

Annual Governance Report

Copeland Borough Council

Audit 2006/07

March 2009



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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Summary

Purpose

- 1 This report summarises the findings from my 2006/07 audit, which is substantially complete. It identifies the key issues that you should consider before I issue my opinion, value for money conclusion and certificate.
- 2 This report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Financial statements

- 3 I expect to issue an unqualified opinion on the financial statements.
- 4 A number of errors were identified in the financial statements but these have now been corrected. There were seven material errors in the primary statements for 2006/07 including two material errors in the Income and Expenditure Account, three material errors in the balance sheet, the complete re-statement of the Statement of Recognised Gains and Losses and one material error in the cashflow statement. In addition I also found a material error in the comparators in the cashflow statement. I also identified a significant number of other errors within the financial statements and disclosure notes. To minimise the risk of errors in the future, officers will need to:
 - ensure that greater consideration is given, and can be demonstrated, to technical guidance when deciding upon the accounting treatments adopted within the accounts;
 - ensure that fixed assets disclosed within the accounts can be fully reconciled back to the asset register and to records held by the Council themselves and their external valuers; and
 - implement robust quality assurance arrangements for the accounts as part of the preparation process.
- 5 During 2008 the Council submitted a number of versions of the 2006/07 accounts, each of which were designed to reflect all of the amendments required to produce a statement of accounts upon which I could give an audit opinion. However, my review of these versions of the accounts indicated to me that some of the required amendments had not been made correctly, and that other amendments had been made to the accounts over and above those which had been discussed with me. This increased the time required to complete the audit and identified the need for more technical accounting expertise within the Council and for a greater understanding of the audit process.
- 6 I would like to express my thanks to the Head of Finance and Management Information Systems and her staff who have worked hard, and in co-operation with us, to produce a set of 2006/07 financial statements upon which I can give an unqualified opinion. I am pleased to report that I anticipate giving an unqualified opinion by the end of March 2009.

Statement on Internal Control

- 7 A full reconciliation between the register of assets held by the Council's external valuer and that held by the Council as its asset register was only completed in the summer of 2008. The inability of the Council to have a complete and accurate asset register and to correctly reflect the value of all assets owned within its accounts for 2006/07 is a significant weakness in internal control and the Statement on Internal Control (SIC) has been amended to reflect this weakness.

Value for Money

- 8 The Council's arrangements for managing its asset base were inadequate. The Council was unable to reconcile between the register of assets held by the external valuer and that held by the Council as its asset register as at 31 March 2007. A full reconciliation was only completed in the summer of 2008 some 18 months after the year end. Fixed assets at 31 March 2007 were understated by £3.135m (9 per cent of the Council's fixed asset base). As the Council's accounts and fixed asset register were significantly mis-stated this weakened the Council's arrangements for managing its asset base.
- 9 I therefore propose to issue a qualified value for money conclusion stating that the Council had adequate arrangements for securing economy, efficiency and effectiveness, except for its management of its asset base.

Formal audit powers

- 10 During the audit I considered issues raised by an elector in respect of the arrangements in place for dealing with a sale of some Council property. I concluded that I did not need to exercise my statutory powers in this respect but I made recommendations to the Council to improve its arrangements. The Council have agreed with all the recommendations and have implemented them with immediate effect.

Next steps

- 11 I ask the Audit Committee to:
- consider the matters raised in this report;
 - agree to adjust the financial statements as set out in Appendix 2 to this report;
 - approve the representation letter on behalf of the Council before I issue my opinion, value for money conclusion and certificate; and
 - agree the proposed action plan.

Financial statements and Statement on Internal Control

- 12 The Council's financial statements and Statement on Internal Control (SIC) are important means by which the Council accounts for its stewardship of public funds. As Council Members you have final responsibility for the financial statements and Statement on Internal Control and it is therefore important that you consider my findings.
- 13 In planning my audit, I identified specific risks and areas of judgement that I have focused on during my audit. I report to you the findings of my work in those areas.
- 14 In addition, auditing standards require me to report to you:
- the draft representation letter which I am asking you to approve and management to sign;
 - my views about the Council's accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to my report;
 - weaknesses in internal control; and
 - certain other matters.

Key areas of judgement and audit risk

- 15 In planning my audit I identified key areas of judgement and audit risk that I have considered as part of my audit. My findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Statement of Total Recognised Gains and Losses (STRGL) - new accounting requirement for 2006/07.	The Council failed to produce a STRGL that was in accordance with the Statement of Recommended Practice (SORP). The STRGL has been completely re-stated for 2006/07 and the 2005/06 comparators.
Introduction of the Income and Expenditure (I&E) Account and the Statement of Movement on General Fund Balance (SMGFB) - new accounting requirement for 2006/07.	The Council produced an I&E Account and SMGFB in the format required by the SORP. However, as a result of my audit a significant number of amendments were made to the figures disclosed in these two primary statements.

