance/transaction/disclosure	Explanation
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Related Party Transaction Disclosures	The Council conducts its business using public funds. The Related Party disclosures ensure that the Council discloses in full any transactions that have occurred with related parties. This ensures that the Council is open about who it does business with and counters any allegations or suspicion of nepotism on the part of management or those charged with governance.

# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under international auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at Barrow Borough Council, we determined at the planning stage of our audit that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Barrow Borough Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Our testing has not identified any issues which indicated that the risk of fraudulent revenue recognition could not be rebutted.</p> <p>We have no issues to report in relation to the testing undertaken on material revenue transactions and balances recognised in the financial statements.</p>
2.	<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> <li>• Review and walkthrough of the controls implemented by management in relation to the posting of journal entries;</li> <li>• Review of accounting estimates, judgments and decisions made by management;</li> <li>• Testing of journal entries; and</li> <li>• Review of unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls.</p> <p>In particular, the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

# Audit findings against significant risks (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p><b>Valuation of property, plant and equipment (PPE)</b>                      The Council revalues its assets on a rolling basis over a five-year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"> <li>Review of management's processes and assumptions for the calculation of the estimate.</li> <li>Review of the competence, expertise and objectivity of any management experts used.</li> <li>Review of the instructions issued to valuation experts and the scope of their work.</li> <li>Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register.</li> <li>Correspondence with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions.</li> <li>Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding.</li> <li>Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that the carrying value of these assets is not materially different to current value.</li> </ul>	<p>Completing our audit procedures provided sufficient assurance to address the risk identified.</p> <p>No changes to the financial statements were required in light of these procedures.</p>
4.	<p><b>Valuation of Local Government Pension Fund Liability</b>                      The Council's pension fund liability represents a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> <li>Review of management processes to ensure the data supplied to the Cumbria Pension Fund is accurate and complete.</li> <li>Liaison with the auditor of the Cumbria Pension Fund to understand the controls in place to ensure the data supplied to the actuary is accurate and complete.</li> <li>Comparison of estimates used by the actuary to produce the valuation with actuals available to the Council and the Pension fund after the year-end.</li> <li>Procedures to understand and assess the assumptions and techniques used by the actuary to estimate the value of the pension fund liability.</li> <li>Confirmed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the report the Council received from its actuary.</li> </ul>	<p>Completing our audit procedures provided sufficient assurance to address the risk identified.</p> <p>No changes to the financial statements were required in light of these procedures.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Employee remuneration</b>	Employee remuneration accruals understated (Remuneration expenses not correct)	<ul style="list-style-type: none"> <li>• Reviewed the systems and controls that the Council has in place to ensure that its employees are paid the correct amount based on hours worked and their contractual entitlement, including arrangements to accrue for amounts outstanding but not yet paid at the year-end. This has included consideration of the Council's contract with Selima, its outsourced payroll provider.</li> <li>• Walked-through the controls the Authority has in place in relation to this risk.</li> <li>• Sample testing of payroll transactions</li> <li>• Analytical procedures to identify any discrepancies in monthly payrolls and consideration as to whether payroll expenditure is in line with our expectations based on supporting evidence.</li> <li>• Testing of the reconciliation between the payroll system and the amounts recorded in the financial statements.</li> </ul>	<p>Completing our audit procedures provided sufficient assurance to address the risk identified.</p> <p>We have not identified any required amendments to the financial statements.</p>
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period (Operating expenses understated)	<ul style="list-style-type: none"> <li>• Reviewed the systems and controls that the Council have in place to pay and record expenditure incurred.</li> <li>• Walked-through controls relevant to the risk identified.</li> <li>• Substantive testing of a sample of expenditure transactions</li> <li>• Reviewed management's processes to raise accruals and ensure accruals recognised are materially complete.</li> <li>• Substantive testing of a sample of creditor balances and accruals recognised in the year-end balance sheet.</li> <li>• Testing of a sample of payments made in April and May 2016 to confirm that expenditure has been accounted for in the correct financial year.</li> </ul>	<p>Completing our audit procedures provided sufficient assurance to address the risk identified.</p> <p>We have not identified any required amendments to the financial statements.</p>

