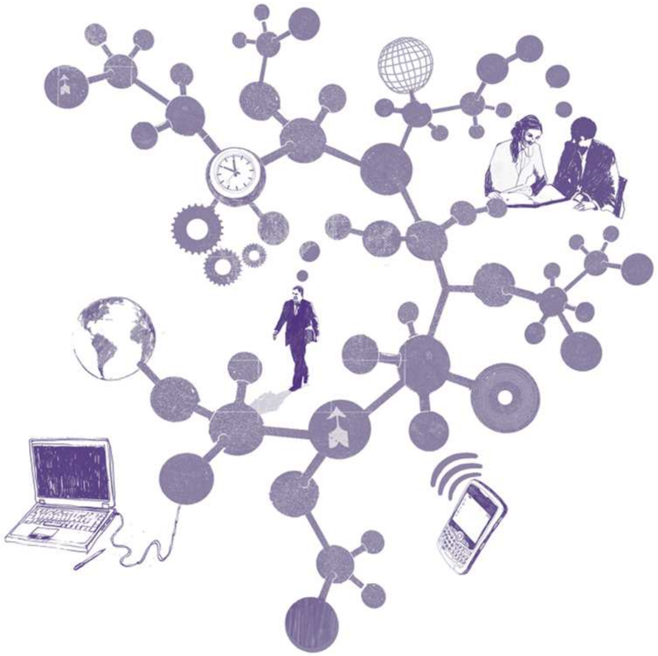
The Audit Findings for Copeland Borough Council

Year ended 31 March 2013

September 2013



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Copeland Borough Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have made one change our planned audit approach, which we communicated to you in our Audit Plan dated 26 June 2013. Our planned audit approach took account of the fact that the Council was introducing a new asset register in 2012/13. We regarded this as a significant risk and proposed to review the new system and satisfy ourselves that all balances had been correctly transferred to the new system.

The Council did not fully implement the new software based asset register and the financial statements figures were derived from its existing spreadsheet system. The result of this is that we no longer regard this area of the statements as a significant risk because as we no longer need to be concerned with the transfer of data to a new asset register in 2012/13. We have however treated property, plant and equipment (PPE) as high risk and carried out appropriate substantive testing.

Our audit is substantially complete although we are finalising our work in the following areas:

- testing of the Collection Fund and associated supporting systems for Council Tax and NNDR
- detailed testing of housing and council tax benefit cases
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have identified four adjustments affecting the Council's reported financial position (details are recorded in section 2 of this report). The draft financial statements recorded net expenditure of £8,057,000. The audited financial statements show net expenditure of £7,916,000. This change relates to:

- revaluation of the Civic Hall, Whitehaven which has led to an additional loss on revaluation of £361,000 being charged to the revaluation reserve
- correction of error made on revaluation of Lancashire Road Recreation Centre resulting in a credit of £197,000 to the revaluation reserve.
- correction of depreciation charged on two assets which reduces depreciation charged to services by £305,000.

We have also made a number of adjustments to improve the presentation of the financial statements. None of the changes impact on the Council's general fund balance or Council Tax.

The key messages arising from our audit of the Council's financial statements all relate to the need to continue its work on improving the arrangements for recording and accounting for non-current assets.

Last year's Annual Governance Report (ISA260 report) highlighted weaknesses in the Council's spreadsheet based asset register. It also recommended ensuring that the implementation of the new software based asset register was well planned and resourced and that Internal Audit was used to provide assurance that the data had been transferred accurately. The Council's attention was also drawn to the potential problems caused by ascribing short lives to asset components and generating unrealistically high annual depreciation charges.

In our audit of the 2012/13 financial statements we found that:

- the Council's software based REAL asset register has not been fully implemented in 2012/13. Management made the decision that until they were satisfied with the robustness of the new system that they would use the spreadsheet based asset register for entries in the 2012/13 financial statements.
- the valuer, quantity surveyor and service managers reviewed asset lives, overall and for individual components, for each componentised asset. Depreciation charges appeared high and our testing identified a £173,000 overstatement of depreciation charged on the Flatt Walks Sports Centre.
- despite evidence of impairment the Civic Hall was not revalued as required by the Code. A revaluation was carried out at our request and this led to a downward revaluation of £361,000.

