

# Annual governance report

Copeland Borough Council

Audit 2011/12



# Contents

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Key messages .....	3
Before I give my opinion and conclusion .....	4
Financial statements .....	5
Value for money .....	12
Fees .....	15
Appendix 1 – Draft independent auditor’s report .....	16
Appendix 2 – Corrected errors .....	20
Appendix 3 – Uncorrected errors .....	25
Appendix 4 – Draft letter of management representation .....	26
Appendix 5 – Glossary .....	30
Appendix 6 – Action plan .....	33

# Key messages

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**This report summarises the findings from the 2011/12 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.**

## Financial statements

As at 4 September 2012 I expect to issue an unqualified audit opinion.

The accounts were produced and submitted for audit on time. This was a challenge for the Council as it had to deal with a number of adjustments relating to issues identified from its detailed work on its asset register and historic cost records, including a prior period adjustment.

The key issues from my work on the Council's 2011/12 accounts are:

- one material error in the accounts relating to the incorrect treatment of NNDR and Council tax in the cashflow statement;
- accounting for non current assets remains a challenge; and
- a number of audit adjustments were required to the primary statements and notes to ensure compliance with the Code.

## Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. In addition to my work on the two criteria this year I have also had to undertake additional work on the Council's risk management arrangements to see if it has proper arrangements in place. I am satisfied that the basic arrangements were in place for risk management during 2011/12 although these need updating and compliance with them strengthened.

## Certificate

I expect to complete the outstanding work and report my findings to management by 20 September 2012. I plan to issue my certificate by 25 September 2012.

# Before I give my opinion and conclusion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit 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 am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

## **I ask the Audit and Governance Committee to:**

- take note of the adjustments to the financial statements included in this report (appendices 2 and 3);
- approve the letter of representation (appendix 4), on behalf of the Authority before I issue my opinion and conclusion;
- agree your response to the proposed action plan (appendix 6); and
- agree the additional fee of £3,550 to cover additional work on the prior period adjustment (PPA) to correct the treatment of accumulated depreciation on assets re-valued in 2010/11 and obtaining sufficient evidence whether risk management arrangement met proper practices and any impact on my VFM Conclusion.

# Financial statements

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**The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected 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.**

## **Opinion on the financial statements**

Subject to satisfactory clearance of 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 audit report.

## **Corrected errors**

Appendix 2 summarises the one material and several other 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 summarised at Appendix 2.

## **Uncorrected errors**

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

## **Significant risks and my findings**

I reported to you in my January 2012 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In table 1 I report to you my findings against each of these risks.

Table 1: Risks and findings

Risk	Finding
<p>The 2011/12 Code adopted the requirements of FRS 30 Heritage Assets. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities held and maintained principally for its contribution to knowledge and culture. For the Council this included your assets and artefacts at the Beacon as well as other items. There risk was the Council would be unable to identify and account for all heritage assets due to the volume of assets and artefacts and the complexity of the valuations.</p>	<p>I evaluated the management controls you had in place to recognise and value heritage assets. My testing confirmed the Council has accounted for heritage assets in accordance with FRS 30 and the Code and the financial statements are materially correct.</p> <p>Heritage asset values in the balance sheet are based on a valuation undertaken in 2009. The only update to this has been for civic regalia in 2011/12. The Code allows for heritage assets to be valued using expert valuations or insurance values. The Council's heritage assets (excluding the Civic Regalia) are insured at £55,000 higher than the value of heritage assets in the balance sheet. If the Council continues to use expert valuations as the basis for its heritage asset values in its 2012/13 these are likely to be four years old by 31 March 2013 and should be updated to ensure that they remain current. Alternatively, the Council could switch to using insurance values.</p>
<p>The Council continues to rely on two experienced interim appointments to fill key senior positions within the finance team. The finance function was re-structured on 1 October 2011 but the Council has been unable to recruit a permanent Financial Services Manager despite trying several times to do so. There risk was insufficient experienced staff being in place to produce the 2011/12 accounts.</p>	<p>In October 2011 the finance department was re-structured with both of the accountants now in post becoming full time. This has helped with continuity and response times in dealing with audit queries.</p> <p>The Corporate Director - Resources and Transformation left in June 2012 and the Head of Corporate Resources took on the s.151 officer responsibilities. To help maintain continuity and resilience within the finance department one of the experienced interim appointments has been made permanent for two years on 3 days a week. Additional support has also been provided by external consultants on the prior period adjustment. As a result, the Council was able to prepare its accounts by the 30 June deadline.</p> <p>This year there was evidence of finance staff using local contacts and networks to assist with some of the more complex accounting issues. This is something that should be built on and expanded as a way of helping build capacity within the finance department.</p>

## Risk

In 2009/10 the Council bought a new asset register system to replace its spreadsheet system. However, problems in both 2009/10 and 2010/11 delayed implementation of the new system. The current spreadsheet system needed improved. After the re-structure on 1 October 2011 responsibility for maintaining the asset register changed. There risk was the asset register would not be fit for purpose to produce the 2011/12 accounts.

