Annual governance report

Copeland Borough Council

Audit 2010/11

Contents

Traffic light explanation

Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

Audit opinion and financial statements

My draft unqualified audit report covering the opinion and value for money conclusion is at appendix 1. The financial statements were prepared and submitted for audit on time.

The Council has had to prepare accounts to comply with the International Financial Reporting Standards (IFRS) code for the first time this year. This was a challenging task and a number of amendments have been made to the accounts and related disclosure notes to ensure the financial statements give a true and fair view and to comply with first year adoption of IFRS. The Council has also had to deal with some complex accounting issues relating to its PFI scheme.

The key issues from my work on the Council's 2010/11 accounts are:

- one material error in the accounts relating to using the incorrect valuation basis for some Community assets;
- accounting for and re-valuing the PFI asset has again represented a significant challenge for the Council. The PFI asset was revalued on the wrong basis although this did not lead to a material error;
- the Council has interpreted and applied the new Code incorrectly in several areas and these led to amendments in the primary statements and notes.

I have received an objection to the 2010/11 accounts and am therefore unable to close the 2010/11 audit by 30 September 2011.

Value for money

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for 2010/11. I have concluded the previous year's qualifications in respect of strategic asset management and workforce planning can be removed as these areas now met the criteria for proper arrangements. This represents significant progress for the Council.

Before I complete my audit

I confirm to you	My 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. **Independence** I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity. The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.
I ask you to confirm to me	**I ask the Audit Committee to:** ■ take note of the adjustments to the financial statements which are set out in this report (Appendix 2); ■ consider the unadjusted errors in the statements which are set out in this report (Appendix 3); ■ approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion; ■ agree your response to the proposed action plan (Appendix 5). ■ agree the additional audit fee of £8,260 to cover the additional work on the new PFI Model, the revaluation of the PFI asset (including obtaining professional valuation advice), IFRS re-statement and obtaining sufficient evidence to be able to remove the previous year’s VFM Conclusion qualifications ■ note an objection to the accounts has been received. My costs in dealing with this objection must be met by the Council.

Financial statements

I plan to issue an unqualified audit report covering the opinion and value for money conclusion. The financial statements were prepared and submitted for audit on time. However, a number of amendments have been made to the accounts and related disclosure notes. These changes are largely, but not limited to, ensuring compliance with first year adoption of International Financial Reporting Standards (IFRS) and to accounting for the Council's PFI asset.
Both areas have required additional audit work to be undertaken and meant an increase in the audit fee.

Opinion on the financial statements

Subject to satisfactory clearance of some outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report. I have received an objection to the 2010/11 accounts and as this will not be determined by the 30 September 2011. This means that although I issue my audit opinion, I will not be able to issue the audit closure certificate.

Errors in the financial statements

Appendix 2 summarises all of the material and non trivial errors which have been amended in the revised set of accounts. I also identified a number of errors and omissions in the required disclosures which have also been amended and these are also included at Appendix 2 for completeness.

Appendix 3 summarises the unadjusted errors which management has decided not to amend. You will need to confirm your acceptance of and the reasons for this decision in the letter of representation.

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk	Finding
1. First time adoption of IFRS Preparation of accounts which comply with Code of Practice for Local Authorities based on International Financial Reporting Standards – risk of non compliance with new standards.	This has been a challenge for the Council. I have reviewed the re-stated 1 April 2009 position and the restated 2009/10 accounts. Information was produced on a piecemeal basis over 2-3 months, partly because of the complexities of PFI accounting. This made it a more difficult process than expected. I have reviewed the 2010/11 financial statements for compliance with the IFRS based Code and I found a number of amendments were required as outlined in the following sections and Appendix 2 and 3.
2. PFI accounting model and revaluation of PFI asset Private Finance Initiative (PFI) accounting arrangements and the 'Model' used to generate the accounting entries needed to be reviewed following the 2009/10 audit. The PFI asset was also re-valued in 2010/11 - risk of potentially significant changes to the 'Model' used the previous year and a risk that an incorrect method is used to revalue the	The Council engaged external consultants to review its PFI model and decided to use a new PFI Model in 2010/11. This used the construction cost from the operator's financial model rather than present value (PV) of the minimum lease payments (MLP) to arrive at an initial value for the PFI asset and liability. I have undertaken additional work to review the new PFI Model in detail and I am satisfied that the accounting treatment is consistent with the Code. I have also confirmed the difference between