## Audit findings against other risks (continued)

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Welfare Benefits Expenditure</b>	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> <li>• Detailed housing benefits testing in accordance with Public Sector Audit Appointment's Certification Instruction, BEN01.</li> <li>• Walked-through a transaction to update our understanding of the benefits system and ensured there are appropriate controls in place that are designed effectively.</li> <li>• Testing of the reconciliation between the benefits system and the amounts recorded in the financial statements.</li> </ul>	Completing our audit procedures provided sufficient assurance to address the risk identified.  We have not identified any required amendments to the financial statements.

# Accounting policies

In this section we report on our consideration of accounting policies, in particular revenue recognition policies included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<p>The Council's income recognition policy reflects that activity is accounted for in the year it takes place, not simply when cash payments are made. In respect of revenue, the Council's accounting policies state that:</p> <ul style="list-style-type: none"> <li>• Revenue from the sale of goods is recognised when the authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the authority.</li> <li>• Revenue from the provision of services is recognised when the authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the authority.</li> <li>• As the billing authority, Barrow Borough Council accounts for its own share of the council tax and business rates transactions in the Balance Sheet (and the Comprehensive Income and Expenditure Account) and its share of the collection fund balance is held in the Collection Fund Adjustment Account. The precepting authorities' share of the council tax for business rate transactions as well as their share of the collection fund balance is accounted for as a debtor or creditor with those bodies.</li> </ul>	<p>The Council's accounting policy is in line with the requirements of CIPFA code and is adequately disclosed in the accounts.</p>	<p style="text-align: center;">   <b>GREEN</b> </p>

## Assessment

- [GREEN] Accounting policy appropriate and disclosures sufficient
- [AMBER] Accounting policy appropriate but scope for improved disclosure
- [RED] Marginal accounting policy which could potentially attract attention from regulators

# Accounting estimates and judgements

In this section we report on our consideration of key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>• Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>– Useful life of PPE</li> <li>– Revaluations of PPE</li> <li>– Impairments of PPE</li> <li>– Valuation of pension fund net liability</li> <li>– Provision for NNDR appeals</li> </ul> </li> </ul>	<p>We have considered the Council's arrangements in each of these areas. We were satisfied the judgments made by management were appropriately supported and where estimates had been used a robust process had been adopted to arrive at the estimate. Our detailed work on the estimates for the pension liability and the valuation of PPE are set out on page 11.</p> <p>In accordance with relevant accounting standards, the Council includes in its balance sheet a provision reflecting its assessment of its exposure to business rate appeals. This is based on appeals submitted to the Valuation Office Agency at 31 March 2016 by businesses within the Borough. The Council undertakes a regular detailed review to determine the amount which should be held in a provision in respect of appeals submitted where a decision had not been taken by the Valuation Office Agency at the year-end. We reviewed the Council's calculations in detail and examined documentation showing appeals settled after the year-end. We were satisfied the value of the provision as at 31 March 2016 was appropriately supported.</p>	 <b>GREEN</b>
<b>Going concern</b>	<p>The Director of Resources, in her role as the Section 151 officer, has completed an assessment which asserts that she has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed the Council's assessment. We are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.</p>	 <b>GREEN</b>

## Assessment

-  [GREEN] Accounting policy appropriate and disclosures sufficient
-  [AMBER] Accounting policy appropriate but scope for improved disclosure
-  [RED] Marginal accounting policy which could potentially attract attention from regulators

# Other Matters

In this section we report other matters which have come to our attention when considering the Council's financial statements