## Finding

The Accountant – Financial Reporting and Technical has undertaken a significant amount of work on the Council's spreadsheet based asset register in 2011/12. This has been a time consuming exercise and has identified a number of issues including a material error in the 2010/11 accounts relating to the incorrect treatment of accumulated depreciation on assets re-valued in 2010/11. This work has provided a more robust basis for generating the required accounting entries for the 2011/12 accounts.

The Council is planning to have a new software based asset register in place for 2012/13. The implementation of the new asset register is likely to have resource implications and the Council will need to ensure that this project is well planned, resourced and that Internal Audit are involved in providing assurance that the data has been transferred accurately. This will also provide the Council with the opportunity to undertake further checks on the quality of its historic cost records.

## Recommendations

- R1** Update expert valuations for heritage asset or consider switching to using insurance values for the Council's 2012/13 accounts.
- R2** Ensure the implementation of the new asset register is well planned and resourced and that Internal Audit is used to provide assurance that the data has been transferred accurately.
- R3** Continue the work on improving historic costs records as part of the implementation of the new asset register.

## Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA / SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have not identified any significant weaknesses in internal control that are relevant to preparing the financial statements.

## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

These are the issues I want to raise with you.

Table 2: **Other matters**

Issue	Finding
Componentisation	<p>In last year's Annual Governance Report I asked the Council to review its approach to componentisation and ensure the valuer provided an assessment of the useful economic life of the individual components. The Council has responded by updating its approach to identifying components and I am satisfied that this is now comprehensive. However, my work on asset lives of components has identified the following issues for 2011/12 and subsequent years.</p> <p><b>Impacting on 2011/12:</b></p> <ul style="list-style-type: none"><li>■ Failure to charge depreciation on the sub-structure in 2011/12 for the Civic Hall (£220,848) or Beacon Centre (£38,673).</li><li>■ Inconsistencies between asset lives assessed by the Valuer at 31 March 2011 for overall buildings and that used in componentised depreciation of substructure. These included:<ul style="list-style-type: none"><li>– Civic Hall sub-structure had life of 20 years per valuation certificate but 6 years shown in asset register – noted that no impact on draft 2011/12 accounts as depreciation not charged as shown above; and</li><li>– Distington crematorium sub-structure asset life shown as 13 years per the valuation certificate but 12 years in the asset register. The 12 years has been used to calculate depreciation meaning depreciation overcharged by £1,979.</li></ul></li></ul>



Issue	Finding
	<ul style="list-style-type: none"> <li>■ The Civic Hall has £3,185,772 (62%) of its value of £5,140,000 in components which have been given a six-year life. The issue here is whether the component's useful economic life will have expired in six years and what plans the Council has in place to replace this component. If replacement is to be longer then this needs to be considered as part of the component's asset life assessment. This is a clear demonstration of International Financial Reporting Standards (IFRS) making the link between the financial statements and the Council's asset management planning.</li> </ul> <p><b>Impacting on 2012/13 and beyond:</b></p> <ul style="list-style-type: none"> <li>■ Flatt Walks sports centre was re-valued at 31 March 2012 with componentisation for the finishes being £1.79 million (53% of the asset's value) with only three years life remaining. This has no impact on 2011/12 but from 2012/13 the depreciation charge for this item alone will be £0.6 million. This is the same issue as for the Civic Hall above.</li> </ul>
Depreciation of vehicles and plant	<p>The Council's accounting policies require depreciation of vehicles and plant to be on a straight line basis, based on estimated useful life i.e. at acquisition. My work in 2011/12 has identified some inconsistencies in the application of the depreciation policy. Where the useful life of an asset has had a changed, the depreciation has not been adjusted to 'catch up' or 'release' for any under or over charging of depreciation. Therefore, some assets will be carried forward with understated or overstated accumulated depreciation balances. This only affects some vehicles and plant assets and the affect is not material. As part of the move to a new asset register the Council needs to review asset lives and depreciation charges for vehicles and plant to ensure they are being depreciated based on the initial expected life for the asset. Where asset lives have been amended the Council needs to assess the impact on depreciation charge of this change.</p>
Valuation report	<p>The Council's non current assets have been valued by an external Valuer, Dixon Webb. Their summary schedule was used as the basis of the revaluations in the accounts. However, my testing identified three differences between the summary schedules and the detailed valuation listing. These related to Copeland swimming pool, Lowes Court Gallery and Market Hall, market place. Updated summary schedule and detailed valuations were provided. Although there was no impact on the figures in the accounts there could have been and the error would have been compounded each year until re-valued again. There is a need for the Council to quality check, and where considered necessary, challenge information supplied by experts on which it is to rely on for entries in its accounts.</p>