There is now a better understanding within the Council, and clear commitment, of the need for greater dialogue and consultation between the valuer and quantity surveyor in ascribing values and useful lives to asset components. Involving finance staff in these discussion will also introduce challenge to the assumptions on asset components. This will help ensure that carrying values and depreciation charges in the financial statements are appropriate.

Given the potential changes in the future use of some of the Council's assets (the Civic Hall, Whitehaven and the Flatt Walks Sports Centre, Whitehaven) the Council will need to ensure that any decisions on future use of assets are reflected in valuations. Where there are very short component asset lives or where assets show indications of impairment as laid out in the Code, they should be revalued

Further details are set out in section 2 of this report.

Value for money conclusion
We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)
We plan to complete our work in respect of the Whole of Government Accounts so that we can certify the audit closed at the same time as we sign the main financial statements.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

In our Audit Plan we reported that there is no consistent process or system for managing changes to the IT infrastructure and systems. We also reported the need to implement a reasonableness check, and authorisation prior to payment by BACSTEL to minimise the risk of incorrect payments being made or problems with cashflow. We have now received an action plan to address this.

During our final accounts audit we identified a further control issue which we report here. We noted that two assets with a total carrying value of £160,000 have not been revalued since March 2008. The Code requires that all assets are revalued every five years as a minimum.

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Head of Corporate Resources.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Head of Corporate Resources and the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2013

Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance Committee on 26 June 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have made one change to our Audit Plan, as previously communicated to you on 26 June 2013. We no longer regard the Property Plant and Equipment (PPE) balance and associated transactions as representing a significant risk because the Council did not implement its new software based asset register in 2012/13. This means there is no risk of misstatements in 2012/13 arising as a result of any inaccurate transfers of balances to the new asset register. We have nevertheless still treated PPE as a high risk area.

Audit opinion

We anticipate that we will provide the Council with an unqualified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards as shown below. We identified a further significant risk in the Audit Plan relating to PPE. This area is no longer regarded as a significant risk as the Council did not fully introduce its new software based asset register and it was not used for the 2012/13 financial statements. PPE is still regarded as high risk .

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	• review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Operating expenses / creditors understated or not recorded in the correct period.	• Documentation of processes and controls. • Evaluation and walkthrough of controls. • Testing of key controls. • Substantive testing of operating expense transactions.	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Remuneration expenses not correct	• Documentation of processes and controls. • Evaluation and walkthrough of controls. • Testing of key controls. • Substantive testing of employee remuneration.	Our audit work has not identified any significant issues in relation to the risk identified.
Welfare expenditure	Welfare benefits improperly computed	• Documentation of processes and controls. • Evaluation and walkthrough of controls. • Substantive testing of Housing and Council Tax Benefit expenditure.	Our audit work has not identified any significant issues in relation to the risk identified. However, our testing has still to be completed.

Audit findings against other risks (Continued)