Key audit risk	Finding
PFI asset.	the PFI asset and liability at the balance sheet date of the two methods is not material. Lifecycle replacement costs used in the PFI Model are based on the operator's estimate. However, the Council will need to put in place a system to monitor actual lifecycle costs for the PFI asset and only capitalise those that meet the definition of capital expenditure. I have reviewed the accounting entries generated by the new PFI Model and I am satisfied that they, and the prior period adjustment, are correct. The PFI asset was re-valued as at 31 March 2011 by the Council's in-house valuer and given a value of £3,900,000. I raised an audit query about the basis of this valuation and the valuer identified a simple error in the calculation. This led to a change in value of the PFI asset, using the same valuation methodology, to £8,900,000. I remained concerned about the valuation basis and raised further queries with the Council's Valuer and obtained my own advice from a professional valuer on the valuation basis and assumptions. We have agreed the correct valuation basis and the PFI asset has been revalued to £4,320,000 at 31 March 2011.
3. Capacity within the Finance department The Council is relying on two experienced interim appointments to fill key senior positions within the finance team until the end of March 2011. The finance function will be re-structured as part of the Council's service review programme - risk of no experienced staff being in place to produce the 2010/11 accounts.	In September 2010 the Council tried but was unsuccessful in its attempts recruit staff to address the capacity issue within the Finance department. As a result of this the Council made two interim appointments and these have remained in place during the production of the 2010/11 accounts and the audit of them. Additional support has also been provided by external consultants on areas such as the IFRS re-statement (leases) and the PFI Model. As a result, the Council was able to prepare its accounts by the 30 June deadline. The Council Finance department is currently being re-structured. A new Head of Corporate Resources is now in place and the Council is in the process of trying to fill the Financial Services Manager's post. This should help reduce the Council's reliance on interim / external consultancy support.

Key audit risk	Finding
	However, I consider that capacity and knowledge within Finance can also be built through Finance staff using local, regional and national contacts to assist with some of the more complex accounting issues. This may have helped minimise errors in the 2010/11 accounts such as the valuation basis of heritage assets, correct identification of revaluation losses and depreciation of componentised assets.

Recommendations

R1 Establish systems to monitor actual lifecycle expenditure on the PFI asset and the timing of spend to enable accurate financial reporting. If works do not meet the definition of capital expenditure, they should not be capitalised.

R2 Finance staff should use local, regional and national contacts as a sounding board on some of the more complex accounting issues. This will help build capacity and knowledge within Finance and may have helped minimise errors in the accounts.

Financial statements

Significant weaknesses in internal control

The weakness is only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Internal control issues and our findings

Description of weakness	Potential effect	Management action
1. Accounts payable system		
Internal Audit's annual review of the accounts payable system in mid October 2010 identified a problem with the control over the re-authorisation of invoices.	Invoices with a value significantly higher than that of the goods / services ordered, could be paid for without being checked for reasonableness.	The control was reinstated by the end of October 2010 so that prescribed invoice authorisation process was followed.
The registered invoice auto-clearing process, whereby invoices which differ to their purchase order value beyond a specific tolerance level must be re-authorised by the budget holder, was being bypassed by an Accounting Clerical Officer who was manually clearing such invoices for payment.		In December 2010 a system report was developed to identify payments which have a variance between the Purchase Order value and the paid invoice value. This is now produced on a monthly basis. All payments in the report are reviewed for reasonableness and where appropriate checks are made with ordering department that payments are correct.

Financial statements

Quality of your financial statements

The Council produced its IFRS based accounts on time and to a reasonable standard. There were several areas where the Council's interpretation and application of the new Code was incorrect and the accounts were amended for these issues.

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

These are the issues I want to raise with you.

