



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

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Year ended 31 March 2020

May 2021



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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 2020.

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 18 March 2021.

## 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 (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) (ISAs) and other guidance issued by the NAO.

## Our work

|   |  |
|---|--|
| <b>Materiality</b>                        | We determined materiality for the audit of the Council's financial statements to be £896,000, which is 1.95% of the Council's gross cost of services expenditure.  |
| <b>Financial Statements opinion</b>       | <p>We gave an unqualified opinion on the Council's financial statements on 18 March 2021.</p> <p>We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.</p>   |
| <b>Whole of Government Accounts (WGA)</b> | We completed work on the Council's consolidation return following guidance issued by the NAO.  |
| <b>Use of statutory powers</b>            | We did not identify any matters which required us to exercise our additional statutory powers. As this is the second year that we have issued an except for VFM conclusion opinion, we have given serious consideration to the exercise of a statutory recommendation under section 24 of the Local Audit and Accountability Act 2014. We have determined that, in view of some improvements to related procurement and contract management arrangements towards the end of the 2019-20 financial year, it is not appropriate to issue a section 24 at this time. However, we are continuing to monitor progress in this area and, if weaknesses persist, will review use of our wider statutory powers. |

# Executive Summary

|                                     |   |
|-------------------------------------|---|
| <b>Value for Money arrangements</b> | 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. This does follow on from a similar qualification to our VFM conclusion in 2018/19. We therefore qualified our value for money conclusion in our audit report to the Council on 18 March 2021. |
| <b>Certificate</b>                  | 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 18 March 2021.  |

## Working with the Council

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council with additional challenges of reopening services under new government guidelines. Council staff have had to adapt to working from home and accessing key systems remotely. We updated our audit risk assessment to consider the impact of the pandemic and included an additional financial statement level risk in respect of Covid-19 and highlighted the impact on our Value for Money conclusion approach.

Restrictions for non-essential travel has meant both Council and audit teams have had to adapt to new remote access working arrangements. This has included the use of video calling and screensharing for the verification of completeness and accuracy of information produced by the entity, and information sharing through our cloud-based software.

The accounts were provided to us on 27 August 2020. The draft accounts were produced to a high compliance standard and were supported by good working papers. However, there have been delays in responses to audit queries throughout the audit process, which has led to a number of changes to the proposed timetable for completion of the audit. We acknowledge that these are exceptional times and the finance team has understandably had to prioritise the Council's response to the pandemic.

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  
April 2021

# 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 £896,000, which is 1.95% of the Council's gross cost of services 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 also set a lower level of specific materiality for senior officer remuneration if £10,000, based on what would be material to the reader of the accounts for this sensitive area.

We set a lower threshold of £45,000, 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 Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts 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><b>Covid-19</b></p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> <li>- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;</li> <li>- volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates;</li> <li>- financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</li> <li>- disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li> </ul> <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>We worked with management to understand the impact the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations.</p> <p>We also:</p> <ul style="list-style-type: none"> <li>• liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose;</li> <li>• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;</li> <li>• evaluated whether sufficient audit evidence could be obtained using alternative approaches whilst working remotely;</li> <li>• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and pension fund net liability valuations;</li> <li>• evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and</li> <li>• discussed with management the implications for our audit report opinion.</li> </ul> | <p>Appropriate arrangements have been put in place to manage the Covid-19 situation and suitable disclosures have been made in the financial statements. This includes the use of alternative arrangements in the decision-making process as permitted by the Council Constitution. We were able to obtain sufficient audit evidence by utilising screensharing for the verification of completeness and accuracy of information produced by the Council, and share information through our cloud based software.</p> <p>Due to the potential impact that Covid-19 has on the value of your land, buildings and dwellings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within their valuers report. Following audit, you have disclosed this material uncertainty within Note 4 of the financial statements. Note 4 has also been updated to reflect the impact of Covid-19 on the valuation of the Council's share of Cumbria Local Government Pension Scheme's direct property investments and investments in unquoted property funds. The note states that fair value measurement of these investments at 31 March 2020 is subject to a material uncertainty.</p> <p>We will reflect your disclosures within an "emphasis of matter" paragraph in our audit report opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted the same material valuation uncertainty.</p> <p>There were no other findings in respect of this significant risk.</p> |

