

The Annual Audit Letter for Barnsley Metropolitan Borough Council

Year ended 31 March 2019

August 2019



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1. Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Barnsley Metropolitan Borough Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the group 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 findings from our audit work to the full Council, as those charged with governance, in our Audit Findings (ISA260) Report on 25 July (we also reported our findings to the Audit Committee on 22 July).

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £10,000,000, which was 1.8% of the group's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified 'clean' audit opinion on the Council and group's financial statements on 30 July 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. We reflected this in our audit report to the members of the Council on 30 July 2019.
Certificate	We certified that we have completed the audit of the financial statements of the Council in accordance with the requirements of the Code of Audit Practice on 22 August 2019.

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

Executive Summary

Working with the Council

In our first year of audit at the Council, we believe we have developed professional working relationships with you and your officers and have delivered a number of positive outcomes, including:

- regular liaison with senior officers including the Chief Executive, the s151 Officer, senior finance managers and the Chair of the Audit Committee to understand the issues facing the Council
- an efficient audit - we delivered an efficient audit with you in June and July and worked well with your finance team
- understanding your operational environment and challenges – through the value for money conclusion work, we provided assurances around your arrangements in place to secure economy, efficiency and effectiveness in use of Council's resources
- Sharing our insight – we provided regular audit committee updates covering best practice. We also contributed to discussions and debates on a variety of committee topics outside of external audit agenda items
- Providing accounts workshops – we provided your finance team with training workshops, focusing on key changes to 2018-19 financial statements and main risk areas for the audit.
- Supporting development – we provided a workshop for members of the Audit Committee on the roles and responsibilities of audit committees including governance issues, accounting developments and value for money arrangements. The day was an opportunity for members to network with other members across our Yorkshire local authority client base and discuss 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
August 2019

2. Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the group'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 group financial statements to be £10,000,000, which was 1.8% of the group's gross revenue expenditure. We determined materiality for the audit of the Council's financial statements to be £9,900,000, which was 1.7% of the Council's gross revenue 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 of £5,000 for senior officer remuneration.

We set a lower threshold of £500,000, above which we reported errors to the Audit Committee and full Council in our Audit Findings (ISA260) 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
- 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 the annual governance statement published alongside the financial statements to check it is 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 group's operational activities 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>Management over-ride 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. The Authority 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 identified management over-ride of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we:</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 gained an understanding of accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence evaluated the rationale for any significant changes in accounting policies, estimates or significant unusual transactions. 	<p>Our audit work did not identify any issues in respect of management override of controls.</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 land and buildings</p> <p>The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (c£845m) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, the Council needs to ensure the carrying value of land and buildings in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, 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:</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 accounted correctly in line with applicable accounting guidance and input correctly into the Council's asset register assessed how management have confirmed assets valued at 1 April 2018 have not significantly changed in value by the year end, 31 March 2019 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 reviewed the Council's PFI schemes to consider the appropriateness of the accounting entries. 	<p>Our audit work identified a material misstatement in relation to accounting for a school disposal. This required c37m prior period adjustment (PPA) and restatement of accounts.</p> <p>This issue was corrected by management and therefore it did not impact our audit opinion issued on 30 July.</p> <p>The adjustment did not impact the useable reserves of the Council as at 31 March 2019.</p> <p>We also identified minor disclosure amendments in relation to land and buildings valuations. All adjustments were reported to those charged with governance.</p> <p>As part of our Audit Findings (ISA260) report presented to the full Council in July 2019, we agreed two recommendations with the management to address our findings</p> <p>Our audit work did not identify any other significant issues.</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 the pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet, 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>	<p>As part of our audit work we:</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) 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 to the actuary to estimate the liabilities • tested the consistency of the pension fund assets and liabilities and disclosures in the notes to the core financial statements with the actuarial reports from the actuary • performed procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • requested the council to obtain updated reports from its actuary to take into account the impact on the Council's pension numbers as a result of the McCloud judgement. . We assessed the updated actuary report to understand the overall impact to the pension fund liability of the Council • obtained assurances from the auditor of South Yorkshire Pension Fund 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>The Council requested updated reports from its actuary to take into account the impact on the Council's pension numbers as a result of the McCloud judgement.</p> <p>The revised report resulted in an increase in the Council's pension fund liability of £12.5m, which was adjusted in the final accounts approved by those charged with governance. This adjustment did not impact on the Council's level of useable reserves.</p> <p>Our audit work did not identify any other significant issues.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified 'clean' opinion on the Council's financial statements on 30 July 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 Audit Committee on 22 July and to full Council on 25 July 2019.

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 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.

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 did not identify any issues for the group auditor to consider.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Barnsley Metropolitan Borough Council in accordance with the requirements of the Code of Audit Practice on 22 August 2019.