Accounting practices, policies, estimates and financial disclosures

Issue	Findings and outcomes
1. Explanatory Foreword	
I found that the Explanatory Foreword to the accounts: ■ Did not include an explanation of the impact of the current economic climate on the authority and the services it provides or comment on the prior period adjustment for the PFI scheme; ■ States the net pension liability has reduced from £21,200,000 to £15,900,000 during 2010/11 as a result of the change from RPI to CPI.	The Explanatory Foreword has been updated to ensure full compliance with the Code. This has included commentary of the impact of the current economic climate on the authority and the services it provides and on the PPA for the PFI scheme. It has also been updated to show that of the £5,300,000 net pension liability reduction only £3,770,000 is as a result of the change from RPI to CPI. This is consistent with the exceptional item disclosed in the CIES.
2. Compliance with the Code disclosures	
A number of disclosure issues were identified including:	The Council has added the missing information and updated notes as required including re-writing the segmental analysis note.

Issue	Findings and outcomes
■ no comparatives in the notes to support the 1 April 2009 balance sheet; ■ no narrative to describe the reason for holding earmarked reserves; ■ further information required in respect of assets held for sale; ■ segmental analysis not on the correct basis; ■ leases notes need to show minimum lease payments; ■ References to out of date terminology, standards or guidance e.g. fixed assets rather than PPE, FRS17 rather than IAS19.	
3. Incorrect application of the Code requirements There were several areas where the Council's interpretation and application of the Code was incorrect. These included: ■ valuing heritage assets (part of the community assets) at insurance value rather than historic cost; ■ componentisation of Property Plant and Equipment (PPE) assets; ■ incorrectly classifying revaluation losses as impairment losses.	My work identified that in the area of non current assets that there were a number of areas where the Council's interpretation and application of the Code was incorrect. I have outlined the issues below. Heritage assets, within Community assets, were revalued and included in the 2010/11 accounts at their insurance value. Unfortunately, this treatment is not allowed under the Code until 2011/12. This led to Community assets being overstated by £1,315,000, a material error. There were several issues with the componentisation of PPE assets: ■ The approach to componentising assets was based on assessing component lives using a standard of a new building with a life of 50 years. Where the valuer assessed a building life to be less than 50 years, finance staff pro-rata the expected life of a component accordingly. However, this means the valuer is not providing, for an individual asset, an estimate of the useful remaining life of individual components. As a result the annual depreciation charge for componentised assets is likely to be wrong.

Issue	Findings and outcomes
	■ The three triggers for componentisation are a revaluation, enhancement or acquisition of an asset during the year. The four assets componentised were revalued at 31 March 2011 (trigger point) but the Council wrongly applied componentisation from 1 April 2010 and thus overstated deprecation for the year. However, I also identified expenditure on Phoenix Court in 2010/11 which meant it should have been componentised in 2010/11. Based on this, componentised depreciation of £677,000 has been removed from the 2010/11 accounts. All downward revaluations were classified by the Council as impairment losses. The Code requires that before considering an impairment loss the assets carrying value had to be brought up to date. This value should be compared against the recoverable amount and only if the carrying value is above the recoverable amount is there an impairment loss. As a result of this impairment losses reduced to £858,000. This has no impact on the primary statements but affects a number of disclosure notes.
4. Related Party disclosures The Council's identifies officer and member related party transactions through completion of a year end return. The Council's accounting policy sets a de minimis level of £50,000 on disclosure of related party transactions.	Although the accounting policy specifies only disclosures over £50,000 are included in the accounts, my review of the related party disclosures identified a number that were below this. These additional disclosures were made because it was considered that there was local interest e.g. Maritime Festival for £25,090. However, it does mean that the Council has failed to comply with its own accounting policy. In fact, the Code requires related party transactions to be disclosed where they are considered to be material to either the Council or the related party. Whilst a de minimis level of £50,000 may be appropriate for the Council itself it likely to be too high where the related party is an individual. The Council has reconsidered its disclosures for 2010/11 and a payment of £4,189 to a councillor for rental of a property for the homeless has now been disclosed.