# Audit of the Financial Statements

| Risks identified in our audit plan  | How we responded to the risk   | Findings and conclusions   |
|---|--|--|
| <p><b>Management override of controls</b></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. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals;</li> <li>analysed the journals listing and determined the criteria for selecting high risk unusual journals;</li> <li>tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and</li> <li>evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions</li> </ul>  | <p>Our audit work has not identified any issues in respect of this significant risk.</p>   |
| <p><b>Valuation of net pension liability</b></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 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>     | <ul style="list-style-type: none"> <li>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;</li> <li>evaluated the instructions issued by management to their actuary for this estimate and the scope of the actuary's work;</li> <li>assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>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;</li> <li>undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report; and</li> <li>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.</li> </ul> | <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>Similarly to the valuation of land and buildings, there is also an impact of Covid-19 on the valuation of the LGPS pension fund property assets. Cumbria's Local Government Pension Scheme's accounts include a material uncertainty around the valuation of pension fund's property assets and the auditor of Cumbria Pension Fund intends to include an emphasis of matter in their auditor's report in respect of the effects of Covid-19 on the valuation of its direct and indirect property holdings. The Council's financial statements disclosures have been updated within Note 4 to reflect this and our audit report opinion will also contain an "emphasis of matter" paragraph in this respect.</p> <p>Our audit work has not identified any other issues in respect of this significant risk.</p> |

# Audit of the Financial Statements

| Risks identified in our audit plan   | How we responded to the risk   | Findings and conclusions   |
|--|--|--|
| <p><b>The revenue cycle includes fraudulent transactions</b></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>Our prior year Value for Money work and the work of Internal Audit, has identified weaknesses in the Council's procurement and contract management arrangements. For Barrow-In-Furness Borough Council we have concluded that the greatest risk of material misstatement relates to income from contracts.</p> <p>We have therefore identified the occurrence and accuracy of income from contracts as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> <p>We have rebutted this presumed risk for the other revenue streams of the Council because:</p> <ul style="list-style-type: none"> <li>• Other income streams are primarily derived from grants or formula based income from central government and tax payers</li> <li>• There is little incentive to manipulate revenue recognition</li> <li>• Opportunities to manipulate revenue recognition are very limited</li> <li>• The culture and ethical framework of local authorities, including Barrow-In-Furness Borough Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> | <p>For contract income we have:</p> <ul style="list-style-type: none"> <li>• evaluated the Council's accounting policy for recognition of contract income for appropriateness;</li> <li>• gained an understanding of the Council's system for accounting for contract income and evaluated the design of the associated controls; and</li> <li>• agreed on a sample basis amounts recognised as income from contracts to supporting evidence.</li> </ul> | <p>As outlined in our audit plan, we rebutted this presumed risk for all non-contract revenue streams of the Council.</p> <p>Our work understanding the Council's system for accounting for contract income highlighted a clear process that should be followed when the Council enters a new contract. Our walkthrough test identified a number of new contracts where this process was not followed. This was often due to the impacts of COVID-19. We highlighted that management has still not addressed our prior year recommendation around ensuring that the purchasing and contract management standing orders are followed in all procurement decisions. Whilst we are satisfied that this does not create a risk of material misstatement of contract income in the financial statements, management should continue the work which is underway to strengthen arrangements and overall compliance in this area.</p> <p>Our audit work has not identified any issues in respect of this significant risk.</p> |



# Audit of the Financial Statements

| Risks identified in our audit plan  | How we responded to the risk   | Findings and conclusions   |
|---|--|--|
| <p><b>Valuation of land, buildings and dwellings</b></p> <p>The Council revalues its land, buildings and dwellings 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 of buildings and dwellings not revalued in year 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.</p> <p>We therefore identified valuation of land, buildings and dwellings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert;</li> <li>written to the valuer to confirm the basis on which the valuation was carried out;</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation;</li> <li>tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and</li> <li>evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li> </ul> | <p>The Council's valuer prepared their valuations in accordance with the RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates.</p> <p>Due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within their valuers report (in accordance with VPS 3 and VPGA 10 of the RICS Valuation – Global Standards). Following audit, you have disclosed this material uncertainty within Note 4 of the financial statements. We will reflect your disclosure within an “emphasis of matter” paragraph in our audit report opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted the same material valuation uncertainty.</p> <p>The Council has been slow to provide evidence to support key assumptions and source data underpinning the valuation of its land, buildings and dwellings. This has made it difficult for management to support the assumptions and source data used by its valuer, and in turn has added delays to the audit process.</p> <p>Our audit work has not identified any other issues in respect of valuation of land, buildings and dwellings.</p> |

# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 18 March 2021.

