

The Annual Audit Letter for Barrow Borough Council

Year ended 31 March 2016

October 2016

Jackie Bellard

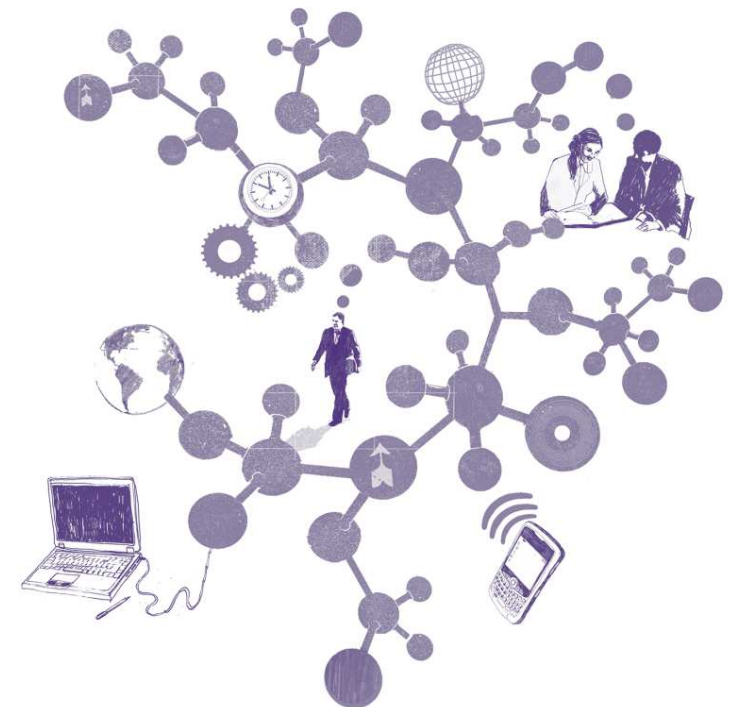
Engagement Lead
T 0161 234 6394
E jackie.bellard@uk.gt.com

Neil Krajewski

Engagement Manager
T 0161 234 6371
E neil.p.krajewski@uk.gt.com

Maeve Morgan

In-Charge Auditor
T 0161 953 6446
E maeve.t.morgan@uk.gt.com



Contents

Section	Page
1. Executive summary	3
2. Audit of the accounts	5
3. Value for Money conclusion	8
4. Working with the Council	10
Appendices	
A Reports issued and fees	11

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Barrow Borough Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 15 September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 22 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 22 September 2016.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

We have also been engaged to complete certification work on the Council's Housing Capital Receipts return. This work is underway and is due to be concluded by 30 November 2016.

Other work completed

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.

Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £973,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as cash, senior officer remuneration and related party transaction disclosures.

We set a lower threshold of £48,650, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

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

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of property plant and equipment 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>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Reviewed the management's processes and assumptions for the calculation of the estimate. • Reviewed the competence, expertise and objectivity of any management experts used. • Reviewed the instructions issued to valuation experts and the scope of their work. • Tested any revaluations made during the year to ensure they are input correctly into the Council's asset register. • Corresponded with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding. • Evaluated 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. <p>We did not identify any issues to report.</p>
<p>Valuation of pension fund net liability The Council's pension fund liability represents a significant estimate in the financial statements. The value of the pension fund net liability is estimated by specialist actuaries.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Reviewed the management processes to ensure the data supplied to the Cumbria Pension Fund is accurate and complete. • Liaised 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. • Compared the estimates used by the actuary to produce the valuation with actuals available to the Council and the Pension fund after the year-end. • Carried out procedures to understand and assess the assumptions and techniques used by the actuary to estimate the value of the pension fund liability. • 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. <p>We did not identify any issues to report.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 22 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 15 September 2016.

In addition to the key audit risks reported above, we identified six adjustments during our audit, two of these related to changes to the Comprehensive Income and Expenditure Account and the remaining changes concerned disclosures in the accounts. Management agreed to process all of the adjustments in respect of the matters we reported.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. Both documents were consistent with the supporting evidence provided by the Council and with our knowledge of the Council. CIPFA introduced a requirement for local government bodies to produce a narrative report this year. This report replaces the explanatory foreword and the intention is that the narrative report provides a broader, strategically-focussed commentary on the Council's financial position and its financial and non-financial performance than was the case previously. Management included the majority of the content recommended by CIPFA in its narrative report but have agreed to consider incorporating more information about the Council's organisational structure, its forward plans, particularly with regard to the capital programme and the borrowing facilities available to the Council.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. We are pleased to confirm that we did not have cause to exercise these powers this year.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings report agreed with the Council in September 2016, we agreed the following recommendations to address our findings:

- The Council should 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.
- The Council should 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.

Overall VfM conclusion

We are satisfied that, in all significant respects, except for the matters we identified below, the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Risk identified	Work to address risk identified	Findings and conclusions
<p>Economic regeneration 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 reviewed 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>Future Budget Strategy 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 reviewed 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>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we completed our audit fieldwork by the end of August and provided our audit opinion on 22 September. This was consistent with the timetable we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Improved financial processes – during the year we reviewed your financial systems and processes including employee remuneration, non- pay expenditure and property plant and equipment.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness and we discussed and considered the developments most likely to impact on the Council's financial health going forward. One of our Local Government Advisory team helped you to understand how you can develop existing partnerships to maximise the benefits to be derived from significant inward investment in the Borough.

Sharing our insight – we provided regular audit committee updates covering best practice. Areas we covered included the following reports produced by the firm:

- Innovation in Public Financial Management,
- Knowing the Ropes – our audit committee effectiveness review;
- Making Devolution Work; and
- Reforging Local Government.

We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Looking Ahead to 2016/17

We will continue to work with you and support you over the next financial year as you work toward bringing forward your audit timetable so that the audit can be concluded by 31 July 2016.

Locally our focus will be on:

- An efficient audit – our commitment to delivering an efficient audit will include sharing of best practice to help officers to streamline the preparation of working papers prepared to support the audit team; and
- Understanding the progress made to implement the new budget strategy and ensuring that the milestones management has identified as being crucial to secure the necessary reductions in net expenditure are being adhered to.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and the fee charged for certification of grants. No fees were charged for the provision of other non audit services.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	51,119	51,119	68,159
Grant Certification (Housing Capital Receipts)	0	2,500	2,500
Grant Certification (Housing Benefit Subsidy)	13,360	TBC	18,310
Total fees (excluding VAT)	64,479	TBC	88,969

The 2015/16 fee reduced compared to the prior year as a result of a reduction in the scale fee announced by Public Sector Audit Appointments Ltd (PSAA). This followed a national procurement exercise and the reduction was applied across the sector.

The national deadline for completing our certification work in respect of housing benefit subsidy is 30 November. We will confirm the final fee after this work is complete. Details of the work required to certify the Housing Capital Receipts return were finalised in September 2016. Consequently, a fee for undertaking this work was not included in our original audit plan.

Reports issued

Report	Date issued
Audit Plan	3 March 2016
Audit Findings Report	15 September 2016
Annual Audit Letter	27 October 2016



© 2016 Grant Thornton UKLLP. All rights served.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UKLLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grant-thornton.co.uk