



The Annual Audit Letter for Barrow-in-Furness Borough Council

Year ended 31 March 2019

October 2019



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Barrow-in-Furness Borough Council (the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and 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 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 19 September 2019.

Our work

Respective 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 as set out in section two
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) as set out in section three.

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

Materiality	We determined materiality for the audit of the Council's financial statements to be £942,000, which is 1.9% of the Council's gross expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 19 September 2019.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for its arrangements for ensuring policies and procedures in relation to procurement and contract management are followed. We therefore issued an except for value for money conclusion to the Council on 19 September 2019.
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 Pension and Pooling of Housing Capital Receipts return on behalf of the Ministry of Housing, Communities and Local Government. Our work on these claims is not yet complete and will be finalised by December 2019. We will report the results of this work to the Audit Committee separately.
Certificate	We certified that we have completed the audit of the financial statements of Barrow-in-Furness Borough Council in accordance with the requirements of the Code of Audit Practice on 19 September 2019.

Executive Summary

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in June and July.
- A quality audit- our work on the valuation of land, buildings and dwellings identified a potential material difference between the current and carrying value. We worked collaboratively with the Council and its external property valuer to gain the assurance we required in this area. The Council requested updated valuations for 5 of its assets which were posted in the financial statements, allowing us to issue an unqualified financial statements opinion on 19 September 2019.
- Improved financial processes – we made two recommendations (see Appendix B) to improve processes around the valuation of land, buildings and dwellings.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. Our except for value for money conclusion highlights the need for the Council to strengthen its arrangements to support procurement and contract management. We also made a recommendation in relation to this issue (see Appendix B).
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports.
- Providing training – we provided your teams with training on financial statements and annual reporting.
- Supporting development – we provided a workshop for Audit Committee members on the role of external audit and audit committee effectiveness.

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 2019

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, 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 the audit of the Council's financial statements to be £942,000, which is 1.9% of the Council's gross expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £47,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient 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 accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the 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 remainder of the financial statements, the narrative report and annual governance statement published alongside the financial statements to check they are consistent with our understanding of the Council and with the financial statements on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that 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 Financial Statements

Significant Audit Risks

These are the significant 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	Findings and conclusions
<p>Improper revenue recognition</p> <p>Under ISA (UK) 240 there is a rebuttable 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 the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Barrow Borough Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we did not consider this to be a significant risk for Barrow Borough Council.</p>	<p>This presumed significant risk was rebutted and therefore no specific response was required, this position was reviewed and remained appropriate for the year-end audit.</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p>We have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration to supporting evidence; • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>Our audit work did not identify any issues in respect of this risk.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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	Findings and conclusions