## **Preparation of the financial statements**

The Council presented us with draft financial statements in August 2020 in accordance with the agreed timescale, and provided a good set of working papers to support them. The draft accounts were produced to a high compliance standard and were supported by good working papers. However, there have been delays in responses to audit queries throughout the audit process, which has led to a number of changes to the proposed timetable for completion of the audit. We acknowledge that these are exceptional times and the finance team has understandably had to prioritise the Council's response to the pandemic.

## **Issues arising from the audit of the financial statements**

We reported the key issues from our audit to the Council's Audit Committee on 18 March 2021.

## **Annual Governance Statement and Narrative Report**

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the draft Statement of Accounts in August 2020.

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.

A number of changes were made to the Annual Governance Statement following audit. An action plan, with planned completion dates for significant governance and control weaknesses identified in 2019/20. An update on progress of actions taken in response to significant governance and control weaknesses identified in the previous year. A clear conclusion on the level of assurance provided by the governance arrangements.

A number of changes were made to the Narrative Report following audit. The section on the medium term financial plan was updated with the figures presented to the Executive Committee on 11 November 2020. The section on the impact of Covid 19 was expanded to provide more detail on government funding and the impact on services and the setting of the 2020/21 budget. Cross-referencing was added to the quoted outturn report figures to the Expenditure and Funding Analysis in the financial statements.

## **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 have completed the audit of the financial statements of Barrow-in-Furness Borough Council accordance with the requirements of the Code of Audit Practice on 18 March 2021.

# 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 April 2020 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 March 2021, we agreed recommendations to address our findings:

- Carry out a detailed sensitivity analysis around the key uncertainties and assumptions in the MTFP to assist agile financial management to secure the Council's medium term financial sustainability in the light of the uncertain context for Local Government.
- Provide evidence to support all source data and key assumption used in the annual valuation of land, buildings and dwellings.
- Address segregation of duties conflicts between the Oracle system administration and finance roles.

## Overall Value for Money conclusion

We are satisfied that, in all significant respects, except for the matter we identified in respect of procurement and contract management, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

We therefore propose to give a qualified 'except for' conclusion.

On the basis of our work, having regard to the specified criterion issued by the Comptroller & Auditor General in April 2020, except for the effects of the matter described in the basis for qualified conclusion section of our report, we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

# Value for Money conclusion – Value for Money Risks

| Risks identified in our audit plan   | Findings   | Conclusion   |
|--|--|--|
| <p><b>Financial sustainability</b></p> <p>The Council's Medium Term Financial Plan for 2020-2024 identifies deficits for 2021-2022 (£0.118 m), 2022-2023 (£0.263 m) and 2023-2024 (£0.429 m). The Council's General Fund balance at the 31/3/21 is projected to be £2.3 m, above the minimum balance of £1.9 m. Other general fund earmarked reserves are projected to fall from £7.784 m as at 31/3/19 to £5.090m as at 31/3/2024. The Council's funding position beyond 2020-21 is unknown and projections beyond this are based on the 2020-21 settlement.</p> <p>Given the uncertainties around the future funding settlement, projected deficits and future run rate on reserves, the medium term financial plan and financial sustainability of the Council represents a significant risk to our VFM conclusion. In response to the risk we will; review progress on delivery of the medium term financial plan, review arrangements for developing the medium term financial plan and challenge key assumption in the plan.</p> | <p>The Council has good financial reporting and monitoring arrangements in place. Its medium-term financial planning, budgeting and identification of saving plans are agreed at a corporate level, by senior officers and members. Additional pressures and progress against savings requirements are reported throughout the year and actions agreed to close the budget gap as required.</p> <p>The budget for 2019-2020 incorporated the cumulative £8.9 million of recurrent savings that had been achieved between 2011 and 2020. For 2019-2020 the General Fund revenue account was balanced with a contribution from reserves of £0.537 million compared to a planned use of reserves of £0.683 million. The Housing Revenue Account (HRA) was also balanced with a net contribution to reserves of £0.527 million.</p> <p>Both the General Fund balance and HRA reserve continue to be close to minimum levels, at £2.3 million and £1 million respectively. Other General Fund reserves were £7.347 million at 31 March 2020, a fall from £7.884 million at 31 March 2019, £8.67 million at 31 March 2018 and £9.025 million at 31 March 2017. The 2021/22 budget projects that Other General Fund reserves will increase to £10.560 million by 31 March 2021, which includes £3.763 million business rates relief. Other General Fund reserves are then projected to fall to £6.767 million at 31 March 2022.</p> <p>The projections within the current Medium Term Financial Plan identify a balanced budget position through to 2024/25. The Council anticipates contributing £0.194 million to volatility reserves in 2021/22, £0.264 million in 2022/23 and £0.097 million. This contribution has been reduced to cover the impacts of COVID-19 and the element of the national pay award above previous estimates. However, considerable uncertainty in the medium term remains. On-going contract challenges mean assumptions around the waste and leisure contracts may need to be revised. The future impact of COVID-19 on services and income is unclear and there continues to be funding and macroeconomic uncertainty. In view of this, the Council should continue to identify opportunities to supplement its reserves and strengthen its financial sustainability in the medium term.</p> | <p><b>Auditor view</b></p> <p>Overall, the Council has effective financial planning and financial management arrangements in place. The Council has a good record on delivering savings and delivered its planned recurrent savings in 2019/20.</p> <p>We continue to note an overall downward trajectory on the Council's General Fund reserves. The Council faces some significant challenges in the short and medium term. Achieving future planned savings will be even more challenging in context of Covid-19 impact and there is uncertainty around future arrangements for the delivery of waste and leisure services. The Council should continue to put robust budget monitoring arrangements in place to manage these risks and ensure planned savings are delivered.</p> <p>We recommend that management carry out a detailed sensitivity analysis around the key uncertainties and assumptions included in its MTFP, to aid the agility now needed to manage the Council's financial sustainability.</p> <p><b>(Continued overleaf)</b></p> |