Issue	Findings and outcomes
5. Aged debt analysis Within the aged debt listing for benefits debtors, there are approximately 250 invoices greater than 3 years old with a value of £151,000.	The £151,000 of benefits debtors greater than 3 years old are all fully provided for in the bad debt provision. However, a review should be undertaken on their current status and if a repayment plan is not in place, or the debt is not being actively pursued, consideration should be given to their write off.
6. Fixed asset register The Council is still using a spreadsheet based asset register to compile the accounts. This will be come increasingly difficult to maintain as the information requirements of IFRS based accounts increase.	The Council recognised the need to purchase a fixed asset register system to replace its spreadsheet and bought one during 2009/10. However, problems in both 2009/10 and 2010/11 meant the implementation of the new system was delayed.

Recommendations

R3 Review the approach used to componentisation and ensure that the valuer provides an assessment of the useful economic life of the individual components for each asset that has to be componentised.

R4 Improve the understanding of and application of the Code requirements within the Council's Finance department.

R5 Review the de minimis level set for disclosing related party disclosures and set it at a level that would be considered material from the viewpoint of both the Council and a related party, which may well be an individual. The Council should also review its information sources used to identify related party transactions.

R6 Review the current status of benefits debtors greater than 3 years old. Where a repayment plan is not in place, or the debt is not being actively pursued, consideration should be given to their write off.

R7 Ensure that the implementation of a new asset register is progressed. Ensure that Internal Audit verify that the audited closing balances on the old asset register have been accurately transferred to the new asset register.

Financial statements

Significant matters that were discussed or subject to correspondence with management

New PFI Model and PFI asset valuation

The Council decided to adopt a new PFI accounting model for 2010/11 and onwards. I discussed the model with the Corporate Director – Resources and Transformation and am satisfied that it complies with the requirements of the Code. I have discussed the PFI asset valuation with the Council's in-house valuer and with finance staff. I have also taken my own advice from a professional valuer as to whether the valuation methodology and assumptions used are reasonable.

Legal issues raised with the auditor

I have received letters from local electors during the year raising various questions about financial transactions made by the Council in 2010/11. I have discussed these with the Chief Executive and the Corporate Director – Resources and Transformation. I have now received a formal objection to the 2010/11 accounts. I will therefore need to consider this objection but given the timescales involved I will be unable to issue the audit closure certificate by 30 September 2011.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements.

Value for money

I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources. I have undertaken additional work this year to consider those areas of my conclusion which have been qualified in previous years. I am satisfied that the Council now has proper arrangements in place in respect of strategic asset management and workforce planning.

Value for money criteria and our findings

Criterion	Findings
1. Financial resilience	
The organisation has proper arrangements in place to secure financial resilience. Focus for 2010/11: The organisation 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 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. The Council produced an updated Medium Term Financial Strategy in December 2010. This highlighted funding gaps as a result of the Government's Comprehensive Spending Review and how these were to be addressed. The Council has planned to make significant savings in 2011/12. It is also planning to use £2.85m from reserves to support the 2011/12 budget, the largest being £1.5m from the 'Choosing to Change' reserve which will be used to fund redundancies as part of the savings programme.

Criterion	Findings
	In 2010/11 the Council has continued to operate within budget underspending by £0.54 million as a result of vacancy management, savings in the revenues and benefits shared service and an overall reduction in recycling costs. General Fund and earmarked reserves at 31 March 2011 were £9.46 million (65% of budgeted net expenditure for 2011/12).
2. Securing economy efficiency and effectiveness **The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** Focus for 2010/11: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	The Council's transformation programme 'Choosing to Change' is designed to improve governance within the Council and to modernise how it does business. The Council has made good progress in implementing the various projects within this programme during 2010/11. The Council has undertaken a series of service reviews to challenge how and where it is spending its money and whether this can be done more efficiently. Although these reviews have been carried out internally, external challenge to the process has been provided by another district council to ensure it is rigorous. Shared services have been introduced in 2010/11. Despite early concerns about performance the revenues and benefits shared service is delivering annual financial savings. The internal audit shared service is not expected to deliver savings but should provide a more resilient service going forward.
3. Previous weaknesses in proper arrangements Focus for 2010/11: I issued an 'except for' VFM Conclusion in 2009/10 which highlighted weaknesses in the Council's arrangements for: ■ managing its assets effectively to help deliver strategic priorities and service needs; and ■ planning, organising and developing its workforce effectively to support the achievement of its strategic priorities.	In 2009/10 I reported my concerns about the Council's approach to strategic asset management. There was no Asset Management Plan (AMP) in place for the full year and little monitoring of how assets were performing. However, an updated AMP, approved in March 2011, now demonstrates a more corporate approach to asset management with clear linkages between corporate themes and asset development and maintenance and the development of a performance management framework. The annual report showing performance in 2010/11 against the new performance monitoring framework considers how assets are performing.