Recommendation

R1 Complete the SORP disclosure checklist in detail prior to the Chief Finance Officer authorising the accounts for issuing so that the accounts presented to Members for approval are fully SORP compliant.

Draft representation letter

- 16** Before I issue my opinion, auditing standards require me to obtain from you and management, written representations that:
- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
 - you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
 - you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
 - you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
 - you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
 - you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
 - you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures;
 - you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
 - you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
 - cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.
- 17** Appendix 1 contains the draft of the letter of representation I seek from you.

Accounting policies and financial reporting

- 18** I consider the qualitative aspects of your financial reporting. Table 2 contains the issues I want to raise with you.

Table 2 Accounting practice and financial reporting

Issue or risk	Finding
That the financial statements approved by the Council are not SORP compliant.	I have identified a number of areas where the financial statements were not SORP compliant. These included failing to ensure that the required disclosures were made in full and that some accounting entries were not in accordance with the SORP and other technical guidance.
The Council cannot reconcile between its fixed assets register, other land and property records and those held by the Council's external valuer.	As part of producing its revised 2007/08 accounts the Council identified assets with a significant value which were not included within its asset register or its accounts. These have had to be reflected in the 2006/07 accounts.
There is insufficient technical accounting expertise within the Council to respond to and address all audit adjustments in a timely manner.	During 2008 the Council submitted a number of versions of the 2006/07 accounts, each of which were designed to reflect all of the amendments required to produce a statement of accounts upon which I could give an audit opinion. However, my review of these versions of the accounts indicated to me that some of the required amendments had not been made correctly. This increased the time required to complete the audit and identified the need for more technical accounting expertise within the Council.
Amendments made to the approved accounts but not agreed with the auditors.	When reviewing the various versions of the accounts I identified other amendments that had been made to the accounts over and above those which had been discussed with me. The Council had to provide me with an audit trail to support these unagreed amendments. Making these amendments highlights the need for a greater understanding of the audit process within the Council.

Recommendations

- R2** Ensure that a system is put in place so that any purchases or disposals of fixed assets are correctly reflected in the Council's asset register and the accounts. Also ensure that the records held by the Council's external valuer and those on the Council's asset register can be fully reconciled.
- R3** Ensure that there is sufficient technical accounting expertise within the Council to respond to and address all audit adjustments in a timely manner.
- R4** No amendments should be made to the accounts approved by Members unless they have been discussed and agreed with the auditors and then approved by Members.

Errors in the financial statements

- 19** I identified errors in the financial statements (other than those of a trivial nature) and reported these to management.
- 20** Management has agreed to adjust the financial statements for all the errors identified. A summary of those errors that impact on the primary statements is shown in Appendix 2. I am reporting to you that I have identified seven material errors in the primary statements for 2006/07 including:
- two material errors in the I&E Account;
 - three material errors in the balance sheet;
 - complete re-statement of the STRGL; and
 - one material error in the cashflow statement.
- 21** In addition, I also found a material error in the comparators in the cashflow statement. I also identified a significant number of other errors within the financial statements and disclosure notes.
- 22** The errors identified are the result of various reasons including:
- the need for the Council to account on a gross basis for any grant monies passed to third parties, and over which the Council has a controlling influence;
 - incorrectly accounting for the Private Finance Initiative (PFI) transactions within the Income and Expenditure Account;
 - failing to ensure that all the assets owned by the Council were included within the accounts;
 - incorrectly classifying £6m of investments as short term when they should have been classified as long term investments as their maturity date was greater than 12 months;
 - incorrectly classifying the Preserved Right to Buy (PRTB) receipts as earmarked revenue receipts rather than usable capital receipts;
 - failing to ensure that the STRGL was in accordance with the SORP;

Financial statements and Statement on Internal Control

- incorrectly classifying the Safer, Stronger Communities grant as a capital grant in the Cashflow Statement rather than a revenue grant;
- failing to ensure that all of the disclosures in the comparators in the Cashflow Statement are consistent with the notes to the accounts;
- incorrect calculation of the Minimum Revenue Provision (MRP) in 2006/07 and previous years;
- failing to identify the need to exclude the insurance holding account to avoid double counting within the Income and Expenditure Account; and
- failing to robustly quality assure the accounts to minimise the likelihood of SORP disclosure compliance issues and presentational errors in the accounts.

23 To minimise any future errors officers will need to give, and demonstrate:

- greater consideration to technical guidance when deciding upon the accounting treatments adopted within the accounts;
- ensure that fixed assets disclosed within the accounts can be fully reconciled back to the asset register and to records held by the Council themselves and their external valuers; and
- implement robust quality assurance arrangements for the accounts as part of the preparation process.