<p>Valuation of land, buildings and Council dwellings</p> <p>The Council revalues its land and buildings on a rolling basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and building, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; evaluated the competence, capabilities and objectivity of the valuation expert; discussed with the valuer the basis on which the valuation was carried out; challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and evaluated the assumptions made by management for those assets not revalued during the year and how management had satisfied themselves that these are not materially different to current value at year-end. 	<p>The Council engaged Lambert Smith Hampton Group Limited to complete the valuation of properties as at 31 March 2019, on a rolling basis. In 2018/19, the Council valued £14.168 million of its non-specialised assets, £37.309 million of its specialised assets and £6.385 million of its non-specialised assets. The Council valued all of its Council Houses as at 1 April 2018 (£71.503 million).</p> <p>Our audit work on land, building and dwellings not valued as at 31 March 2019, identified a potential material difference between their current and carrying value. The Council engaged its valuer to carry out an exercise to quantify this difference, with an estimated difference of £0.935 million between current and carrying value. As this was material, management requested their valuer to carry out a valuation of a further 5 assets in August 2019. The valuations were performed and the financial statements were updated, with the value of Property, Plant and Equipment increasing by £0.197 million. Following these updated valuations, the estimated difference between carrying and current value of assets not valued at 31 March 2019 was below our performance materiality. Therefore, we were satisfied that the updated valuation of land, buildings and council dwellings in the Council's accounts was fairly stated.</p> <p>Details of this adjustment are included in Appendix D. We also raised two recommendations in relation to this issue, which are shown in Appendix B.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified the valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; evaluated the instructions issued by management to their management expert (an actuary - Mercer) for this estimate and the scope of the actuary's work; assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as our auditor's expert) and performing any additional procedures suggested within the report; and obtained assurances from the auditor of Cumbria Local Government Pension Scheme as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. 	<p>Our audit work identified that the fair value of plan assets included in the draft accounts was based on an estimated investment return of 6.03%, following the national McCloud ruling (see page 8 and below), the Council requested that the actuary rerun its IAS19 estimate. This rerun used the actual fund investment return of 6.54%. This resulted in an increase in plan assets of £0.370 million. The Council did not adjust for this increase on the grounds of materiality. This was disclosed in our audit findings report as an unadjusted misstatement, see Appendix D.</p> <p>In June 2019 the Government was refused permission to appeal the McCloud ruling by the Supreme Court. Management requested an updated estimate from the actuary of the potential impact of the McCloud ruling. This was received from Mercers on 15 July 2019. This indicated an increase in past service cost and therefore an increase in liability of £0.477m. The impact of this is estimated to be an:</p> <ul style="list-style-type: none"> increase in past service costs +£0.477m; and increase in net pension liability +£0.477m. <p>Management assessed the work undertaken by Mercer and judged that the potential impact on the Council was not material, and therefore decided not to update the financial statements in relation to these amounts. This was disclosed in our audit findings report as an unadjusted misstatement, see Appendix D.</p> <p>Although we were of the view that there is sufficient evidence to indicate that a liability is probable, we satisfied ourselves that there was not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 19 September 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline, 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 financial statements