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant & equipment	PPE activity not valid	• Documentation of processes and controls. • Evaluation and walkthrough of controls • Substantive testing of depreciation and other non-current asset movements	Land only asset (Ginns Depot) depreciated in error since 2010/11 leading to understatement of PPE balance of £132,000, Error in depreciation charge on Flatts Walk Sports Centre components leading to understatement of PPE balance of £173,000,
Property, plant & equipment	Revaluation measurement not correct	• Documentation of processes and controls. • Evaluation and walkthrough of controls. • Review of valuation methodology. • Substantive testing of postings in relation to non-current asset revaluations.	Civic Hall not revalued despite indicators of impairment. PPE balance overstated by £361,000. Revaluation of Lancashire Road Recreation Centre incorrectly posted in asset register leading to understatement of PPE balance of £197,000.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Revenue from provision of services is recognised when the percentage completion of the transaction can be reliably measured and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council. • Revenue from sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. • Expenditure is recognised when goods or services are received rather than when payments are made. • Grants and contributions are recognised when there is reasonable assurance that the monies will be received and that any conditions attached will be met.	The policies adopted are consistent with the Code. There is limited judgement involved in the accounting policies adopted by the Council and therefore limited financial impact flowing from the selection of accounting policies. Policies on revenue recognition are adequately disclosed in the statements.	Green
Judgements and estimates	• Key estimates and judgements include : – IAS19 pension liability – Revaluations – Asset lives	Our work on IAS 19 figures included specific enquiries to the auditor of Cumbria County Council, the pension fund's administering body. We have also considered work carried out centrally by PWC as consulting actuary to review the actuaries used by the Local Government Pension Scheme. We are satisfied that estimates and judgements surrounding IAS19 figures are robust. We have identified issues on revaluations, componentisation and asset lives which the Council must address to ensure that the financial position is fairly stated. These matters have been outlined in the Key Issues section of this report.	Amber
Other accounting policies	• We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	Green

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the key statements and the reported financial position.

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	Civic Hall has been revalued at our request due to indications of impairment.	361	(361)	361
2	Cumulative depreciation on Lancashire Road Recreation Centre was not written back on revaluation leading to asset being undervalued.	(197)	197	(197)
3	Ginns Depot depreciated since 2010/11 despite being a land only asset.	(132)	132	(132)
4	Components of Flatts Walk Sports Centre given incorrect remaining life leading to overstatement of depreciation	(173)	173	(173)
	Overall impact	**(£141)**	**£141**	**(141)**

None of the above changes have any impact on the Council's general fund balance or Council Tax.

Misclassifications & disclosure changes

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

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Misclassification	206	Comprehensive Income and Expenditure Statement (CIES)	An error in updating of the PFI model led to Financing and Investment Income and Expenditure being overstated by £206,000 with a corresponding understatement of service expenditure. This had no impact on the surplus/ deficit on provision of services.
2	Disclosure	Various	Note 15 Amounts Reported for Resource Allocation Decisions	The format of the note was amended to accurately reflect interest receivable and payable by the Council and to remove a negative expenditure balance in respect of deferred liabilities.
3	Misclassification	386	Note 19 - PPE Note 23 – Impairment losses	Downward revaluation of Beck Green Depot was incorrectly shown as an impairment rather than a downward revaluation. Note 23 incorrectly referred to this, and the downward revaluation of an investment property as impairments. Notes were amended.
4	Misclassification	485	Note 19 - PPE	Former Railway Goods yard at Corkickle was incorrectly disclosed within land and buildings. This is not an operational property. The note was amended to show this as a surplus asset.
5	Disclosure	N/A	Note 19 - PPE	The nature and effect of any changes in accounting estimates that have an effect in the current period or are expected to have an effect in subsequent periods were not disclosed with respect to changes made to componentised asset figures and remaining lives. A note was added to this effect.
6	Misclassification	Various	Note 24 Capital Expenditure and Capital Financing	The breakdown of capital expenditure and financing was inconsistent with figures disclosed elsewhere in the statements. The note was amended to show the correct analysis. This had no impact on the capital financing requirement.
7	Disclosure	N/A	Various	Various other changes were made to the supporting notes to improve presentation and ensure consistency.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
1	● Red	• The Civic Hall had not been revalued despite evidence of impairment. We also noted two assets that have not been revalued for over five years. The risk is that valuations of assets in the balance sheet are materially mis-sated.	• Ensure that annual review of non-current assets identifies all assets that require revaluation taking into account the five-year rolling cycle, indications of impairment and any other factors which my impact on the asset's fair value. • Ensure that in 2013/14 the following componentised assets are revalued, Civic Hall and Flatt Walks Sports Centre in Whitehaven and the Crematorium at Distington.
2	● Red	• We found an error in componentisation of Flatts Walk Sports Centre leading to excess depreciation charge of £173,000. • Values ascribed to components and useful lives allocated are leading to high depreciation charges with a small number of asset components being carried with nil value in the balance sheet. • The risk is that valuations of assets in the balance sheet are materially misstated.	• Develop closer and more frequent consultation between the Valuer and Quantity Surveyor in the valuation process and in ascribing values and useful lives to building components. Ensure that finance staff are involved in these discussions so as to challenge assumptions.
3	● Amber	• The Council's REAL asset register package had not been fully implemented in 2012/13. Management made the decision that until they were satisfied with the robustness of the new system that they would use the spreadsheet based asset register for entries in the 2012/13 financial statements. Maintaining asset details on a spreadsheet increases the risk of misstatement through input or calculation error.	• Finalise the implementation of the software based REAL asset register and run it in parallel with existing spreadsheet system for at least the first year. Ensure that the opening position on the new asset register at 1 April 2013 is consistent with the audited closing position on the 2012/13 accounts.