Recommendations

R5 Ensure that greater consideration is given to technical guidance when deciding upon the accounting treatment to be adopted within the accounts for the more complex transactions. This consideration should be fully documented.

R6 Implement robust quality assurance arrangements, as part of the closedown process, to ensure that presentational errors within the draft accounts can be identified and addressed prior to the authorisation of the accounts.

The audit report

24 I plan to issue an audit report that contains the standard wording and includes an unqualified opinion on the financial statements. Appendix 3 contains a copy of my draft report.

Material weaknesses in internal control

25 I have identified weaknesses in the design or operation of an internal control that has resulted in a material error in your financial statements which I am now reporting to you. This weakness was not disclosed within your Statement on Internal Control and the SIC has now been amended to reflect this omission as set out in Table 3.

Table 3 Weaknesses in internal control

Issue or risk	Finding
<p>That not all assets owned by the Council are disclosed within the accounts.</p>	<p>The Council was unable to reconcile between the register of assets held by the Council's external valuer and that held by the Council as its asset register. A full reconciliation was only completed in the summer of 2008. As a result of this the Council had failed to include within its accounts £3.480m of assets which it owned and failed to exclude £0.345m of assets which it had already disposed of or sold. This equated to a net understatement of fixed assets of £3.135m or 9 per cent of the Council's fixed asset base disclosed in the accounts approved by Members in June 2007. The inability of the Council to have a complete and accurate asset register and to correctly reflect the value of all assets owned within its 2006/07 accounts is a significant weakness in internal control.</p>

26 I have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. I have reported only those matters which have come to our attention because of the audit procedures I have performed.

Other matters

27 There are no other matters that auditing standards require me to report to you.

Value for money

- 28 I am required to conclude whether the Council put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. I assess your arrangements against twelve criteria specified by the Audit Commission as shown in Appendix 4. My conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 29 I identified weaknesses in arrangements for securing value for money as detailed in Table 4.

Table 4 Value for money conclusion: criteria assessed as not adequate

Criterion	Finding
The Council has put in place arrangements for the management of its asset base.	The Council was unable to reconcile between the register of assets held by the Council's external valuer and that held by the Council as its asset register as at 31 March 2007. A full reconciliation was only completed in the summer of 2008 some 18 months after the year end. This result in a net understatement of fixed assets of £3.135m or 9 per cent of the Council's fixed asset base disclosed in the accounts approved by Members in June 2007. As the Council accounts and fixed asset register were significantly mis-stated this weakened the Council's arrangements for managing its asset base.

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- 30 I therefore propose to issue a qualified conclusion stating the Council had adequate arrangements for securing economy, efficiency and effectiveness, except for its management of its asset base. Appendix 3 contains the wording of my draft report.

Formal audit powers

31 I have:

- a power to issue a public interest report. I do so where I believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Council's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Council to meet and consider the notice before:
 - making a decision that might give rise to unlawful expenditure; or
 - taking an unlawful course of action that would give rise to a loss; or
 - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Council.

32 During the audit I decided not to use my statutory powers. However, following my consideration of issues raised by an elector, I reviewed the arrangements in place for dealing with a sale of some Council property. Although I concluded that I did not need to exercise my statutory powers in this respect, I made recommendations to the Council to improve its arrangements in certain respects including:

- in future all negotiations with purchasers should be conducted in accordance with the Council's Standing Orders and detailed records kept as to matters discussed and decisions made. The valuer or their representative should also always be in attendance at purchase negotiations;
- in all cases where decisions to dispose of assets are delegated, ensure that written reports are prepared outlining the key facts and the specific issues for consideration and decision. Ensure that formal records and minutes are kept of all such meetings and decisions made;
- all delegated decisions to approve the sale of assets should be supported by signed documentation;
- ensure that fully-documented cost / benefit analyses are present and fully-documented wherever appropriate. Provide post-sale information to members outlining the results of the negotiation and decision making process, along with the benefits expected to arise from any sale.

33 The Council have agreed with all the recommendations and have implemented them with immediate effect.

Independence

- 34 The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 35 I confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 36 I communicate to you:
- any relationships between us and the Council, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
 - total fees charged to you for audit and non-audit services; and
 - our arrangements to ensure independence and objectivity.

Relationships with the Council

- 37 I have identified no relationships that might affect objectivity and independence.

Audit fees

- 38 I reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the outturn fee against that plan.