We reported the key issues from our audit to the Council's Audit Committee on 19 September 2019. As outlined on page 7, our audit work around the valuation of land, buildings and dwellings identified a potential material difference between the current and carrying value. The Council requested updated valuations for five of its assets in August 2019, enabling us to issue our unqualified opinion in September 2019.

Details of all audit adjustments are included in Appendix D.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website and alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council

- . Note that the Narrative Report was updated post audit to include;
 - a clear operating model section on inputs, outputs and value creation;
 - a risks and opportunities section;
 - all key priority areas on the non financial performance information with in year targets; and
 - core values, culture and ethics that underpin the Council's actions and decision making processes.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold.

Certificate of closure of the audit

We certified that we had completed the audit of the financial statements of Barrow-in-Furness Borough Council in accordance with the requirements of the Code of Audit Practice on 19 September 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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 risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in September 2019, we agreed recommendations to address our findings.

Overall Value for Money conclusion

Except for the matter we identified in respect of breaches of the Council's purchasing and contract standing orders, the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019. We therefore issued a qualified 'except for' conclusion on 19 September 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Budget strategy and financial sustainability</p> <p>The Council has implemented strategic decisions in 2017/18, which fundamentally alter models of service delivery. Park Leisure Centre was outsourced on 1 August 2018, and revenues, benefits and customer services were insourced on the 1 October, 2018. The Council's budget strategy and 2019/20 General Fund budget includes significant savings in relation to these changes.</p> <p>We need to confirm that the Council has adequate arrangements in place to deliver these service delivery changes and realise the budgeted savings.</p> <p>We also need to confirm that, should the changes not deliver budgeted savings, robust plans are in place to bridge the gap in other areas.</p>	<p>The Budget Strategy 2016-2020 was adopted by the Council in September 2016; the core deficit or funding gap by 2020 was identified as £2.7m. The planned savings and reductions as at the 31st March, 2019, were originally forecast to be £1.92m; the actual outturn is 1% lower at £1.9m.</p> <p>The Council expects to achieve the planned contribution from both the Park Leisure Centre outsourcing and Revenues and Benefits insourcing. As at 31st March 2019, a saving of £0.465 million was achieved in relation to Revenue and Benefits, against a plan of £0.367 million. The services have been operating for 4 months and we are aware that there may be a need to increase staffing. This is not yet apparent but must be highlighted rather than considering the saving as entirely banked. Park Leisure Centre has achieved £0.134 million of savings against a plan of £0.223 million in the 2018/19 year. The Park Leisure Centre saving will increase over the next two full financial years as the transitional subsidy drops away and reserves for the Council's residual liabilities are established.</p> <p>The outturn for 2018/19 was a balanced General Fund including the use of £0.786 million of reserves. The use of reserves was lower due to profile changes and the year-end additions to reserves relating to business rate retention Scheme income volatility, DWP housing benefit subsidy, additional interest on temporary deposits and service underspends.</p> <p>The General Fund budget for 2019-2020 includes cumulative savings and reductions from the Budget Strategy totalling £2.703 million. The Council's 2019-20 budget has identified budgeted savings of £2.936 million less £0.225 million additional costs, giving a net surplus of £0.008 million.</p> <p>Both the General fund Balance and HRA Reserve are close to minimum levels. The General Fund balance at the 31st March, 2020 is projected to be £2.300 million and the Medium Term Financial Plan projects that it will remain at this level through to 2023. The Council's total General Fund earmarked reserves as at 31 March 2017 were £9.025 million, falling to £8.670 million as at 31 March 2018 and £7.884 million as at 31 March 2019. The Medium Term Financial plan projects that General Fund earmarked reserves will fall to £6.257 million by 31 March 2023. The projections out to 2022-2023 show a balanced budget for the Housing Revenue Account; with the HRA balance projected to remain above the minimum balance of £0.900 million through to 31 March 2023.</p>	<p>Auditor view</p> <p>Given the arrangements, we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place to support its Budget Strategy. Whilst the Council is running its General Fund and HRA reserves at a minimum level, it has a medium term financial plan support and budget contingency reserve in place to help smooth a medium term balanced budget position.</p> <p>The Council should continue to plan and closely monitor its finances through a combination of cost reduction, demand management and income generation measures, particularly as reserves will come under pressure if the contract renewal savings are not fully realised as planned.</p> <p>The Council needs to review its future Medium Term Financial Plan in the context of uncertainties around the outcome of the fair funding review, inflation and achievement of planned budget strategy savings. The Council should also closely monitor the run rate on the use of its usable reserves given the significant decrease projected in its General Fund earmarked reserves.</p> <p>Management response</p> <p>The forward projections for the General Fund in the current Medium Term Financial Plan use the baseline for the Business Rate Retention Scheme and remove all benefits of growth until the outcome of the Fairer Funding Review is known. As contractual inflation and other recurring cost or income changes are determined, these will be fed into the estimations used for revenue projections. The Budget Strategy has achieved £1.9m of the required £2.7m savings as at the 31 March 2019 and remains under close monitoring for 2019-2020 when the final savings will be realised. Fund balances are held above the minimum risk assessed amount. Reserves are monitored and their use is planned over time; slippage may occur and the use of reserves re-profiled through the Medium Term Financial Plan reviews; additional unplanned income will be added to reserves in line with current practice.</p>