3. 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. We identified two risks in our 2018-19 audit plan issued in January 2019.

As part of our Audit Findings (ISA260) report presented to the Audit Committee on 22 July and the full Council on 25 July 2019, we agreed one recommendation to maintain appropriate governance, risk management and financial management arrangements to continue to make informed decision making regarding the Glassworks Project in 2019-20 and beyond.

Overall Value for Money 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 2019.

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p>Financial standing – delivery of 2018-19 budget and savings plan and achievement of Medium Term Financial Strategy (MTFS)</p> <p>The Council, in line with other local authorities, continues to operate under significant financial pressures. For 2018-19, the Council was planning to deliver a balanced outturn position but to achieve this, it needs to deliver savings of some £4.4m whilst managing cost pressures within Children’s Social Care and Safeguarding and Adult Social Care (ASC) and Health at a time of reduced funding.</p> <p>The Council’s latest financial projections at end of quarter 2 (available in January 2019) indicated it was expecting to deliver an underspend of £2.76m by 31 March 2019. We continued to monitor the Authority’s financial position through regular meetings with senior management and considered how the Authority manages its budget.</p> <p>We also continued to assess progress in the identification and delivery of the future savings required as identified in the current iteration of the MTFS (of some £5.8m 2019-20 and £15.3m 2020-21)</p>	<p>As part of our work we:</p> <ul style="list-style-type: none"> reviewed key financial and operational documents including the final outturn report for 2018-19 reviewed financial performance against the budget as at year end 31 March 2019 and determination of future financial projections discussed key relevant financial matters with senior management. 	<ul style="list-style-type: none"> The Council achieved its 2018-19 budget with an overall underspend of £7.5m after utilisation of £5.8m general fund reserves. As a result, the general fund reserves reduced from £135.8m to £130m as at 31 March 2019. The overall underspend before earmarking to 2019-20 was £47.2m, of which £39.7m of this has been earmarked into 2019-20, leaving the above £7.5m as a general fund underspend. The Council also achieved its savings targets of £4.4m for 2018-19. The Council agreed that £4m of this will be carried forward to 2019-20 to address social care and future demography pressures and remaining balance of £3.5m will be earmarked for strategic priorities such as mitigating against the impact of Brexit. The underspend against the budget was mainly due to one off events during the year and scheme project slippages, mainly in respect of the receipts of one off uncommitted grant funding. The Council agreed the 2019-20 budget in February 2019. The Council needs to achieve £5.8m of saving efficiencies to deliver a balanced budget for 2019-20. The Council has a track record of achieving its saving plans. However, with continually increasing financial pressures around adult social care and children’s services and reduced government funding the Council will need to continue to be financially resilient. This reflects an increasing pattern across the local authority sector. The Council’s MTFS was approved in February 2019 covering the 3 years from 2019-20 to 2021-22. The MTFS is in the process of being updated to confirm the assumptions made for 2020-2022 and include a forecast position for 2022-23. For 2020-21, the Council estimates that it requires a further £9.5m savings in addition to £5.8m savings required in 2019-20 to achieve a balanced budget. Draft proposals were already in place to meet this gap at the time of our review. These proposals were currently being finalised before being approved later in 2019-20. There is a further anticipated budget gap of £4.8m for 2021-22 for which further efficiencies are expected to be required and identified. This further highlights the challenging financial environment the Council operates. It has to be noted that the Comprehensive Spending Review, Fair Funding Review and outcome of Business Rates Retention have been delayed. This delay has not been conducive to Council’s budget setting process for the medium term. The MTFS prudently assumes a reduction in grants receivable from the central government to compensate with the increased Business Rates Retention from 50% to 75% in the future. The Council’s Dedicated School Grant account was in deficit by £8.5m at the year end. As a result, a total of £8.5m was transferred from general fund reserves to ensure the DSG account ultimately achieved a break-even outturn at 31 March 2019. The Council’s updated reserves strategy from 2019-20 to 2021-22 was approved by the full Council in February 2019. After allocating all the earmarked reserves and commitments, the Council has £15m set aside for contingency and emergency funds and further £16m for potential Brexit impact and increased capital costs. The reserves strategy is currently in the process of being further updated and approved to reflect the 2018-19 final outturn position. We have considered the Council’s arrangements to ensure it is financially resilient to deal with budgetary pressures and, overall, we are satisfied proper arrangements were in place for the delivery of in year and future budget and savings plans. We concluded that the Council has proper arrangements in place for ensuring sustainable resource deployment.