Criterion	Findings
	I also reported my concerns about workforce planning because of the lack of a clear plan to identify and address future skills gaps, and to address high and increasing sickness levels. The updated Workforce Strategy approved in March 2011 is clearer on current skills, skills development, recruitment needs and how these are going to be met e.g. interim appointments, apprenticeships. Sickness absence for 2010/11 was 10.86 days, a reduction of 4.19 days (28%) on the previous year and is lower than 2008/09 level. Although this level is still higher than the Council wants, it shows significant progress has been made during 2010/11. This has largely been through addressing cases of long term sickness absence. The Council has worked with another local authority to revise its sickness absence policies and procedures and to ensure they are consistently applied to staff.

Appendix 1 – Draft audit report

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

Opinion on the Authority accounting statements

I have audited the accounting statements of Copeland Borough Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting 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. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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.

Respective responsibilities of the Responsible Financial Officer and auditor

As explained more fully in the Statement of the Responsible Financial Officer's Responsibilities, the Responsible Financial Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's 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 accounting statements sufficient to give reasonable assurance that the accounting 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 Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Copeland Borough Council's affairs as at 31 March 2011 and of its income and expenditure 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.

Opinion on other matters

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

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's 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 review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself 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 me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, 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 me to consider under the Code of Audit Practice in satisfying myself 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 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I 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 my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am 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 ending 31 March 2011.

Delay in certification of completion of the audit

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by a local authority elector. I am satisfied that these matters do not have a material effect on the financial statements or a significant impact on my value for money conclusion.

Karen Murray
Officer of the Audit Commission
Audit Commission
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September 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Primary statements

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	**Nature of adjustment**	**Dr £**	**Cr £**	**Dr £**	**Cr £**
Material errors					
Balance sheet – Community assets Balance Sheet – Revaluation reserve	Heritage assets within Community assets were included with the balance sheet at insurance value. The Code requires Community assets to be value at historic cost.			1,315,000	1,315,000
Non trivial errors					
CIES – various service lines Balance sheet – Land and buildings	This relates to the removal of componentised depreciation which was not required for 2010/11 as the trigger for componentisation was revaluations at 31 March 2011.		677,000	677,000	

		Comprehensive income and expenditure statement		Balance sheet	
CIES – various service lines	This amendment is the result of the change to the revaluation of the PFI asset.		420,000		
Balance sheet – Land and buildings				420,000	
CIES – Central services	Impairment of surplus assets and assets held for sale should be charged against non distributed costs.		290,000		
CIES – Cultural, Planning and Environment			500,000		
CIES – Non distributed costs		790,000			
Balance sheet – surplus asset additions	A property (Lonsdale House) was shown as an operational land and buildings addition but it would not be used to deliver services. Therefore, should have been disclosed as a surplus asset addition.			290,000	
Balance sheet – land and buildings additions					290,000
CIES – Cultural, Planning and Environment	The Crematorium was re-valued upwards by £330,000 on 31 March 2011. However, expenditure on it of £182,000 during 2010/11 was simply charged as an impairment loss rather than being added to the carrying value.		182,000		
CIES – (Surplus)/Deficit on revaluation of non current assets		182,000			
Balance Sheet – Revaluation Reserve				182,000	
Balance Sheet – CAA					182,000