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Procurement arrangements</p> <p>The 2017/18 Annual Governance Statement, the work of Internal Audit and our own 2017/18 Audit Finding Report identifies the need for the Council to strengthen its procurement arrangements. Despite this, there continues to be delays around the completion of the Council's contract checklist. This lack of compliance proof makes it difficult for the Council to prove that they have secured overall value for money in procurement decisions.</p> <p>We will review the Council's procurement arrangements to confirm that improvements have been made, which ensure the Council can demonstrate procurement processes provide overall value for money.</p>	<p>Our work has highlighted that there continues to be significant weaknesses in the Council's arrangements for procurement and contract management. In 2018/19, Internal Audit has identified some clear breaches of the Council's purchasing and contract standing orders. The most significant areas of non-compliance as highlighted in Internal Audit's restricted assurance report on Procurement issued on 9 July 2019, mainly in Community Services, were;</p> <ul style="list-style-type: none"> contracts being allowed to 'roll over' rather than extensions being formally authorised; failure to complete the Council's pre-contract checklist in a timely manner; failure to conduct purchases over £100,000 in accordance with the Council's contract standing orders; and inadequate timely market testing of certain contracts to inform effective decision making. <p>Internal Audit's follow up on prior year recommendations also identified the following issues;</p> <ul style="list-style-type: none"> relevant supporting documentation relating to procurements are not always retained and readily available for inspection to confirm compliance with Council's purchasing procedures; procurements are not consistently made in accordance with the competition requirements of the Council's purchasing procedures; and the Council is not performing annual reviews of payments to suppliers to identify whether contract standing orders should have been followed in specific instances. <p>Whilst the above demonstrates weaknesses in the Council's arrangements for procurement and contract management, we do not feel the issue is systemic. It is most prevailing in Community Services, notably in relation to the Waste Contract (total value £2.1 million), which has received no assurance in a draft internal audit report. In contrast, the recent large outsourcing contract on leisure was completed to a high standard (annual value £0.5 million) receiving an unqualified Internal Audit assurance rating. The Council has also successfully 'in-sourced' its Revenue and Benefits services in year.</p> <p>Our work and inquiries of Internal Audit and management has not identified any instances of fraud or corruption in relation to this issue, with the shortcomings being related to competency and capability.</p>	<p>Auditor view</p> <p>These matters identify weaknesses in the Council's arrangements for ensuring policies and procedures in relation to procurement and contract management are followed. The Council is failing to demonstrate and apply the principles and values of sound governance in its procurement arrangements. This is leading to ineffective procurement of supplies and services to support the delivery of strategic priorities.</p> <p>This failure to adhere to Council purchasing and contract standing orders means in it difficult for the Council to demonstrate that it has achieved value for money in procurement decisions. Furthermore, these weakness increase the risk of fraud in procurement and increase the potential for legal challenge from unsuccessful potential suppliers.</p> <p>We have included a recommendation in relation to this issue in Appendix B and are unable to conclude that the Council has adequate arrangements in place in this area.</p> <p>Management response</p> <p>In order to improve compliance with the Council's procurement regulations, a Corporate Procurement Board has been created. The Board is the senior officer group within the Council leading on the governance, managing key activities and decision making within the procurement process. The Board is chaired by the Director of Resources and aims to ensure that the Council adopts a planned approach to procurement in order to demonstrate the compliance with Contract Standing Orders and procurement regulations, transparency, competition, and the Council's commitment to achieving value for money.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of none audit services

Reports issued

Report	Date issued
Audit Plan	21 March 2019
Audit Findings Report	19 September 2019
Annual Audit Letter	October 2019

	Proposed fee	Final fee	Prior Year
Council Audit	£39,362	£47,362	£51,119
Grant Certification	£9,018	TBC	£18,604
Total audit fees (excluding VAT)	£48,380	TBC	£69,723

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £39,362 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table. When the fee variation is taken into account the Council has still achieved a 7% reduction in audit fee from the 2017/18 audit.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	£1,500
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across Local Government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£1,500
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this and to address the issues identified on page 6 of this report.	£3,000
Value for Money	This reflects the increased audit work required in relation to our procurement arrangements significant risk. As detailed on page 16, we issued an except for opinion in relation to this issue, which required input and moderation from an internal national quality panel.	£2,000
Total		£8,000

Fee variations have been discussed with Management and are still subject to final PSAA approval.

A. Reports issued and fees continued

Fees for non-audit services

Fees for other services	Fees
Audit related services:	
Certification of Housing capital receipts grant	£2,500

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.
- The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

B. Action plan

We have identified 3 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on these recommendations during the course of the 2019/20 audit. 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.