Table 5

	Plan 2006/07 (£)	Actual 2006/07 (£)
Financial statements and Statement on Internal Control	62,395	88,555 (estimate)
Use of resources (including BVPP and data quality)	42,605	42,605
Total Audit Fee	105,000	131,160
Total Inspection Fee	4,400	4,400
Total Audit and Inspection Fee	109,400	135,560
Issues related to formal audit powers	0	28,500 (estimate)
Certification of claims and returns	40,000	48,386

- 39 The analysis above shows that I have been unable to contain the audit fee within the totals you have already agreed. The main reasons for this were:
- having to completely re-state the 2006/07 Statement of Total Recognised Gains and Losses and the 2005/06 comparators;
 - assessing the impact on the 2006/07 accounts of several issues identified as part of the 2007/08 audit. These led to material amendments to the accounts in respect of fixed assets and grossing up of accountable body grant income and expenditure;
 - reviewing in detail the calculations which identified the error on Adjustment A and the Minimum Revenue Provision (MRP);
 - addressing the incorrect treatment on the Preserved Right to Buy (PRTB) receipts;
 - the number of errors that we have identified within the accounts and set out in full in Appendix 2; and
 - significant delays we have had in finalising the amendments to the accounts, including submission by the Council of several different versions of the accounts in which all the required amendments had not been made.
- 40 Under the Audit Commission’s advice and assistance power I may provide non-audit services to the Council. We have not provided any such services in 2006/07.

Our arrangements to ensure independence and objectivity

- 41 I have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 6.

Table 6 Arrangements to ensure independence and objectivity

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"> • do not hold a financial interest in any of our audit clients; • may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and • may not enter into business relationships with UK audit clients or their affiliates. <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> • the general requirement to carry out work independently and objectively; • safeguarding against potential conflicts of interest; • acceptance of additional (non-audit) work;

Independence

Area	Arrangements
	<ul style="list-style-type: none">• rotation of key staff;• other links with audited bodies;• secondments;• membership of audited bodies;• employment by audited bodies;• political activity; and• gifts and hospitality.
Code of Conduct	The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.
Confidentiality	All staff are required to sign an annual undertaking of confidentiality as a condition of employment.

Appendix 1 – Draft letter of management representations

To:

Mark Heap

District Auditor

Audit Commission

2nd Floor Aspinall House

Aspinall Close

Middlebrook

Bolton

BL6 6QQ

Copeland Borough Council - Audit for the year ended 31 March 2007

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of Copeland Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2007. All representations cover the Council's accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the SORP), which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

Corrected misstatements

I confirm that we have corrected all the identified misstatements in the financial statements and discussed them with those charged with governance within the Council.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Appendix 1 – Draft letter of management representations

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;
- agreements and options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are formal set off and compensating balancing arrangements with our cash accounts. Except as disclosed in Note 30 we have no other lines of credit arrangements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties. The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Signed on behalf of Copeland Borough Council

I confirm that this letter has been discussed and agreed by the Audit Committee, on behalf of the Council, on 27 March 2009.

Signed

Name: Julie Crellin

Position: Head of Finance and Management Information Systems

Date: 27 March 2009

Appendix 2 – Summary of amendments

The following errors were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

Amendments made to primary financial statements

Primary financial statement	Item of account	Description of error	Amendment made £000s
Income and Expenditure Account	Increases gross expenditure on central services to the public.	Expenditure was increased by £520k to reflect the costs of Central Services' use of Copeland House. This had previously been netted off against PFI grant income and rental income from external sources.	520 (expenditure) 190 (income)
	Increases gross income on central services to the public.	The increase was primarily due the transfer of £175k of second home discount income from Corporate and Democratic Core to Central services.	
Income and Expenditure Account	Increases gross expenditure on housing services.	Reflects the costs of Housing Services' use of Copeland House. This had previously been netted off against PFI grant income and rental income from external sources.	148 (expenditure)

Appendix 2 – Summary of amendments

Primary financial statement	Item of account	Description of error	Amendment made £000s
Income and Expenditure Account	Increases gross expenditure on cultural, environmental and planning services.	<p>Expenditure was increased by £2,594k to reflect monies passed to third parties by the Council but where it retains a controlling influence. Income was increased by the same amount. Previously these figures had been netted off.</p> <p>Expenditure was increased by £169k to reflect the costs of cultural, environmental and planning services' use of Copeland House. This had previously been netted off against PFI grant income and rental income from external sources.</p> <p>Expenditure was increased by £314k for land management expenditure that had previously been shown against Corporate and Democratic Core expenditure.</p>	<p>3,058 (expenditure)</p> <p>3,185 (income)</p>

Appendix 2 – Summary of amendments

Primary financial statement	Item of account	Description of error	Amendment made £000s
	Increases gross income on Cultural, environmental and planning services.	<p>Income was increased by £2,594k to reflect grant received by the Council and passed on to third parties (see above). Income was further increased by £103k for land management income previously shown against Corporate and Democratic Core income.</p> <p>Income was increased by another £488k to reflect grant received to offset funding of capital expenditure that did not enhance asset values.</p> <p>There is a corresponding entry to the Statement of Movement on the General Fund Balance (SMGFB) to ensure that this does not impact on the General Fund balance.</p>	