## Value for Money conclusion – Value for Money Risks

| Risks identified in our audit plan     | Conclusion  |
|--|---|
| <p><b>Financial sustainability</b></p> | <p><b>Management response</b></p> <p>The MTFP for 2021-2025 has been revised and will be presented to the Executive Committee on 23 March 2021, for Council approval. The MTFP projection balances during the medium term but relies upon the additional Business Rates currently being retained above the baseline continuing. The baseline is set nationally and any Business Rates reset will impact the level of resources that the Council retains in future years. The return of income losses from COVID-19 experienced in 2020-2021 has been considered for each key income stream and prudently included; not all of these losses are returned by 2025. Estimates for cost pressures have been incorporated into expenditure projections but it is recognised that service income requires a more comprehensive review and therefore there is little assumed from additional income in the MTFP. The exception for service income is the return of the recycling tonnage and the associated recycling credits that are received in return; 2019-2020 saw a steep decline in tonnage and a publicity campaign is launching in March 2021 to recover the previous levels, and exceed those. The Council Tax base is assumed to increase over the medium term, but not to the level that New Homes Bonus will be awarded, and a £5 increase on Band D is assumed each year. It is recognised that there are a number of major financial considerations for the Council coming up, some soon and others over the medium term. It has not been possible to “provide” specifically for all of those in the current MTFP as nothing has been quantified, however, given the balanced position any increase in expenditure must be funded from financial reserves if it is one-off, funded from additional recurring and sustainable income, re-directed or re-purposed expenditure budgets, or core funded if the Fairer Funding Review increases the Council’s resources (baseline settlement). There are two key elements that drive the MTFP:</p> <ul style="list-style-type: none"> <li>internally restructuring to align services to the Council Priorities, transformation of service delivery, process design and streamlining will create stronger resource management;</li> <li>externally working with partners to achieve our priorities, Local Government Reorganisation, and delivering major projects will provide longer term benefits for the Borough and maximise/increase the Council’s core resources.</li> </ul> <p>The MTFP will be kept current and the 2020-2021 outturn will provide further evidence around COVID and other prudent assumptions.</p> |