	Assessment	Issue and risk	Recommendations
1	●	<p>VFM - Procurement and Contract Management</p> <p>The Council is failing to demonstrate and apply the principles and values of sound governance in its procurement and contract management arrangements. This is leading to ineffective procurement of supplies and services, to support the delivery of strategic priorities.</p>	Ensure that the purchasing and contract management standing orders are followed in all procurement decisions.
2	●	<p>Financial Statements - Valuation of Dwellings</p> <p>The Council currently values its' Dwellings as at 1 April. There is a risk that the carrying value of these assets may be materially different to the current value as at 31 March.</p>	Consider valuing all Dwellings as at 31 March to ensure carrying values are not materially different from current value.
3	●	<p>Financial Statements - Valuation of Specialised Assets</p> <p>The Council's rolling programme of valuations means its' specialised assets are not always valued on an annual basis. The valuation of these assets are particularly sensitive to movements in BCIS indices.</p>	Consider valuing all Specialised Assets annually to ensure carrying values are not materially different from current value.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

C. Follow up of prior year recommendations

We identified the following issues in the audit of Barrow Borough Council's 2017/18 financial statements, which resulted in 3 recommendations being reported in our 2017/18 Audit Findings report. We have followed up on the implementation of our recommendations and two of the three have been completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1 ✓	<p>IT Systems and Controls We noted that there were 10 users with access to critical functions e.g. Flexfields, Users and Functions, which can be used to modify ledger codes, modify responsibilities assigned to users and create or modify existing functions within the application.</p> <p>Management should review the report that we have provided that contains details of all users who have access to critical functions within Oracle. Any users that do not strictly require these functions to perform their job should have this level of access removed.</p>	<p>The Financial Services Manager has worked with our external Oracle Financials support provider and addressed the access issues.</p>
2 X	<p>Property Plant and Equipment Valuations The Council is required to satisfy itself that the carrying value of assets not revalued in year are materially consistent with their current value.</p> <p>The Council works closely with its external valuer to make an assessment on material assets that may be subject to material movement between its carrying value to current value.</p>	<p>The Asset Accountant has worked with our external valuer to ensure that the carrying value of assets not revalued in year is materially consistent with their current value.</p> <p>Our audit work identified that there was a potential material difference between carrying value and current value on assets not revalued in year. In future years, the Council should request its' valuer to carry out an exercise to quantify the likely difference between carrying and current value and request updated valuations if the difference is material.</p>
3 ✓	<p>Housing Rents System The Housing Rents System has not been fully reconciled to the General Ledger.</p> <p>We have had to carry out substantive analytical procedures to provide adequate assurance over the completeness of housing rents revenue.</p>	<p>The Service Accountant has worked with the external Civica support provider and a regular reconciliation is now being performed.</p>

Assessment
 ✓ Action completed
 X Not yet addressed

C. Follow up of prior year recommendations – Value for Money

We identified the following Value for Money related issues in the audit of Barrow Borough Council's 2017/18 financial statements, which resulted in 2 recommendations being reported in our 2017/18 Audit Findings report. We have followed up on the implementation of our recommendations and note one is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	 <p>Budget strategy delivery The Council is running its General Fund and HRA reserves at a minimum level but we acknowledge it has a Medium Term Financial Plan support and budget contingency reserve in place to help smooth a medium term balanced budget position.</p>	The Budget Strategy is on target and continues to be monitored in 2019-2020.
2	 <p>Procurement and contract management The waste contract pre-contract checklist is now more than 20 months overdue. There is still significant scope for strengthening these arrangements and it is imperative that the pre-contract checklist relating to the waste contract is provided to demonstrate compliance with the Council's procurement policies and procedures and that the Council has secured value for money. The Council also needs to dedicate sufficient resource to ensure it receives compliance assurance within its ongoing procurement and ongoing contract management arrangements.</p>	The waste tender checklist is with Internal Audit for review. Additional resource was added to the establishment during 2018-2019 to support contracting arrangements. Further work is needed to share the areas of good practice and achieve compliance across the authority. Note this recommendation has not been fully implemented and will be followed up in 2019/20.