Internal controls (Continued)

	Assessment	Issue and risk	Recommendations
4	● Amber	• When producing the draft financial statements for 2012/13 the Finance section did not complete the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom Disclosure Checklist for 2012/13 Accounts. Completion of the checklist is good practice and helps ensure compliance with the requirements and identify disclosure errors prior to the draft accounts being authorised for issue.	• Complete the CIPFA disclosure checklist as part of the Quality Assurance arrangements for the production of the financial statements.

Assessment

● Significant deficiency – risk of significant misstatement
● Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit and Governance Committee. We have been made aware of a potential minor fraud and there have been a number of benefit frauds, Apart from these issues, we have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations. However, we noted that the audit had not been correctly advertised in 2012/13 and had to be re-advertised.
3.	**Written representations**	• A standard letter of representation has been requested from the Council.
4.	**Disclosures**	• Our review highlighted some disclosure issues. Amendments were made in respect of these issues and they are highlighted in the misclassification and disclosure changes table. In general, we found that the financial statements complied with the requirements of the CIPFA Code of Practice on Local Authority Accounting. Completing the disclosure checklist as part of the production of the draft financial statements would meet best practice requirements and help identify any potential disclosure omissions and errors.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed.
6.	**Going concern**	• Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Overall our work highlighted the Council has adequate systems and processes in place to manage financial risks effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. Our work showed Copeland performed well against comparable authorities over a range of indicators. Scope exists to improve in year revenue reporting. The details of our findings can be found in our separate report 'Review of the Council's arrangements for securing financial resilience for Copeland Borough Council'.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. The Council's well established transformation programme is designed to improve governance within the Council and to modernise how it does business. The new Corporate Plan approved in February 2013 showed a clear focus on delivering efficient and effective statutory services. Consultation on savings covered a two year period, 2013-2015, with clear communication that savings will be focused on discretionary services.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, 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 2013.

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual Risk identified	Assurances obtained	Conclusion on residual risk
In year revenue monitoring reports do not include a budget to date and actual to date making it difficult to assess whether forecasting is reasonable.	The in year revenue monitoring reports do include a forecasted year end position. The reports also contain narrative by directorate of the reasons for projected under or overspending.	Although Members are given a forecast year end position during the year having a year to date budget and actual position against this would enhance their ability to assess whether year end forecasts are realistic. Include budget to date and actual to date in quarterly revenue monitoring reports to help members assess the reasonableness of the projected outturn position.
There were various reasons for additional revenue underspending between Month 10 and outturn this is not always clear in the outturn report.	The in year revenue monitoring reports include a forecast year end position. At Month 10 the projected revenue underspend was £0.92 million, a difference of £1.48 million to the outturn (reduced to a difference of £0.297 million after carry forwards and net contributions to reserves). The reports also contain narrative by directorate of the reasons for projected under or overspending.	Although there were various reasons for this additional revenue underspending between Month 10 and outturn this is not always clear in the outturn report. Where there are large movements between, the projected outturn at quarter three and the actual outturn position for the year, provide a clear commentary to explain the movement.