# Value for Money conclusion – Value for Money Risks

| Risks identified in our audit plan   | Findings   | Conclusion   |
|--|--|--|
| <p><b>Procurement and contract management arrangements</b></p> <p>The 2018/19 Annual Governance Statement, the work of internal audit and our own 2018/19 Audit Finding Report identified the need for the Council to strengthen its procurement and contract management arrangements. In the prior year, we were unable to conclude that the Council had adequate arrangements in place in this area and issued an 'except for' VFM conclusion opinion. Our review of the work of internal audit and discussions with management and those charged with governance in 2019/20 suggest that weaknesses in the Council's arrangements in this area remain.</p> <p>In view of this, the adequacy of the Council's procurement and contract management arrangements, continues to represent a significant risk to our VFM conclusion. We will review the Council's procurement and contract management arrangements to determine whether they ensure the Council can demonstrate procurement processes and contracts ensure overall value for money. The audit team will convene an internal national quality panel to determine whether sufficient progress has been made to remove the 'except for' VFM Conclusion.</p> | <p>In the prior year, we were unable to conclude that the Council had adequate arrangements in place in this area and issued an 'except for' VFM conclusion opinion. Our review of the work of Internal Audit and discussions with officers, management and those charged with governance in 2019/20 suggest that weaknesses in the Council's arrangements in this area remain. The 2019/20 Head of Internal Audit opinion provided only restricted assurance in relation to procurement arrangements. It also identified 4 specific contracts where only restricted assurance could be provided, where the level of compliance identified places the system objectives at risk. There were two smaller contracts where the Head of Internal Audit was able to provide no assurance, although the value of these were immaterial. We do note that, there were 8 contracts where either substantial or unqualified assurance was provided.</p> <p>Internal Audit's work on procurement arrangements identified a number of issues, which included 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> <p>During 2019/20, Internal Audit completed their review of the award of the Council's waste contract. The contract was awarded to an external contractor from 1 April 2017. The value of the contract is circa £1.86 million per annum. Internal Audit has identified a number of weaknesses in the procurement of the existing waste contract. For example, there was a two-year delay in completing the Council's 'pre-contract' checklist, which should have been completed prior to award of the contract. There were a number of other issues raised.</p> <p>Internal Audit has identified weaknesses on other contracts, the largest of which was the Maritime Streets Landscaping Project. The pre-contract checklist was not completed on a timely basis, insufficient evidence was retained to support the tender decision and no post project review was carried out.</p> <p><b>(Continued overleaf)</b></p> | <p><b>Auditor view</b></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. This failure to adhere to Council purchasing and contract standing orders means it is difficult for the Council to demonstrate that it has achieved value for money in all 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 are not satisfied that our prior year recommendation that the Council ensure that the purchasing and contract management standing orders are followed in all procurement decisions has been addressed. For the second year we are unable to conclude that the Council has adequate arrangements in place in this area. We will therefore issue an 'except for' opinion. As this is the second year that we have issued an except for conclusion, we have given serious consideration to the exercise of a statutory recommendation under section 24, schedule 7 of the Local Audit and Accountability Act 2014. We have determined that, in view of the strengthening of arrangements towards the end of the 2019-20 financial year, it is not appropriate to issue a section 24 at this time. However, we are continuing to monitor progress in this area and, if weaknesses persist, will review the use of our wider statutory powers.</p> <p><b>(Continued overleaf)</b></p> |