Assessment

-  Action completed
-  Not yet addressed

D. Audit Adjustments Continued

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000
1 Other Land and Buildings		
Our audit work identified a potential material difference between the carrying and current value of assets not revalued at 31 March 2019. As a result, management requested that their valuer provide valuations for a further 5 assets. These updated valuations resulted in an £0.197 million increase in the Council's Property Plant and Equipment.		
Property Plant and Equipment (Surplus) or deficit on revaluation of non-current assets	(197)	197

Impact of prior year unadjusted misstatements

There are no prior year unadjusted misstatements.

D. Audit Adjustments Continued

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Accounts and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	CIES £'000	Balance Sheet £'000	Reason for not adjusting
<p>1 Potential impact of the McCloud judgement</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented.</p> <p>The Council requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate received on 15 July 2019 was of a possible increase in pension liabilities of £0.477 million, and an increase in past service costs of £0.477 million.</p> <p>We have satisfied ourselves that there is not a risk of material mis-statement as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.</p>	477	(477)	The revised pension actuary calculations identify £477k as the possible increase in pension liabilities and past service costs. The revised actuary calculations contain a number of conditions and the actuary states that "The additional costs are very sensitive to the assumptions made." and "...categories of members potentially affected...". The number of members who will ultimately be affected will depend on the remedy agreed by the Government and the individual member's circumstances. The next triennial valuation falls on the 1 April 2020 and we will discuss the impact of the McCloud judgement with the Fund and the actuary. The £477k has not been included in the financial statements for 2018-2019 as it is not considered to be material; the transaction would have no impact on the General Fund or Housing Revenue Account balances at 31 March 2019.
<p>2 Fair Value of Plan Assets</p> <p>Our audit work has identified that the fair value of plan assets included in the draft accounts was based on an estimated invest return of 6.03%, following the national McCloud ruling (see page 8 and below), the Council requested that the actuary rerun its IAS19 estimate. This rerun used the actual fund investment return of 6.54%. This resulted in an increase in plan assets of £0.370 million.</p>	(370)	370	The change in the fair value of plan assets is not related to the McCloud judgement. The pension fund had provided more up-to-date information regarding the investment return rate (actual information instead of a final quarter estimate) and the actuary used this information when recalculating for the McCloud judgement. The £370k has not been included in the financial statements for 2018-2019 as it is not considered to be material; the transaction would have no impact on the General Fund or Housing Revenue Account balances at 31 March 2019.
Overall impact	£107	(£107)	

D. Audit Adjustments Continued

Misclassification and disclosure changes

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

Adjustment Type	Value (£'000)	Account Balance	Impact on the Financial Statements
1. Disclosure	65	Note 13 Property, Plant, Equipment and Vehicles	In Note 13, the written back depreciation on loss reversal had been accounted for in the provision of services line, this should have been accounted for in the revaluation reserve line. This adjustment only impacts Note 13 and has no net impact on the Net Book Value of Property, Plant, Equipment and Vehicles figures in the Balance Sheet.
2. Disclosure	NA	Note 2 Accounting Standards that have been issued but have not yet been adopted	Note 2 has been updated to make reference to IFRS16, which will be implemented on 1 April 2020.
3. Disclosure	NA	Note 24 Contingent Liabilities	Note 24 has been updated to reflect amounts set aside in reserves against future claims relating to the MMI Scheme of Arrangement.
4. Presentation and consistency	NA	NA	A small number of minor changes have been made to the wording and presentation of existing disclosure notes in the financial statements to improve their clarity and consistency. None of them are significant to warrant disclosing separately.
5. Disclosure	130	Note 13 Property, Plant, Equipment and Vehicles	One of the Council's assets has been correctly valued and classified as a Surplus Asset, but is shown in Other Land and Buildings in Note 13. As a result Other Land and Buildings is overstated by £130,000 and Surplus Assets are understated by £130,000. The Council has not adjusted for this issue on the grounds of materiality.

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQR

Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies



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