Appendix 2 – Summary of amendments

Primary financial statement	Item of account	Description of error	Amendment made £000s
Income and Expenditure Account	Decreases gross expenditure on corporate and democratic core.	<p>The main adjustment was a reduction of £523k in both income and expenditure in respect of the insurance holding account to avoid double-counting of insurance costs and incorrect disclosure of the recharge as income.</p> <p>Expenditure was reduced by £314k for land management expenditure that should have been shown against cultural, environmental and planning services.</p> <p>Expenditure was increased by £115k to recognise audit fees that had not been accrued.</p> <p>Expenditure was increased by £162k to reflect grant received by the Council and passed on to third parties. Income was increased by the same amount. Previously these figures had been netted off.</p>	612 (expenditure) 691 (income)
	Decreases gross income on Corporate and democratic core.	As stated above, income was reduced by £523k in respect of the insurance holding account. Income was reduced by a further £175k due to the transfer of second home discount income from Corporate and Democratic Core to Central Services.	

Appendix 2 – Summary of amendments

Primary financial statement	Item of account	Description of error	Amendment made £000s
Income and Expenditure Account	Decrease in gross income from discontinued operations.	Decrease in income was due to an adjustment to Housing Subsidy claim following the audit of the claim.	564 (income)
Income and Expenditure Account	Increase in loss on disposal of fixed assets.	The bulk of this adjustment (£345k) was required to recognise the disposal of fixed assets which had taken place in previous years. Despite being disposed of, the assets remained in the asset register and on the balance sheet.	379
Income and Expenditure Account	Increase in income and expenditure on trading operations.	This reflects the change in accounting treatment for rental income received from the sub-letting of part of Copeland House which is now shown under trading operations. The corresponding costs are also shown under trading operations.	493 (expenditure) 493 (income)
Income and Expenditure Account	Increase in general government grants.	This adjustment relates to the recognition of PFI grant as a general grant (£837k) rather than Central Services income and an accrual for the Local Authority Business Growth Initiative (LABGI) grant (£110k).	947
Balance sheet	Increase in tangible fixed assets - other land and buildings.	This adjustment relates to assets owned by the Council but not included in the asset register or the balance sheet.	927

Appendix 2 – Summary of amendments

Primary financial statement	Item of account	Description of error	Amendment made £000s
Balance sheet	Increase in tangible fixed assets - non operational assets.	This adjustment relates to assets owned by the Council but not included in the asset register or the balance sheet (£2,553k) and assets disposed of or sold by the Council but wrongly included within the asset register and the accounts.	2,553 (345)
Balance sheet	Increase in long term investments. Decrease in short term investments.	This adjustment mainly relates to loans of £6m which were originally disclosed as short term investments but were found to have maturity dates more than 12 months after the balance sheet date.	6,010
Balance sheet	Increase in creditors.	Major items were recognition of HRA subsidy owed back to the Department for Communities and Local Government (DCLG) (£564k) and accrual of audit fees (£115k).	692
Balance sheet	Increase in Fixed Asset Restatement Account (FARA).	This adjustment is to recognise fixed assets previously missed from the balance sheet (see other land and buildings, and non operational assets above). They have been recognised in the balance sheet as a revaluation in 2006/07.	3,135
Balance sheet	Decrease in the Capital Financing Account (CFA).	Adjustments relate to reversal of 2006/07 Minimum Revenue Provision (MRP) (£76k), Correction of Adjustment A in the Capital Financing Requirement (CFR) calculation (£110k), and release of previous years' incorrect calculation of MRP (750K).	937

Appendix 2 – Summary of amendments

Primary financial statement	Item of account	Description of error	Amendment made £000s
Balance sheet	Increase in the usable capital receipts.	£1,716k relates to reclassification of Preserved Right to Buy (PRTB) receipts as a capital receipt rather than an earmarked revenue reserve. A further £242k relates to revenue expenditure previously financed from PRTB receipts. As capital receipts cannot be used to finance revenue expenditure the expenditure has been charged to the General Fund and the capital receipts recognised in the usable capital receipts account.	1,956
Balance sheet	Increase in the General fund balance.	The increase of £835k in the General Fund balance is as a result of £110k residual HRA balance being transferred to the General Fund balance, and the net impact of other adjustments highlighted in this schedule.	835
Balance sheet	Decrease in earmarked reserves.	This reduction in earmarked reserves is primarily as a result of the reclassification of £1,716k PRTB receipts as usable capital receipts. This reduction was offset by reclassifying £61k of creditor/provision balances as earmarked reserves.	1,654
Cashflow statement	Increase in revenue cash inflows relating to other government grants.	Increase of £1,383k is due to recognition of Safer Stronger Communities Grant. Previously treated as a capital grant (see below).	1,383