		Comprehensive income and expenditure statement		Balance sheet	
CIES – Cultural, Environmental Planning and Regulatory income	The accounts include income and expenditure relating to the Copeland Community Fund which is a separate entity. There is also a creditor in the accounts. These transactions do not relate to the Council and should be removed from the accounts.	98,000			
CIES – Cultural, Environmental, Planning and Regulatory expenditure			98,000		
Balance Sheet - Creditors – other entities				49,000	
Balance Sheet – cash and cash equivalents.					49,000
Comparative information					
Balance sheet – PPE – 1 April 2009	Two assets were reclassified from Investment Properties to PPE at 1 April 2009 due to the IFRS restatement. These assets were re-valued to ensure the correct valuation basis with one asset increasing by £26,000 and the other asset decreasing by £117,000. The Council has incorrectly these changes as occurring in 2009/10 and not at 1 April 2009.			26,000	117,000
Balance sheet – Revaluation reserve at 1 April 2009					26,000
Balance sheet – CAA at 1 April 2009				117,000	
CIES – Cultural, Environmental and planning services 2009/10			117,000		
Balance sheet – PPE – 31 March 2010				117,000	26,000
Balance sheet – Revaluation reserve at 31 March 2010				26,000	

		Comprehensive income and expenditure statement	Balance sheet
CIES - Financing and investment income and expenditure - Gross expenditure	Gross Income and expenditure relating to trading operations had not been included within the 2009/10 comparators.	506,000	
CIES - Financing and investment income and expenditure - Gross income		506,000	

		Cashflow statement
Adjusted misstatement	**Nature of adjustment**	**£**
Adjustments to net surplus or deficit on the provision of services for non cash movements	Adjustments for NNDR debtors (£122,000) and Council Tax debtors (£235,000) removed as should be shown in financing activities. The carrying value of non current assets of £140,000 relating to the boatyard removed as should be shown in the next line.	(218,000)
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	This adjustment includes the £140,000 in respect of the boatyard loan and a further £23,000 relating to fixed asset sales.	163,000
Investing activities	This should have included £419,000 of capital grants and £257,000 of VAT sharing receipts originally shown in financing activities. A further £16,000 of short term debtors also needed included.	(693,000)
Financing Activities	The £419,000 of capital grants and £257,000 of VAT sharing receipts have been removed. The £357,000 relating to NNDR and Council Tax debtors has been added in plus £13,000 relating to the PFI liability movement.	312,000

		Collection Fund	
Adjusted misstatement	**Nature of adjustment**	**Dr £**	**Cr £**
Income - Non domestic rates Expenditure - Non domestic rates - payments to the national pool	The likelihood of a collecting a debt of £333,000 has reduced. However, this had not been appropriately reflected within the bad debt provision.	199,000	199,000

Notes to the accounts and other disclosure issues

Issue	Findings and outcomes
Comprehensive Income and Expenditure (CIES) related notes	
Note 15 on grant income credited to services (other grants) wrongly excluded disabled facilities grants and included single pot grant in error.	Note 15 updated to include disabled facilities grants (£332,000) and exclude single pot grant (£554,000) from other grants credited to services. Figures also updated for 2009/10 comparators (£825,000).
Segmental analysis	
The segmental analysis (note 17) was not in accordance with the requirements of the Code.	The original note 17 was reconciled back directly to the cost of service line in the CIES as a starting point. However, the reconciliation it meant to start with what was reported to management / members during the year and then show how this reconciles back to the CIES. A revised segmental analysis note has been produced.
Balance sheet related notes	
Note 21 on Property, Plant and Equipment (PPE) contained a number of errors. These arose due to mis-interpretation of the Code. These included incorrectly classifying the majority of revaluations losses as impairment losses and revaluing heritage assets within Community assets at insurance cost rather than showing them at historic value.	Note 21 on PPE updated to address the various errors identified: ■ Revaluation of £1,315,000 removed from Community assets; ■ Impairment losses for land and buildings of £4,783,000 charged against the CIES now shown as revaluation decreases charged against the CIES; ■ Impairment losses for land and buildings of £55,000 charged against the revaluation reserve now shown as revaluation decreases recognised in the revaluation reserve; ■ Impairment loss of £182,000 in respect of the crematorium removed as this related to enhancements in year not reflected in updated carrying value before revaluation; ■ Componentised depreciation charge for 2010/11 of £677,000 for land and buildings removed as concerns over componentisation methodology used and main reason for componentisation was revaluations but these only occurred at 31 March 2011; ■ Amended revaluation of the PFI asset resulted in an increase it its value by £420,000 and a reduction in the revaluation loss charged to the CIES; ■ Purchase of Lonsdale House for £290,000 shown incorrectly as an addition to operational