Section 4: Fees, non audit services and independence

Fees, non audit services and independence

We confirm below our final fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Council audit	70,656	70,656
Grant certification	22,400	22,400
Total audit fees	**93,056**	**93,056**

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management / those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

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

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Ensure that annual review of non-current assets identifies all assets that require revaluation taking into account the five-year rolling cycle, indications of impairment and any other factors which may impact on the asset's fair value.	High	Agreed - the agreed methodology for componentisation valuation and condition surveys requires closer and more frequent consultation. This is already in train with a joint programme being devised.	Accountant-Financial Reporting and Technical Estates & Valuations Manager October 2013
2	Ensure that in 2013/14 the following componentised assets are revalued, Civic Hall and Flatt Walks Sports Centre in Whitehaven and the Crematorium at Distington.	High	Agreed - these revaluations will be prioritised for completion in the last quarter of 2013/14.	Estates & Valuations Manager RICS Registered Valuer March 2014
3	Develop closer and more frequent consultation between the Valuer and Quantity Surveyor in the valuation process and in ascribing values and useful lives to building components. Ensure that finance staff are involved in these discussions so as to challenge assumptions	High	Agreed - the agreed methodology for componentisation valuation and condition surveys requires closer and more frequent consultation. This is already in train with a joint programme being devised.	Accountant-Financial Reporting and Technical Estates & Valuations Manager October 2013
4	Finalise the implementation of the software based REAL asset register and run it in parallel with existing spreadsheet system for at least the first year. Ensure that the opening position on the new asset register at 1 April 2013 is consistent with the audited closing position on the 2012/13 accounts.	High	Agreed - once the audited position is established the final stage of the implementation of the software based REAL asset register will take place.	Accountant-Financial Reporting and Technical October 2013

Appendix A: Action plan (Continued)

Priority

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

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
5	Complete the CIPFA disclosure checklist as part of the Quality Assurance arrangements for the production of the financial statements.	Low	Agreed.	Accountant-Financial Reporting and Technical
6	Ensure that the audit is correctly advertised in accordance with the Accounts and Audit Regulations 2011.	Low	Agreed.	Accountant-Financial Reporting and Technical
7	Include budget to date and actual to date in quarterly revenue monitoring reports to help Members assess the reasonableness of the projected outturn position.	Medium	Agreed - new monitoring report devised which satisfies this requirement.	Financial Management and Treasury Accountant Next reporting cycle
8	Provide a clear commentary where there are large movements between, the projected revenue outturn at quarter three and the actual outturn position for the year.	Medium	Agreed - new monitoring report devised which satisfies this requirement.	Financial Management and Treasury Accountant Next reporting cycle

Appendix B: Audit opinion

We anticipate we will provide the Council with an unqualified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF COPELAND BOROUGH COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Copeland Borough Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Copeland Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Copeland Borough Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA / SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Copeland Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of Copeland Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Jackie Bellard

Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
MANCHESTER
M3 3EB

Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 26 June 2013 except for the areas highlighted in the table below.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated or not recorded in correct period.	No	Operating expenses in the net cost of services understated by £206,000 due to incorrect updating of PFI model.
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None.
Precepts and Levies	Council Tax	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	Interest payable overstated by £206,000 due to incorrect updating of PFI model.
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Dividend income from Joint Venture	Revenue			No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
PFI revenue support grant and other Government grants	Grant Income	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	Surplus on revaluation of non current assets overstated by £164,000 due to revaluation issues highlighted in Property Plant and Equipment below.
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	Yes, previously treated as significant risk.	PPE understated by £132,000 as a result of depreciating Ginns Depot – a land only asset. PPE understated by £173,000 through incorrect asset life applied to a component of Flatts Walk Sports Centre.
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	Yes, previously treated as significant risk.	PPE overstated by £361,000 due to failure to revalue Civic Hall. PPE understated by £197,000 due to error in posting revaluation of Lancashire Road Recreation Centre.
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None
Cash and cash equivalents	Bank and cash	None		No	None
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None