Appendix 2 – Summary of amendments

Primary financial statement	Item of account	Description of error	Amendment made £000s
Cashflow statement	Increase in capital cash outflows relating to purchase of long term deposits.	This relates to the need to recognise that £6m of investments purchased in year had maturity dates more than 12 months after the balance sheet date.	6,000
Cashflow statement	Decrease in capital cash inflows relating to capital grants received.	Decrease relates to £1,383k Safer Stronger Communities Grant being reclassified as revenue grant (see above).	1,383
Cashflow statement	Decrease in short term deposits.	This relates to the need to recognise that £6m of investments purchased in year had maturity dates more than 12 months after the balance sheet date.	6,000
Cashflow statement (2005/06 comparators)	Increase in revenue cash outflows relating to other operating cash payments. Increase in revenue cash inflows relating to other government grants.	Adjustment to ensure that the other government cash inflow in the primary statement is consistent with the supporting note. Other operating cash payments represents a balancing figure and is increased by the same amount.	1,288
Statement of Movement on the General Fund Balance (SMGFB)	Increase on Government grants deferred amortisation.	Adjustment to SMGFB to ensure £488k capital grant credited to Income and Expenditure account does not impact on General Fund balance.	488

Appendix 2 – Summary of amendments

Primary financial statement	Item of account	Description of error	Amendment made £000s
Statement of Movement on the General Fund Balance (SMGFB)	Reduction in net gain on sale of fixed assets.	This bulk of this adjustment (£345k) was required to recognise the disposal of fixed assets which had taken place in previous years. Despite being disposed of, the assets remained in the asset register and on the balance sheet.	379
Statement of Movement on the General Fund Balance (SMGFB)	Insertion of new line: re-categorisation of revenue expenditure from capital.	This relates to revenue expenditure previously financed from PRTB receipts. This adjustment is to charge the expenditure against the General Fund balance as capital receipts cannot be used to finance revenue expenditure.	242
Statement of Movement on the General Fund Balance (SMGFB)	Reduction of MRP for provision for capital financing.	Adjustments relate to reversal of 2006/07 MRP (£76k), Correction of Adjustment A in CFR calculation (£110k), and release of previous years' incorrect calculation of MRP (750K).	937
Statement of Movement on the General Fund Balance (SMGFB)	Reduction in HRA Surplus in year	Relates to reduction in HRA surplus as a result of the audit of Housing Subsidy claim.	564
Statement of Movement on the General Fund Balance (SMGFB)	Reduction in net transfer to or from earmarked reserves/ other statutory funds.	Increase of £61k due to write off of NNDR debtors on the Collection Fund. Reduction of £110k due to transfer of residual HRA balance to General Fund.	49

Primary financial statement	Item of account	Description of error	Amendment made £000s
HRA Income and Expenditure Account	Reduction in HRA subsidy receivable.	Relates to reduction in HRA surplus as a result of the audit of Housing Subsidy claim.	564
Statement of Total Recognised Gains and Losses (STRGL)	The STRGL was completely restated as the original version was not SORP compliant.	The STRGL was completely restated as the original version was not SORP compliant.	N/A

The adjustments referred to above have impacted on the primary financial statement. As a result of these changes, further adjustments were required to the notes to the accounts to ensure all statements remained internally consistent. In addition, other changes were made to the notes to the accounts and the most significant ones are outlined below.

Amendments made to explanatory foreword / disclosure notes

- There were a number of changes made to the Explanatory Foreword including:
 - re-stating some of the bar charts to reflect changes made to the accounts;
 - correcting inconsistencies between the reserve figures disclosed and those disclosed in the balance sheet; and
 - correcting inconsistencies between the actual capital expenditure disclosed and that disclosed in the capital financing statement.
- Amendments to accounting policies to correct the use of incorrect terminology and reference to out of date legislation.
- Note 3 amended to reflect the fact that the Housing Revenue Account (HRA) was formally closed on 4 April 2006 rather than 4 April 2007.