Element of Accounts	Comments
<p><b>Narrative Report</b></p>	<p>The Accounts and Audit Regulations 2015 introduced a requirement for Authorities to produce a narrative report to complement the financial statements. The narrative report replaces the explanatory foreword. This is the first year the Council has been required to produce this report. CIPFA published an update to the 2015-16 Code of Accounting Practice earlier this year which included suggested content for the narrative report.</p> <p>We have reviewed the Council's narrative report. We agreed some changes with the Director of Resources so that appropriations to and from earmarked reserves were disclosed more concisely to help users of the statements interpret the information provided. We confirm that, in the majority of areas, the content recommended by CIPFA has been incorporated.</p> <p>Looking forward to next year, Management have agreed to consider including:</p> <ul style="list-style-type: none"> <li>• details of forward plans, particularly with regard to the capital programme and the sources of funding available to support that programme; and</li> <li>• details of the interest payable for the year and consideration of the position presented in the Council's cash flow statement.</li> </ul>

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously considered and discussed the risk of fraud with the Audit Committee and we have received a written response to our enquiries from the Chair of the Audit Committee.</li> <li>We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations.</li> <li>We have not identified any incidences from our audit work.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to the Council's bankers and the institutions with which the Council had investments at the year-end. This permission was granted and the requests were sent.</li> <li>The necessary confirmations have been received.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>We have agreed a small number of changes to disclosures in the accounts. These are set out on page 20.</li> </ul>
7.	<b>Matters on which we report by exception</b>	<ul style="list-style-type: none"> <li>We are required to report on a number of matters by exception in a number of areas:</li> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit; and/or</li> <li>The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading.</li> <li>There are no matters to report.</li> </ul>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<ul style="list-style-type: none"> <li>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</li> <li>However, the Council is below the thresholds set by the NAO so we are not required to undertake any detailed audit procedures on the 2015/16 consolidation pack.</li> </ul>

# Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for each of the audit risks set out on pages 10-13. We have one matter to bring to your attention.

Assessment	Issue and risk	Recommendation
<p style="text-align: center;">● <b>AMBER</b></p>	<p>Our IT audit team undertook a programme of work to review the configuration of the Council's main accounting system and the controls established within that system to prevent and/or detect access. This work followed-up a similar review last year which we reported in the previous year's Audit Findings Report. Whilst some key recommendations made last year have been actioned, management still need to take action to ensure the system is properly configured to prevent unauthorised access. We have undertaken testing of manual controls to obtain sufficient assurance that the deficiencies in the IT control environment could not have resulted in a material misstatement. This testing provided the necessary assurance.</p>	<ul style="list-style-type: none"> <li>(i) Remove access to the 'process tab' functionality within the main accounting system - this functionality could allow users to access aspects of the system which are not commensurate with their role in the finance team.</li> <li>(ii) Ensure recommended actions in respect of the password policy for the main accounting system are implemented by the Council and/or its service provider.</li> <li>(iii) Ensure the audit logs produced from the main accounting system are subject to regular review and undertake an assessment to determine whether audit logging should be introduced in other areas.</li> </ul>

## Assessment

- [RED] Significant deficiency – risk of significant misstatement
- [AMBER] Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

## Adjusted misstatements

Two adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

### Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year. We confirm that there are no unadjusted misstatements.

Detail	Comprehensive Income and Expenditure Statement	Balance Sheet	Movement in Reserves Statement
<p>1 The Council's Pension Fund Liability increased by £4.075M as a result of a re-measurement of the liability by the actuary. This was mistakenly reported as a credit to Other Comprehensive Income instead of a debit. The other primary statements are unaffected as the correct accounting entries were posted to the Council's ledger as part of the accounts closedown process.</p>	<p>Other Comprehensive Income overstated by £8.15M</p>	<p>N/A</p>	<p>N/A</p>
<p>2 Six grants received by the Council had been accounted for as a credit to Gross Expenditure, thus reducing total expenditure reported in the Comprehensive Income and Expenditure account. The correct accounting treatment was to post a credit to Gross Income. Management have restated Other Housing Services total income and expenditure to correct this error.</p>	<p>Other Housing Services Gross Expenditure overstated by £0.363M and Other Housing Services Gross Income understated by £0.363M</p>	<p>N/A</p>	<p>N/A</p>

# Changes to Disclosures

The table below provides details of non-trivial disclosure changes identified during the audit which have been made in the final set of financial statements.

