

# **Report on the 2004/05 financial statements to the Council**

**Copeland Borough Council**

**Audit 2005-20065**

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Document Control	
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## Introduction

- 1 Professional auditing standards require auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance':
  - expected modifications to the audit report;
  - unadjusted non-trifling misstatements;
  - material weaknesses in accounting and internal control systems;
  - qualitative aspects of accounting practice and financial reporting;
  - matters required by other auditing standards to be reported to those charged with governance; and
  - other matters that we wish to draw to your attention.
- 2 We have agreed with the Council that the communications required under these auditing standards would be with the full Council. This report sets out for the Council's consideration the matters arising from the audit of the financial statements for 2004/05.

## Status of the audit

- 3 Our work on the financial statements is now substantially complete. We anticipate being able to issue an unqualified opinion by 31 October 2005 (a draft report is attached at Appendix 1).

## Matters to be reported to those charged with governance

- 4 We have the following matters to draw to the Council's attention.

### The audit report (opinion on accounts)

- 5 Our work on the financial statements is now substantially complete. We anticipate being able to issue an unqualified opinion by 31 October 2005, although we reserve the right to alter this view if information should come to light concerning the information contained in the financial statements before this opinion is given (a draft report is attached at Appendix 1).

### Material Adjustments

- I am required to consider reporting adjusted misstatements to you where these are material and are relevant to your governance responsibilities. We draw your attention to the following two material misstatements that management has adjusted:

### Discontinued operations

- Due to the transfer of housing stock to Copeland Homes in June 2004, Copeland Borough Council has ceased to operate in what was a material area of its operation, i.e. housing. Accounting practice requires that when this happens the accounts should identify separately the income, expenditure and cash flows associated with this discontinued area of operation.
- As a result adjustments were required to:
  - Insert a separate line in the Consolidated Revenue Account (headed discontinued operations) showing gross expenditure of £2,748,000, and gross income of £2,731,000.
  - include additional information in the Cash Flow statement to reflect transactions related to the discontinued operations, being:
    - Sale of small items of plant £100,000
    - Contribution towards the cost of early repayment of debt £4,300,000
    - Contribution towards the additional costs incurred by the Council £1,200,000
    - Initial payment in respect of a VAT sharing agreement £1,400,000
- I draw these adjustments to your attention, as the purpose of these suggested treatments is to allow users of the accounts to have a fuller understanding of the transactions related to discontinued activities and the effect they have on the accounting statements.

### **PFI lease costs**

- The Council have entered into a long term arrangement under a Private Finance Initiative (PFI) in relation to the provision of its. This is an operating lease agreement that lasts 25 years. The accounting requirement for this type of lease requires disclosure in a note to the accounts. Although there was disclosure indicating a PFI arrangement had been entered into, there was no disclosure of the financial commitment this represented as required by accounting standards.
- The amendment needed was to include a figure of £1,169,400 in the lease note to the accounts. This enables a user of the accounts to clearly see a contractual liability note in the accounts that will last 25 years.

### **Other significant adjustments agreed**

I am required to consider reporting adjusted misstatements to you where these are relevant to your governance responsibilities. We draw your attention to the significant adjustment agreed with management.

### **Intangible fixed assets**

- The gross value of these assets in the pre-audited accounts was £1,521,136, and included expenditure related to consultancy and software programme purchase. Our audit identified that £761,936, mainly on consultancy and supports costs for the implementation of the new revenue and benefits system, did not comply fully with local government accounting requirements. We accept that there has been a change introduced for 2004/2005 which may have contributed to the errors going undetected by the internal quality checks completed prior to audit. This error led to the following adjustment:
  - £761,936 charged as expenditure in the Consolidated Revenue Account (CRA)
  - £761,936 released from earmarked reserves to be set against this expenditure in the CRA
- This adjustment does not impact on the net expenditure position in the CRA and general fund reserve on the Balance Sheet remain as originally reported.

## **Unadjusted errors**

- Our audit identified the following non-trifling misstatements ( adjustments that are not sufficient to mislead the user of the accounts, but may be of interest to those charged with governance, in the case of Copeland Borough Council this is the members) in the financial statements that management has decided not to adjust:
  - £117,300 of consultancy costs in relation to IT advice that related to February and March 2005 was not included as expenditure in the 2004/2005 financial year. This will be included in the 2005/2006 accounts, although the correct treatment under accounting regulations would be to treat this as expenditure in 2004/2005.

## **Material weaknesses in accounting and internal control systems**

- Our audit identified some weaknesses in systems of accounting and financial control. These weaknesses have been noted in our Interim Report to the council.

## **Qualitative aspects of accounting practices and financial reporting**

Our audit includes consideration of the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements.

- I have no issues to report under this heading.

## **Matters required by other auditing standards to be reported to those charged with governance**

Other auditing standards require us to communicate with you in other specific circumstances including where we suspect or detect fraud, in respect of the Board's conclusion that the Council is a going concern and where there is an inconsistency between the financial statements and other information in documents containing the financial statements.

I have no issues to report under this heading.

## **Other matters that we wish to draw to your attention**

We wish to report the following matters to you:

### **Quality of working papers and accounts presented for audit.**

- The deadline for preparing and signing off accounts is getting shorter. The 2004/2005 deadline (31 October 2005) was a month earlier than last year, and 2005/2006 will be a month earlier than the current year. This increases the requirement for working papers and accounts presented to be as complete and free from error as possible. Although there were many aspects of the working papers that demonstrated good practice, there were also instances where this pressure had impinged on the time left for an internal quality review of working papers and financial statements before they were submitted for audit.
- In prior years this was of less concern as we have enjoyed a good working relationship and council staff have responded positively to any request for clarification and where necessary have drafted additional working papers. This good working relationship has not changed, but the time constraints have. If the council is to meet the tighter deadline requirements there need to be changes in the approach and content of working papers supplied at the start of the audit to support the financial statements. I have agreed to work with the finance department to clarify how further improvements can be made to the accounts closedown and adoption process.

## **Next steps**

- 6 We are drawing these matters to the Council's attention so that you can consider them before the financial statements are approved and certified.
- 7 In particular, this provides the Council with the opportunity to amend the financial statements for the unadjusted misstatements. Should you choose not to amend the financial statements I am required by SAS 610 to request from you a letter of representation explaining why you are not adjusting the financial statements. We ask that the letter specifically details the mis-statements, either in the body of the letter or in a document appended to it.



## **Appendix 1– Independent Auditor's Report to Copeland Borough Council**

I have audited the statement of accounts on pages A to F which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages X to Y.

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 Financial Officer and Auditor**

As described on page x the Chief Financial Officer is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2004. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my/our profession's ethical guidance.

I report to you my opinion as to whether the statement of accounts present fairly the financial position of the Council and its income and expenditure for the year.

I review whether the statement on internal control on page x reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 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/our audit of the financial statements. I am not required to consider whether the statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures. My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

**Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards 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 judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council'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 statement of accounts is free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion, I evaluated the overall adequacy of the presentation of the information in the financial statements.

**Opinion**

In my opinion the statement of accounts presents fairly the financial position of Copeland Borough Council as at 31 March 2005 and its income and expenditure for the year then ended.

**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.

Signature:.....

Date:.....

Name:.....

Address:.....