The Annual Audit Letter for Barrow Borough Council

Year ended 31 March 2017

October 2017

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Barrow Borough Council (the Council) for the year ended 31 March 2017.

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

We reported the detailed findings from our audit work to the Council's Audit Committee, as those charged with governance, in our Audit Findings Report on 21 September 2017.

Our responsibilities

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

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

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

Our work

Financial statements opinion

The Council provided the draft accounts for audit on 2 June 2017. This was almost a month earlier than the previous year and was a positive outcome reflecting effective forward-planning by management. This demonstrates the Council is in a strong position to produce the draft 2017/18 financial statements by 31 May 2018 as required by the regulations. We gave an unqualified opinion on the Council's financial statements on 22 September 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 22 September 2017.

Certificate

We certified that, we had completed the audit of the accounts of Barrow Borough Council in accordance with the requirements of the Code on 22 September 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete, but it will be finalised by the statutory deadline of 30 November 2017. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

Working with the Council

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

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

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

We determined materiality for our audit of the Council's accounts to be £895,000, which is 2% of the Council's revenue expenditure – cost of services. We used this benchmark as, in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for senior officer remuneration, exit packages and related party transactions.

We set a lower threshold of £44,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

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

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

We also read the Narrative Report and Annual Governance Statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

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

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

Table 1 overleaf sets out the key risks we have identified and the work we performed in response to those significance estimation related risks with the results of this work.

Audit of the accounts

Table 1: Accounts Risks - These are the risks which had the greatest impact on our overall audit strategy and where we focused more of our work

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of property, plant and equipment (PPE) Our work addressed the risk that the Council's property, plant and equipment and investment property portfolio valuation is not materially misstated. The Council revalues its non-housing assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements. In accordance with the relevant guidance, Council dwellings are revalued annually.	As part of our audit work we: • reviewed management's processes and assumptions for the calculation of the estimate. • reviewed the competence, expertise and objectivity of the experts management used. • reviewed the instructions issued to valuation experts and the scope of their work. • discussed with the valuer the basis on which the valuation was carried out and challenged the key assumptions. • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding. • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these assets held at carrying value are not materially different to current value. • tested a judgemental sample of revaluations made during the year to ensure they were input correctly into the Council's asset register	Our work provided sufficient assurances that the rolling valuation programme had been appropriately designed and implemented and that valuations had been provided on an appropriate basis. Valuations undertaken had been appropriately accounted for in the financial statements. Management has agreed to consider obtaining valuations of individually significant assets on a more frequent basis. This will assist management to obtain further assurance that the value of property, plant and equipment is fairly stated in the Balance Sheet at the end of each reporting period.
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet represents a significant estimate in the financial statements.	As part of our audit work we: • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. This provided an understanding of the basis on which the valuation was carried out. • undertook procedures to confirm the reasonableness of the actuarial assumptions made. • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary	Our audit work did not identify any issues in respect of the valuation of the pension fund net liability.

Audit of the accounts

Audit opinion

We gave an unqualified audit report opinion on the Council's accounts on 22 September 2017.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts to the Council's Audit Committee on 21 September 2017.

Two adjustments to the primary statements which impacted on the Council's reported surplus for the year were agreed with managements: one of these adjustments increased expenditure by £314,000 and the other reduced expenditure by £325,000 resulting in a net improvement of £11,000 in the reported surplus.

Six other adjustments identified were amended by management, but these did not impact on the reported financial position. The most significant adjustments were:

- a loan of £1M due for repayment in less than 12 months had been incorrectly classified as part of long-term borrowing in the Balance Sheet;
- operating lease commitments were overstated by £1.428m. The treatment in the draft accounts reflected the Council's assessment that its new contract for the provision of waste services included an operating lease. Review of the contract and discussion with management confirmed that that the risk and reward arrangement was actually constituting a finance lease and consequently adjustments were made to the operating leases disclosure.
- a capital grant received from Public Health England had been classified as a non-specific revenue grant in error. Adjustment were made to the Comprehensive Income and Expenditure Account and the Movement in Reserves Statement to reclassify the grant.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. The Council published these documents on its website with the draft accounts in advance of the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council. Management revisited the original draft Annual Governance Statement prior to sign-off to streamline the document to ensure it set out more clearly the key elements of the Council's governance arrangements.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not use our other statutory duties.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

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

Key findings

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

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

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, for the year ending 31 March 2017.

Value for Money

Table 2: Value for money risks – These are the significant risk arrangement areas we reviewed in forming our VfM conclusion