	Value £'000	Account balance	Summary of agreed changes
1	394	Note 27– Cash Flow Statement Adjustments for Items Included in Net Deficit that are financing and investing activities	We agreed with management that an adjusting item relating to the recognition of soft loans in the Comprehensive Income and Expenditure account was a non-cash item and should therefore be included in Note 26 rather than Note 27.
2	3980 (2015/16) 3060 (2014/15)	Note 16 – Assets meeting the definition of a financial instrument	We agreed with management that the Council's Cash and Cash Equivalent balances held with the Council's bankers meet the definition of a financial instrument in accordance with relevant accounting standards. Management agreed to update the financial instrument disclosure for the current year and the prior year so that cash and cash equivalent balances were included as part of the disclosures.
3	various	Note 16 – Financial Instruments – Fair Value of Public Works Loans Bord (PWLB) loans	CIPFA has published guidance on how to determine the fair value of PWLB loans following the implementation of IFRS 13. Under the new guidance, the fair value of PWLB loans can no longer be determined by referring to the payment which the Council would need to make if it were to redeem the outstanding loans on the balance sheet date, i.e. 31 March 2016. Instead, we agreed fair value should be determined by identifying the cost of a taking out a new loan of the same value and duration on the balance sheet date. The Council has updated its disclosure so that the fair value reported is determined on an appropriate basis. The revised valuation of the loan is £6.668M lower than that used in the draft accounts. This reflects the fact that interest rates on new PWLB loans are at their lowest level for several years.
4	1,400	Note 31 – Amounts Reported for Resource Allocation Decisions	Management have agreed to correct an error in the note which had resulted in a misclassification of expenditure incurred by the Corporate, Democratic and Support Services segment. Within the disclosure Staff Pay costs were overstated by £1.4M and there was a corresponding understatement of the same amount for Other Services Expenses.
5	N/A	Note 32 – Related Parties	Management have agreed to expand the existing note so that it discloses that both an elected member and officer of the Council have an interest in Women's Community Matters, a voluntary organisation which received a grant from the Council during the 2015-16 financial year.

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

*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.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in February 2016 and identified two significant risks, which we communicated to you in our Audit Plan which we presented to the Audit Committee on 3 March 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

### **Significant qualitative aspects**

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. Our main findings were:

- Management have taken steps to capitalise on some of the emerging opportunities for the Borough as a result of significant inward investment. However, officers are yet to develop a mechanism for reporting on how planned engagement links in with the Council Plan and the progress against key milestones.
- Management and members have worked closely together to develop a budget strategy to deliver the reductions in net expenditure identified as being necessary in the medium-term financial strategy. We understand that a public consultation on the proposed strategy has recently been concluded. If some of the larger, more ambitious savings schemes set out in the plan are to deliver the cost reductions forecast important strategic decisions on key aspects of these scheme swill need to be taken quickly.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work later in this section.

### **Overall conclusion**

The Council continues to face a challenging outlook. In accordance with the AGN03 we have focussed our review on the Council's arrangements in respect of those areas identified as presenting a significant risk. We were satisfied in both instances that the arrangements were in place to deliver economy, efficiency and effectiveness and the text of our report, which is included in Appendix B, confirms our overall conclusion. However, we wish to emphasize that any further delays in taking forward the implementation of the budget strategy could have a significant impact on the Council's financial position. This is because the funding and operating conditions for local government are still subject to considerable uncertainty going forward.