Appendix 2 – Summary of amendments

- Note 12 on the revenue provision for the repayment of external debt was amended to reflect the fact that the Council has now identified an error in the Minimum Revenue Provision (MRP) calculation set aside in previous years. This has resulted in an increase of £750,000 in General Fund balances. In addition another £110,902 was added back into General Fund balances to address the previous incorrect calculation of Adjustment A.
- Note 13 on capital expenditure has been re-named as the 'Movement on fixed assets' to reflect what the note actually discloses. The figures in this note have been extensively amended to reflect the changes in the value of fixed assets as some assets with a net book value of £3.135m were not originally included within the accounts.
- Note 14 on capital expenditure and how it was financed was amended to provide more detail on what the capital expenditure represented. A number of amendments were made to the analysis of the sources of finance.
- Note 16 - capital commitments note referred to the project to refurbish the Beacon and the total cost of the project being £2.2m. However, this note has been amended to reflect the fact that the actual capital commitment at 31 March 2007 was only £1.46m.
- Note 21 on the net assets employed has been significantly amended as the original analysis only disclosed the General Fund balance, earmarked reserves, HRA and Collection Fund. The note had incorrectly excluded other balances such as, Fixed Asset Restatement Account (FARA), Capital Financing Account (CFA) and usable capital receipts.
- New note added on long term investments to reflect the changes required in re-classifying £6m of investments as long term.
- Note 26 on short term investments amended to reflect the changes required in re-classifying £6m of investments as long term.
- Note 29 on creditors amended to reflect the recognition of additional HRA subsidy owed to DCLG.
- Note 33 on the movement on reserves amended extensively to reflect the correction of the treatment of PRTB receipts, the introduction of assets owned by the authority but not included within the accounts and the closure of the HRA and transfer of the balance to the General Fund.
- Note 36 on retirement benefits has been extended to provide disclosures relating to the analysis of the movement on the net pension liability, the assets and liabilities of the pension fund attributable to the Council and an analysis of the actuarial gains and losses for the last five years. All of these disclosures are required by the SORP.
- Note 37 amendments to the notes supporting the cashflow statement to reflect the reclassification of £6m of investments between long and short term. Additional amendment to the note supporting the analysis of government grants to include £1.383m of safer stronger communities grant.

- Introduction of a new note on the date of authorisation for issue of the accounts. This was a SORP requirement in 2006/07 but had been excluded.
- The surplus on the HRA for the year was reduced to £24k and therefore reduced the closing balance on the HRA to £110k. The accounts were amended to show that the HRA closed during 2006/07 and that the £110k closing balance was transferred to the General Fund balance.

Appendix 3 – Proposed independent auditor's report to the Members of Copeland Borough Council

Opinion on the financial statements

I have audited the financial statements of Copeland Borough Council for the year ended 31 March 2007 under the Audit Commission Act 1998, which comprise the Explanatory Foreword, Income and Expenditure Account, Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund, Housing Revenue Account and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Copeland Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

Appendix 3 – Proposed independent auditor's report to the Members of Copeland Borough Council

I review whether the statement on internal control reflects compliance with CIPFA's guidance 'The statement on internal control in local government: meeting the requirements of the Accounts and Audit Regulations 2003' issued in April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended.

**Mark Heap,
District Auditor**

Audit Commission, Aspinall Close, Middlebrook, Horwich, Bolton BL6 6QQ

March 2009

Appendix 3 – Proposed independent auditor's report to the Members of Copeland Borough Council

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

Authority's responsibilities

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 regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Authority is required to prepare and publish a best value performance plan summarising the Authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- and where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Copeland Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007 except for:

- putting in place arrangements for managing its asset base.

Best value performance plan

I issued my statutory report on the audit of the Authority's best value performance plan for the financial year 2006/07 in December 2006. I did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

**Mark Heap,
District Auditor**

Audit Commission, Aspinall Close, Middlebrook, Horwich, Bolton BL6 6QQ

March 2009

Appendix 4 – Value for money criteria

Figure 1 The 12 VFM criteria assessed

Copeland Borough Council has put in place:	Met
Arrangements for setting, reviewing and implementing its strategic and operational objectives	Yes
Channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	Yes
Arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	Yes
Arrangements to monitor the quality of its published performance information, and to report the results to members.	Yes
Arrangements to maintain a sound system of internal control.	Yes
Arrangements to manage its significant business risks.	Yes
Arrangements to manage and improve value for money.	Yes
A medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	Yes
Arrangements to ensure that its spending matches its available resources.	Yes
Arrangements for managing performance against budgets.	Yes
Arrangements for the management of its asset base.	No
Arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	Yes