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p>Arrangements in place for the Glass Works development</p> <p>The Glass Works scheme is one of the most significant projects undertaken by the Council in recent history. The development has two phases with an estimated capital cost of £178.1m, with associated revenue running costs of £11.4m over three years up to 2020-21.</p> <p>As part of our Value for Money arrangements work we considered the Council's arrangements in place in relation to Glass Works project specifically considering the governance and risk management arrangements in relation to the scheme.</p> <p>We continued to meet with senior management and Internal Audit in relation to Glass Works to obtain the latest information on the progress, cost and governance of the development. We considered any financial reporting and Prudential Framework implications arising from the Glass Works scheme.</p>	<p>As part of our work we:</p> <ul style="list-style-type: none"> • reviewed third party reports including consultants/contractors workings around this capital project • discussed key relevant matters with senior management. 	<p>Our focus in this area was around governance and risk management arrangements in place to secure economy, efficiency and effectiveness in Council's use of resources. Our findings were as follows:</p> <p>The Council set up a Glass Works Board in September 2017 with Terms of Reference. The objective of the Board was to provide leadership on strategic governance and decision making for the Glass Works project. The Board included key senior officers from the Council and external project members including the contractors for the scheme.</p> <p>The remit of the Glass Works Board covered conflict of interests, Key Performance Indicator reporting, health and safety, design and constructions, funding of the project, financial management, risk management and mitigation, change management and other areas that are required for effective management of the project. Monthly meetings were held since the inception, including throughout 2018-19. The Council's SMT are updated with key matters arising from the Glass Works Board meetings.</p> <p>Cost plan reports were developed for key stages of the project by the key contractors. These were discussed and action taken before approval at each stage by the Glass Works Board.</p> <p>Under the remit of Glass Works Board, an Asset Management sub group was set up which comprised of relevant Council officers and external stakeholders. The sub group met on a monthly basis to monitor construction phases of key buildings and assess associated risks which were reported back to the Glass Work Board for further action</p> <p>A detailed leasing strategy of the glasswork project was also developed by an external consultant with rental income projections upon potential tenants subscribed to take up tenancy. The financial projections in respect of the Glass Works scheme are then acknowledged within the Council's MTFS.</p> <p>Professional legal advice was obtained from a nationally known legal firm at each key juncture of the project and the Council is continuing to involve relevant and appropriate advisors on an ongoing basis. For example, on key matters including drafting appropriate tenancy agreements for discussion and signing with relevant stakeholders. There was a Terms of Reference agreed with the external legal advisor and they also attend Glass Works Board meetings as relevant. At the time of this report, the Council is in the process of drafting future tenancy agreements for prospective tenants for discussion and finalisation.</p> <p>In addition to risk identification and management discussions at Glass Works Board meetings on a monthly basis, the Council's strategic Risk Register has a standard risk around glass work project. This risk is discussed at Council, Cabinet and Audit Committee level and monitored and actions taken on a regular basis. We were aware from our review that appropriate actions are taken when significant risks have arisen in 2018-19 in relation to the scheme, including revising financial projections, updating the Cabinet on a timely basis and seeking appropriate re-approvals of elements of the scheme.</p> <p>We considered the Council's governance and risk management arrangement in place to secure economy, efficiency and effectiveness in Council's use of resources. Overall, we were satisfied proper arrangements were in place during 2018-19 in respect of the Glass Works development scheme.</p> <p>We concluded that the Council has proper arrangements in place for informed decision making in relation to the Glass Works development project.</p>

Appendix 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	January 2019
Audit Findings (ISA260) Report	July 2019
Annual Audit Letter	August 2019

Fees

	Planned £	Actual fees £	2017-18 fees £
Statutory audit	104,718	TBC – see table on right	135,998
Total fees	104,718	TBC	135,998

Fees for other services	Fees £
Audit related services:	
• Housing Benefit Certification	16,400
• Certification of Teachers' Pension Return	4,200
• Pooling of Housing Capital Receipts	3,000
Total audit related services	23,600

Non-audit services

There were no non-audit related services delivered in 2018-19. The amounts detailed above are fees agreed for audit related services to be undertaken by Grant Thornton UK LLP in 2018-19. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

None of the services provided are subject to contingent fees. We have not provided any other services in 2017-18 prior to our appointment as external auditors to the Council on 1 April 2018

Audit fee variation

As outlined in our Audit Plan, the 2018-19 scale fee published by PSAA of £104,718 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 audit work. We noted this expectation in our ISA260 Report in July.

The areas of additional work and resulting fee implications are set out in the following table.

Area	Reason	Fee proposed £
McCloud: 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 reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	3,000
Pensions: IAS 19 audit work	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.	3,000
Land and Building Valuation: work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on land and buildings valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	3,000
Total		9,000

The proposed fee variations are subject to PSAA approval.



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