### **Recommendations for improvement**

We discussed findings arising from our work with management and have agreed recommendations for improvement as follows.

- develop a performance management framework for the Council's economic development activities to articulate the links between the partnerships and projects in which the Council is engaged and the Council's overall strategic plan
- agree a forward plan for each major saving scheme in the new budget strategy so that management and members understand the timetable for taking the key decisions which will determine how savings are to be realised.

Management's response to these can be found in the Action Plan at Appendix A.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p><b>Economic regeneration</b> The Council's strategic priorities include a commitment to secure a long-term economic recovery for the community. The Council recognise that partnership working is crucial to driving economic growth in the Borough. The Council has already made some significant investments to regenerate the Borough, in particular the Marina Project. We need to understand how the Council is working with partners in the private and public sector in pursuit of its regeneration objectives and how members and officers assess the Council's progress against those objectives.</p>	<p>We will review how the Council is working with partners to revitalise the local economy and assess whether the Council has the right measures in place to assess the progress made.</p>	<p>The Council is able to demonstrate continuing engagement with the private and public sector as part of its commitment to support the regeneration of the local economy. This engagement has secured some benefits such as the leasing of under-utilised space at the Dock Museum to BAE and the decision to establish a Business Improvement District. Looking ahead, the scale of the forecast inward investment vastly exceeds that seen in recent decades and this investment has the potential to bring benefits to communities across the Borough.</p> <p>Responsibility for economic development resides with the Executive Director and the Assistant Director (Regeneration and Built Environment). Members and management should assess whether the Council and its stakeholders need more detailed information about how the Council is seeking to realise the benefits brought about by regeneration. Providing such information would enable decisions to be taken on how to prioritise available resources and targets to be agreed so that the effectiveness of the resource in achieving the stated goals can be measured.</p>
<p><b>Future Budget Strategy</b> In our 2014-15 Audit Findings Report we noted that the Council was developing a budget strategy following the local elections held in May 2015. The local government finance settlement for 2016-17 and the provisional allocations for the following three financial years has recently been published. The Council needs to ensure that its budget strategy incorporates realistic assumptions about how the Council can balance its budget by reducing expenditure and/or generating additional income.</p>	<p>We will review the progress made by officers and members to develop the Budget Strategy and assess the robustness of the assumptions underpinning the strategy</p>	<p>Management and members have developed a budget strategy and a public consultation on the strategy has recently been concluded. The Council needs to deliver £2.4M of savings by 2020 and the proposed strategy forecasts that £1M of the savings required can be realised through contract renewals with a further £0.47M to be achieved through a proposed outsourcing of the leisure services.</p> <p>We examined the detail supporting the savings linked to contract renewals and the outsourcing of leisure services. Whilst the evidence supplied indicated that the cost reductions forecast were not unrealistic and had already been achieved in other local authorities, key strategic decisions need to be taken about how the services under review will be delivered going forward. In the case of leisure services, these include decisions about the extent of any revenue-sharing, the length of the contract and the links with existing Council contracts for leisure services. The decisions still to be taken with regard to the revenues and benefits service are even more significant. Members need to determine whether the service will be delivered in-house, in partnership with another body or by a third party service organisation. Whilst decisions of this importance cannot be rushed, any delays in taking forward these savings schemes might impact on whether the savings forecast can be achieved over the life of the budget strategy.</p>

**Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

**Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

**Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

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## Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

**04. Other statutory powers and duties**

05. Fees, non audit services and independence

06. Communication of audit matters

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

	<b>Issue</b>	<b>Commentary</b>
1.	<b>Public interest report</b>	<ul style="list-style-type: none"><li>• We have not identified any matters that would require a public interest report to be issued</li></ul>
2.	<b>Written recommendations</b>	<ul style="list-style-type: none"><li>• We have not made any written recommendations that the Council is required to respond to publicly</li></ul>
3.	<b>Application to the court for a declaration that an item of account is contrary to law</b>	<ul style="list-style-type: none"><li>• We have not used this duty.</li></ul>
4.	<b>Issue of an advisory notice</b>	<ul style="list-style-type: none"><li>• We have not used this duty.</li></ul>
5.	<b>Application for judicial review</b>	<ul style="list-style-type: none"><li>• We have not used this duty.</li></ul>