Issue	Findings and outcomes
	land and buildings but would not be used in the delivery of services. Updated to show as a surplus asset addition; ■ Depreciation charged in year increased by £13,000 and amount written out increased by the same amount as these did not agree to the Council's asset register.
The classification of debtors in Note 26 was incorrect.	Note 26 updated to correct errors in the classification of Council tax debtor of £110,000.
The classification of Creditors in Note 30 was incorrect.	Note 30 updated to correct errors in the classification of receipts in advance of £481,000 and Council tax creditor of 78,000.
Impairment losses Note 24 on impairments referred to £6,300,000 of impairment losses but much of this was shown to be revaluation losses.	Note 24 amended to show that impairment losses in 2010/11 were only £858,000.
Capital Financing Requirement (CFR) Note 25 - The opening and closing CFR do not reconcile back to the Council's balance sheet.	The Council has made a number of adjustments to its opening and closing CFR which has resulted in it no longer reconciling to the Council's opening and closing balance sheets for 2010/11. The Council's opening CFR should be £9,237,000 and closing CFR should be £8,812,000.
Leases Note 35 on leases did not disclose contingent rents separately from future minimum lease payments.	Note 35 updated to show minimum lease payments and contingent rents.
Financial instruments Note 36 reconciles the balance sheet Creditors to the amounts disclosed in the financial instruments note. However, further disclosure required to show all the relevant figures in the reconciliation.	The reconciliation in Note 36 updated to show Creditors of £2,284,000 in the financial instrument note being made up of: ■ Creditors - financial liabilities at amortised cost being £1,895,000; ■ PFI and Finance lease liabilities being £389,000.

Issue	Findings and outcomes
Estimated impact of changes in interest rate wrongly calculated.	Note 37 updated to show that if interest rates fell by 1% then investment income would increase by £225,000 not £180,000. Also if interest rates increased by 1% then investment income would increase by £274,000 not the £504,000 previously disclosed.
Cashflow statement Note 40 on investing activities and note 41 on financing activities required amendment as cashflow statement amended. Note 42 reconciles net deficit to net cashflows from operating activities.	Notes 40 and 41 amended to reflect the changes made to the main cashflow statement for issues such as capital grants, VAT sharing receipts and NNDR and Council Tax debtors. A number of amendments were required: ■ Depreciation wrongly included impairment and downward revaluations; ■ Impairments and downward revaluations did not include all relevant amounts; ■ Movement in other provisions should have been disclosed separately from the movement in the bad debt provision; ■ Movement in debtors and creditors amended to reflect changes to NNDR and Council Tax; ■ Carrying amounts of non current assets sold to be included; ■ Proceeds from sales of PPE, investment property and intangible assets sold.
Other Minor amendments and inconsistencies within the accounts	A number of minor amendments were made to the accounts to correct inconsistencies between notes and the primary statements, errors in terminology, page referencing and Code disclosure requirements.
Comparative information	
Balance sheet related notes Note 21 on Property, Plant and Equipment (PPE) contained errors. This was a result of incorrectly classifying the majority of revaluations losses as impairment losses and making an entry on the wrong line.	Note 21 on PPE updated to address the various errors identified: ■ Impairment losses for land and buildings of £631,000 charged against the revaluation reserve now shown as revaluation decreases recognised in the revaluation reserve; ■ Impairment losses for surplus assets of £237,000 charged against the revaluation reserve now shown as revaluation decreases recognised in the revaluation reserve;

Issue	Findings and outcomes
	■ Impairment losses for land and buildings of £1,137,000 recognised in the surplus / deficit on the provision of services now shown as depreciation written out to the surplus / deficit on the provision of services.