# Value for Money conclusion – Value for Money Risks

| Risks identified in our audit plan                             | Findings   | Conclusion  |
|--|--|---|
| <p><b>Procurement and contract management arrangements</b></p> | <p>The contracts and procurements referenced above are historic, with audit work concluding during 2019-2020. Once the concerns were highlighted to the Audit and Governance Committee, the project managers were instructed to attend and provide assurances to Members. Subsequent contract audits have received normal levels of assurance including the significant leisure outsourcing and several housing maintenance contracts. A change in the process that was implemented with the Leisure outsourcing and Revenues &amp; Benefits insourcing was the requirement to ensure external support was in place. Works contracts already had external support for the “works” elements, but the Council added in legal advice, sector/market specific support and any other expertise depending on the contract. Some of the legal aspects of contracting have been incorporated into the Head of Legal and Governance position and contract management into the Director of People and Place. The need for this strengthening of corporate management was identified in 2019-2020 in order to ensure that the concerns with procurement, leasing and contract management did not recur. The strengthening of arrangements in this area has largely taken place during the 2020/21 year. The Director of People and Place was appointed in March 2020 to provide oversight of the Council’s ‘front facing services’, including the existing waste contract. A project management officer and new project management framework has also been established, which will oversee all significant projects, contracts and decisions made by the Council.</p> <p>The Council has a Purchasing Officer in place, which allows a more specialised resource to guide and advise managers. The procurement audit identified a number of contracts that had not been market-tested for a number of years and these have all been addressed. The Purchasing Officer, supported by the Head of Legal and Governance, has taken ownership of the contract register to ensure that contracts are market-tested with a reasonable frequency. The Purchasing Officer is involved in all procurements that go onto the Chest system.</p> <p>At the mid-point of 2019 the Associate Director for Regeneration left and the Council began working with Cumbria County Council project specialists for these areas of expenditure. The procurement exercises included some works, but mainly services and these were procured through the County’s arrangements. This has led to an adoption of a version of the County procedures, which is being rolled out in March 2021. Officers are now required to complete a project management template and decision template for all significant projects and contracts. It is positive that, the Council is putting arrangements in place to address historic failings in this area. However, these arrangements are still not embedded and were not in place throughout 2019/20.</p> | <p><b>Management response</b></p> <p>The Council intends to recruit to the Contracts and Procurement Manager position created in February 2019 and together with the Purchasing Officer establish a gateway to contracting and procurement. The Purchasing Procedure and Contract Standing Orders are fit for purpose but it is recognised that continual training and awareness of the requirements is needed; greater expertise is also required and will continue to be supplemented by external support as and when deemed necessary. The Council uses a Contract Management Checklist to guide major procurement exercises and ensure full compliance with the relevant requirements, this is another area where support for managers will be increased. The Management Team have established a Programme Board which will meet monthly and all major projects, significant projects and the Capital Programme are within its remit. Project Sponsors will attend to propose, bid, report, monitor and close projects and schemes. Following on from the work on major projects with Cumbria County Council, an approach to project management has been introduced which fits with the incorporation of the Programme Board and will provide a single route for projects and proposals. The delegation to the Programme Board will be considered once it is fully operational (April 2021). Contract management is currently under review with support from various external parties and the proposed restructure of the establishment will have regard to the skillset required for strong contract management and focus attention on driving maximum benefits from contracts for the Council and for the community. The events of 2020-21 have deferred the planned improvements around contracting and procurement and the COVID emergency powers have been used as necessary to maintain service delivery and COVID support; this relates to some short-term urgent supplies and services. The restructure will bring programme and project resources together to resource external and internal projects to establish and maintain consistency within their core function. This will support occasional project management by service managers.</p> |

## A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

### Reports issued

| Report                | Date issued |
|-----------------------|-------------|
| Audit Plan            | July 2020   |
| Audit Findings Report | March 2021  |
| Annual Audit Letter   | April 2021  |

### Fees

|                 | Planned<br>£ | Actual<br>fees<br>£ | 2018/19<br>fees<br>£ |
|-----------------|--------------|---------------------|----------------------|
| Statutory audit | £49,362      | 73,662              | 47,362               |

### Audit fee variation

As outlined in our audit plan, the 2019-20 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.

**Fee variations are subject to PSAA approval.**

| Area                             | Reason   | Fee proposed £ |
|----------------------------------|--|----------------|
| <b>IT System Complexity</b>      | <p>The Council has a complex IT system which means we must engage our specialist IT Audit Team to complete our IT General Controls work. The scale fee assumes this work is delivered by the local audit team. The work of our IT specialist identified some control weaknesses which were followed up by the local audit team and necessitated the extension of our journals sample and extra audit procedures.</p> <p>Additionally, due to the complexity of the IT system, we had to engage specialist support to extract a complete download of the transaction listing from the general ledger. Again the scale fee assumes this work is delivered by the local audit team.</p> | 7,250          |
| <b>Covid-19 Significant Risk</b> | Fundamental to our audit response to COVID 19 was working with you to understand the arrangements the Authority has in place to address relevant risks in respect of Covid-19 in its accounts preparation. We also reviewed the appropriateness of your disclosures, including those in respect of any estimation uncertainties around for example PPE and Pensions asset valuations.  | 3,500          |
| <b>Covid-19-remote working</b>   | This reflects the additional time it has taken us to deliver the 2019/2020 audit, in view of remote working arrangements and additional time it has taken to obtain sufficient, appropriate audit evidence remotely.   | 7,400          |
| <b>Audit Delays</b>              | There have been significant delays in the return of sample evidence in relation to our testing of income, expenditure, debtors, creditors, cut off and journals. There have also been long delays in the provision of evidence to support the valuation of the Council's Land, Building and Dwellings. A richer skill mix than planned has been required to work with the Council and its valuer to obtain the required evidence and complete the testing.   | 6,150          |
| <b>Total</b>                     |  | 24,300         |



## A. Reports issued and fees continued

### Fees for non-audit services

| Service   | Proposed Fees £ |
|---|-----------------|
| <b>Audit related services</b>                   | 5,000           |
| Certification of Housing capital receipts grant |                 |
| Certification of Housing Benefit Claim          | 41,100          |
| <b>Total non-audit fees (excluding VAT)</b>     | 46,100          |

### 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.



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