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## Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

**05. Fees, non audit services and independence**

06. Communication of audit matters

We confirm below our final fees charged for the audit. We can also confirm that there were no fees for the provision of non audit services aside from the certification of grants in accordance with the fees set by Public Sector Audit Appointments Ltd.

### Fees

	Proposed fee £	Final fee £
Council audit	51,119	51,119
Grant certification	13,360	13,360
<b>Total audit fees (excluding VAT)</b>	<b>64,479</b>	<b>64,479</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

### Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

**06. Communication of audit matters**

# Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.a.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

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. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

# Appendix A: Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1a	Remove access to the 'process tab' functionality within the main accounting system.	Medium	Access to this tab has been removed.	July 2016, Financial Services Manager
1b	Ensure the revised password policy for the main accounting system is implemented by the Council and/or its service provider.	Low	Details have been provided to the Council's service provider and are awaiting implementation by a DBA.	September 2016, Financial Services Manager
1c	Ensure the audit logs produced from the main accounting system are subject to regular review and undertake an assessment to determine whether audit logging should be introduced in other areas.	Low	The logs will be reviewed on a regular basis. Additional logs will be introduced assuming no adverse effects on system performance in the test environment.	October 2016, Financial Services Manager
2	Expand the narrative report so that it includes: an explanation of the interest paid by the Council during the year; information concerning the position presented in the Council's cash flow statement; and details of the agreed capital programme for the next financial year.	Low	The Narrative Report will be expanded to include the additional information for the 2016-2017 Statement of Accounts.	June 2017, Director of Resources

## Appendix A: Action plan (continued)

### Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3	Develop a performance management framework for the Council's economic development activities to articulate the links between the partnerships and projects in which the Council is engaged and the Council's overall strategic plan.	Low	The Council Plan and associated strategic documents are currently under review. The Council intends to produce a four-year strategic plan to compliment the 2016-2020 Budget Strategy. The Local Government Association has been retained to facilitate corporate planning sessions for Members. The Borough ambitions for economic development are set out in the Furness Economic Development Plan which links projects through to the Local Enterprise Partnership. The opportunities to benefit from the inward investment anticipated in the coming years will be reflected in the Council Plan.	January 2017,  Executive Director
4	Agree a forward plan for each major saving scheme in the new budget strategy so that management and members understand the timetable for taking the key decisions which will determine how savings are to be realised.	Medium	The Budget Strategy is presented for approval by Full Council on the 6th September, 2016. For the major savings on contracts and leisure services, delivery plans will be established in order that the timing involved and the required decision process is apparent to Officers, Members and any others affected; this excludes the street cleansing saving which is part of the overall waste and street cleansing contract which is currently out to tender, with an award to be made in the Autumn.	November 2016,  Executive Director and Director of Resources

# Appendix B: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

## **(DRAFT) INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BARROW BOROUGH COUNCIL**

We have audited the financial statements of Barrow Borough Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Director of Resources and auditor**

As explained more fully in the Statement of the Director of Resources Responsibilities, the Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **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 the financial statements are free from

material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information

in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:  
present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and  
have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

### **Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

### **Matters on which we are required to report by exception**

We are required to report to you if:  
in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or  
we issue a report in the public interest under section 24 of the Act; or  
we make a written recommendation to the Authority under section 24 of the Act; or  
we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

## Appendix B: Audit opinion (continued)

### **Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

#### **Respective responsibilities of the Authority and auditor**

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

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### **Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

#### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

#### **Certificate**

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Jackie Bellard  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square  
Spinningfields  
Manchester  
M3 3EB

September 2016



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