Appendix 5 – Action plan

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R1 Complete the SORP disclosure checklist in detail prior to the Chief Finance Officer authorising the accounts for issuing so that the accounts presented to Members for approval are fully SORP compliant.	3	Head of Finance and MIS	Yes	The SORP compliance checklist 2008/09 will be completed as the Accounts are prepared by the Financial Accountant. The Accountancy Services Manager will review the SORP checklist. Review dates have been agreed with the Accountancy Services Manager and the closure plan clearly identifies the final review date by the Head of Finance. These dates have been entered into diaries.	1 April to 15 June 2009
8	R2 Ensure that a system is put in place so that any purchases or disposals of fixed assets are correctly reflected in the Council's asset register and the accounts. Also ensure that the records held by the Council's external valuer and those on the Council's asset register can be fully reconciled.	3	Head of Finance and MIS Head of Development Operations	Yes	Revised procedures with Capita were agreed in January 2009 to improve property asset information capture both in the asset register and the accounts. Roles and responsibilities in respect of Capita and the Council (Finance and Property Management) have been clarified. Asset management plan to be reviewed and updated in 2009. Disposals to be taken through Resource Planning Working Group for Member information. The Closure Pack 2008/09 (issued on 17 Feb 2009) to Managers includes a return relating to the acquisition and disposal of all assets and this information will be cross-checked to the Capita records. Briefing sessions for budget holders have commenced. The first was held on 10 March 2009.	January 2009 April 2009 to December 2009 June 2009 to March 2010 February 2009

Appendix 5 – Action plan

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					<p>Specific project, working with Consilium (external software company) commenced in January 2009 (and it will continue during closure to implement the Fixed Asset module within the accounting ledger. This will result in the fixed asset closing balances from the 2008/09 closure process being captured on the ledger. This also supports preparation for closure of accounts 2009/10 and the transition to International Financial Reporting Standards, which will require greater sophistication in reporting assets.</p> <p>Budget resources for 2009/10 have been increased to provide for an additional accountant position within the Finance team, who will have responsibilities for capital and project accounting. This post is not factored into the Closure Plan as the post is not expected to be filled until June 2009.</p>	<p>30 May 2009</p> <p>Recruit during Q1 2009/10</p>
8	R3 Ensure that there is sufficient technical accounting expertise within the Council to respond to and address all audit adjustments in a timely manner.	3	Head of Finance and MIS	Yes	<p>Permanent appointments to the Accountancy Services Manager and Financial Accountant positions commenced on 15 December 2008.</p> <p>Contacts with Audit Commission team regarding the audit will be established during the closure period. In readiness for the audit, the format and process for asking questions and managing the responses will be agreed before the audit commences. This will improve clarity of communication, and build on the experience of the 2006/07 and 2007/08 audit.</p> <p>Copeland BC Finance have attended IFRS and Closure of Accounts events organised by the Audit Commission and CIPFA .</p>	<p>December 2008</p> <p>June 2009</p> <p>December 2008 and February 2009</p>

Appendix 5 – Action plan

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					<p>Service Plan 2009/10 includes training activities to increase general accounting understanding within the team.</p> <p>Further development of the accounting ledger (dependent upon c/fwd of slippage of capital programme approvals from 2008/09) is planned for 2009/10.</p>	<p>April 2009 to March 2010</p> <p>June to December 2009</p>
8	R4 No amendments should be made to the accounts approved by Members unless they have been discussed and agreed with the auditors and then approved by Members.	3	Head of Finance and MIS	Yes	<p>Accounts presented to June 2009 Audit Committee will be 'write protected' by the Financial Accountant to prevent amendment to this approved set.</p> <p>Amendments will be drafted in a separate document, in accordance with the findings of the audit and the protocols will be agreed with the Audit Manager.</p>	<p>26 June 2009</p> <p>June 2009 to 30 September 2009</p>
9	R5 Ensure that greater consideration is given to technical guidance when deciding upon the accounting treatment to be adopted within the accounts for the more complex transactions. This consideration should be fully documented.	3	Head of Finance and MIS	Yes	<p>Closure working paper templates have been developed to include specific commentary regarding accounting treatments undertaken.</p> <p>Preliminary identification of potential areas for consideration has been undertaken.</p> <p>Accounting policies are in the process of revision and will be presented to the Audit Committee at its meeting in April.</p> <p>Review of accounting treatments to be included as part of closure QA processes by Accountancy Services Manager and reviewed by Head of Service.</p>	<p>Feb 2009</p> <p>April 2009</p> <p>June 2009</p>

Appendix 5 – Action plan

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R6 Implement robust quality assurance arrangements, as part of the closedown process, to ensure that presentational errors within the draft accounts can be identified and addressed prior to the authorisation of the accounts.	3	Head of Finance and MIS	Yes	<p>Closure Plan 2008/09 has QA (eg proof reading, analytical review) procedures in place, including time for review.</p> <p>Draft Accounts to be circulated to CMT for comment and independent Treasury Management Advisers have agreed to be part of the review process. Final date for 'working' draft is 29 May 2009 for Financial Accountant. Distribution to CMT and other reviewers, including Portfolio Holder, the following Tuesday (bank holiday).</p> <p>Closure Plan has team aiming for a final accounts deadline of 12 June 2009, ie one week before the publishing deadline of 19 June to report to 26 June 2009 Audit Committee.</p>	<p>3 June 2009</p> <p>12 June 2009</p>

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

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