Appendix 3 – Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	**Nature of required adjustment**	**Dr £s**	**Cr £s**	**Dr £s**	**Cr £s**
Investment properties	Three property leases, where the Council acts as lessor, should be accounted for as a finance leases. This would remove the assets from the Council's balance sheet.				196,500
Property, Plant and Equipment	Vehicles leases treated as operating leases but should be finance leases and brought onto the balance sheet.			115,000	

Appendix 4 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

Appendix 5 – Action Plan

Recommendations	
Recommendation 1	
Establish systems to monitor actual lifecycle expenditure on the PFI asset and the timing of spend to enable accurate financial reporting. If works do not meet the definition of capital expenditure, they should not be capitalised.	
Responsibility	Contracts & Property Manager / Financial Services Manager
Priority	High
Date	31 December 2011
Comments	This may require information to be requested from the operator. The Council will check the contract to establish the requirement for the operator to submit annual maintenance plans giving details of the works to be carried out. This will be a starting point for the Council to work out the level of replacement and enhancement works. If works do not meet the definition of capital expenditure, they should not be capitalised.

Recommendation 2

Finance staff should use local, regional and national contacts as a sounding board on some of the more complex accounting issues. This will help build capacity and knowledge within Finance and may have helped minimise errors in the accounts.

Responsibility	Financial Services Manager
Priority	High
Date	by 31 March 2012
Comments	Attendance at the Cumbria Wide Accountancy Group will be improved. Also CIPFA network events to be attended where appropriate, with negotiations on some specific Cumbria wide events to be progressed to limit the travelling requirements. Under the new financial services structure, a full Training Needs Analysis will be carried out for all finance staff. Specific training will be provided for specialist areas such as PFI, Leasing and Asset accounting.

Recommendation 3

Review the approach used to componentisation and ensure that the valuer provides an assessment of the useful economic life of the individual components for each asset that has to be componentised.

Responsibility	Contracts and Property Manager / Financial Services Manager
Priority	High
Date	31 December 2011
Comments	Principles and systems to be agreed by end of December to enable information to be provided to the timescales agreed as part of the annual Statement of Accounts closedown timetable.

Recommendation 4	
Improve the understanding of and application of the Code requirements within the Council's Finance department.	
Responsibility	Financial Services Manager
Priority	High
Date	By 31 March 2012
Comments	Further training will be provided as appropriate.

Recommendation 5	
Review the de minimis level set for disclosing related party disclosures and set it at a level that would be considered material from the viewpoint of both the Council and a related party, which may well be an individual. The Council should also review its information sources used to identify related party transactions.	
Responsibility	Financial Services Manager
Priority	Medium
Date	31 March 2012
Comments	Input needed from all Council departments where there is an involvement with external organisations.

Recommendation 6	
Review the current status of benefits debtors greater than 3 years old. Where a repayment plan is not in place, or the debt is not being actively pursued, consideration should be given to their write off.	
Responsibility	Head of Corporate Resources
Priority	Medium
Date	By 31 March 2012
Comments	Impact on the level of bad debts provision to be considered as part of the budget process. Input will be required from all Departments.

Recommendation 7	
Ensure that the implementation of a new asset register is progressed. Ensure that Internal Audit verify that the audited closing balances on the old asset register have been accurately transferred to the new asset register.	
Responsibility	Head of Corporate Resources
Priority	Medium
Date	31 March 2012
Comments	Date by which a clear plan will be in place for the 2011/12 accounts, and a view taken on the longer term solution. Considered previously using existing Consilium software but not progressed due to resource implications and uncertainty as to the suitability of this software to deliver all the requirements of the Council from both Property Services/Finance perspectives. Further analysis of needs will be undertaken during the year to ensure systems provide the necessary information to enable the Accounts to be prepared efficiently, and provide transparent working papers for the audit process.

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

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September 2011