Risk identified	Work carried out	Findings and conclusions
Budget Strategy In our 2015-16 Audit Findings Report we noted that the Council had developed a budget strategy in September 2016 and that significant detailed work would need to be undertaken by officers and members to realise the savings associated with the re-provision of the leisure and the revenues and benefit service. .	We assessed the Council's arrangements with those officers responsible for developing and implementing the detailed plans required to deliver the necessary savings. We assessed whether sufficient progress was being made with the plans to realise the strategy.	The Council has made progress to implement the savings schemes set out in the Budget Strategy. Two of the savings schemes represent approximately £1.25m of the total savings of £2.37m per year, which the Council needs to deliver and our work focussed on these. A Delivery Plan for the implementation of the strategy was considered by the Executive Committee in November 2016. We set out below our understanding of the current position in relation to the two major savings schemes and our assessment of the arrangements currently in place. **Leisure Contract** The Council has been working with external consultants to take forward the procurement of an outsourcing partner to deliver leisure services in the Borough. At the time of preparing the Budget Strategy, the Council had identified that savings of around £470,000 per annum could be delivered through outsourcing the Forum and the leisure centre under a new contract which is due to be in place by 1 April 2018. Prior to going out to tender, the Council commissioned an early market engagement exercise which provided some assurance that the market would come forward with a bid to provide services at the Forum and the leisure centre. This indicates that appropriate arrangements were in place to inform the approach set out in the Budget Strategy. However, our review of the relevant documentation suggests there was only limited evidence that there was market appetite for running the services provided by the Forum on terms that would be acceptable to the Council. The original plans have now been revised following further work so that the outsourcing exercise is confined to the leisure centre. The timing has also changed: due to an existing contract for the provision of fitness and gym facilities on the leisure centre site, a decision was taken to postpone the commencement date for the new contract to 1 August 2018. Officers have provided assurance that the savings targeted in the approved budget strategy can still be achieved even though the Council now only intends to outsource the running of the leisure centre. The Council is confident that the market will come forward with a proposal to run the service where any payment due from the Council to the outsourcing partner is significantly less than the current cost of running the facility. This reflects an expectation that an outsourcing partner will be able to generate more income and have lower overheads than the existing arrangements. We understand from the Director of Resources that the Council recently held a well-attended event for prospective bidders interested in tendering for the leisure contract. More detailed projections have been produced to support the revised estimate linked to the outsourcing of the leisure centre. However, officers recognise that there is still some uncertainty that a provider will come forward with a proposal on terms that will be sufficient to ensure the Council can deliver the required savings. Alongside any savings generated from the leisure centre outsourcing, management has confirmed that they intend to find additional savings through making changes to the way in which services are delivered at Forum. Management understands that the Council may still need to find savings in other areas to achieve the reduction in net expenditure set out in the Budget Strategy. **Revenues and Benefits Contract** The Council's existing arrangements for the provision of the revenues and benefits service expire on 30 September 2018. Management has indicated that they intend to provide Members with the opportunity to consider a range of options in relation to future service provision. Management has explained that their focus in the period to 31 March 2017 has been on the leisure outsourcing. Management need to ensure there is sufficient flexibility built into the timetable to enable a full range of options to be considered and that the expiry date of the existing contract does not restrict the best value for money options available.

Value for Money

Table 2: Value for money risks – These are the significant risk arrangement areas we reviewed in forming our VfM conclusion

Risk identified	Work carried out	Findings and conclusions
Provision of Council-owned housing Recent changes in government policy has negatively impacted on the 30-year business plans local authorities were required to produce when they took on additional housing debt as part of the re-financing of Council housing in 2011/12. These changes pose a risk to the sustainable provision of Council-owned housing if they are not addressed. .	We assessed the Council's arrangements with those officers responsible for developing and implementing the detailed plans required to deliver the necessary savings. We will assess whether sufficient progress is being made with the plans to realise the strategy.	Management recognise the pressure presented by changes in government policy. The Council has prepared a detailed projection for the Housing Revenue Account ('HRA'), which models the impact of the reduction in rents imposed by the central government and the continuation of the existing trend whereby increasing numbers of Council tenants are taking advantage of the opportunity to purchase their Council property under the terms of the right to buy scheme. To balance the 2017-18 HRA budget management established a Housing Service Review Group and savings totalling £268,000 were agreed of which the majority relates to a reduction in the voluntary provision for repayment of debt. Looking ahead to 2018-19, management has forecast that if further remedial action is not taken the deficit on the HRA will be £300,000 in 2018-19 and around £500,000 each year from 2019/20 onwards. We understand the aforementioned working group has been tasked with identifying further savings, as well as changes to the service which could increase income. There is a recognition amongst senior managers at the Council and Members that the sustainability of the service depends on management continuing to bring forward changes which reduce the cost of running the service. Maintenance represents the main cost associated with the housing function. The Council has worked hard to ensure that all bar four of its properties meet the government's decent homes standard. There has also been extensive work undertaken to review maintenance contracts to ensure these meet the Council's requirements and provide value for money. In January 2017, the Council identified that further planned maintenance was required to rectify problems with the roofs and the damp insulation on some properties in the Borough. These works had not been identified as part of a condition survey in 2014 and the need to undertake the work became apparent after repairs to the affected properties were required. We understand that in both cases the coastal climate experienced by the Borough has had a significant impact. Therefore when planning scheduled maintenance, the Council will need to factor in instances where components within the Council dwellings most at risk from climate-related degradation are likely to require renewal or replacement sooner. New accounting arrangements affecting the HRA come into effect from the 2017-18 financial year. This is because the five-year transitional period introduced after the major self-financing reforms introduced in 2012-13 has ended. Under the new arrangements, depreciation is charged to the Housing Revenue Account and there is no longer any provision for an adjustment to be made to cap the amount charged to the HRA at an amount equal to the amount set aside to fund major repairs as part of the Council's business plan. The Council needs to ensure its medium term financial plan for the HRA takes account of the consequence of these changes as the impact could be significant, especially as the value of the Council's dwellings has increased in recent years due to trends in the local market and changes in guidance issued to valuers. Increases in the value of Council dwellings lead to an increase in the depreciation charge.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and we confirm that no other services were performed.

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit	51,119	51,119	51,119
Housing Benefit Grant Certification	13,733	TBC	16,168
Total fees (excluding VAT)	**64,852**	**TBC**	**67,287**

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

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of PSAA.

Our grant certification fee is still an estimate, as our work on the Council's housing subsidy claim is on-going and will not be finalised until the 30 November 2017 deadline.

Reports issued

Report	Date issued
Audit Plan	23 March 2017
Audit Findings Report	21 September 2017
Annual Audit Letter	6 October 2017