Issue	Finding
Related party transactions	<p>There were several weaknesses in the Council's approach to identifying and disclosing related party transactions (RPTs). These included:</p> <ul style="list-style-type: none"> <li>■ members were required to declare RPTs by 2 April 2012. To comply with this 36 members (70%) completed forms in March 2012 but this meant they didn't cover the whole year;</li> <li>■ 16 members were not re-elected in May 2011 but no consideration given to any RPTs relating to them in 2011/12; and</li> <li>■ disclosure of a large list of grants in respect of Copeland Community Fund rather than just limiting this to the £130,000 funding the Council received.</li> </ul>
Agreed exit packages and termination benefits notes.	<p>The notes on agreed exit packages (note 17) and termination benefits (note 34) are completed on different basis because the point at which costs are recognised is different. Exit packages are disclosed based on what has been agreed in relation to individual employees. Termination benefits are recognised in the financial statements when the Council is demonstrably committed to making these payments in relation to the workforce in general. The two notes were completed by two different members of staff and no reconciliation performed between the two to ensure all relevant information was included and disclosed in the correct note. My work identified the Council failed to accrue for one officer who was made redundant. Minor amendments were made to the values disclosed in both notes.</p>
Segmental reporting	<p>Note 16 on the Amounts reported for resources allocation decision was based on an extraction of month 14 figures from the ledger where overheads and recharges had been included. However this is a different basis to the in-year quarterly reporting to Members. Therefore, I was unable to link the starting point in this note to the 2011/12 revenue outturn report considered by Members. Need to ensure the note on 'Amounts reported for resource allocation decisions' clearly links back to in-year financial reporting so as to comply with the Code requirements.</p>
Contingent liabilities – Municipal Mutual Insurance Ltd (MMI).	<p>Note 33 disclosed MMI as a contingent liability. MMI was the Council's insurers but is currently being wound up and there is a risk it may not be able to meet the cost of all of outstanding claims. It is clear from MMI's latest accounts (year ending 30 June 2011) that it will need to clawback a percentage of the value of claims settled on behalf of authorities since 1993. The position should become clear in 2012/13 and the Authority will need to re-assess whether a provision is required as part of the production of its 2012/13 accounts.</p>

## Recommendations

- R4** Ensure depreciation is charged on all components of an asset including the sub-structure.
  - R5** Ensure that there is dialogue between the Valuer, the staff responsible for componentisation assessment of asset lives and finance so that the asset lives used for depreciation of componentised assets is consistent.
  - R6** Consider the impact of assessed components useful economic lives and what plans the Council has in place to replace these components. If replacement is to be longer then consider re-assessing the component asset life assessments.
  - R7** Review asset lives and depreciation charges for vehicles and plant to ensure they are being depreciated based on the initial expected life for the asset. Where asset lives have been amended the Council needs to assess the impact on depreciation charges of this change.
  - R8** Ensure information supplied by experts, and on which the Council is to rely on for entries in its accounts, is quality checked and where considered necessary challenged.
  - R9** Improve the Council's arrangements for identifying and disclosing related party transactions (RPTs). These arrangements should ensure disclosures cover the whole year, all relevant members and officers and only those RPTs in respect of Copeland Borough Council.
  - R10** Reconcile the agreed exit packages note and the termination benefits note to ensure all relevant information included and disclosed in the correct note.
  - R11** Ensure the note on 'Amounts reported for resource allocation decisions' clearly links back to in-year financial reporting.
  - R12** Ensure the Council re-assess whether a provision is required for Municipal Mutual Insurance Ltd (MMI) as part of the production of its 2012/13 accounts.
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## Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. As at 4 September 2012 I have not completed the procedures specified by the National Audit Office. I expect to complete my report by 25 September 2012.

## Objection to the 2010/11 accounts

On 7 June 2012 Karen Murray (District Auditor) determined the objection she received in respect of the 2010/11 accounts. She issued a report on her findings which was considered by the Audit Committee at its meeting on 20 June 2012. She closed the 2010/11 audit on 4 August 2012.

# Value for money

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

I assess your arrangements against the two criteria specified by the Commission. In my January 2012 Audit Plan I reported to you the significant risk that was relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing the risk I identified. In addition to my work on the two criteria this year I have also had to undertaken additional work on the Council's risk management arrangements to see if it has proper arrangements in place. I am satisfied that the basic arrangements were in place for risk management during 2011/12 although arrangements need updated and compliance with them strengthened.

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in appendix 1.

Table 3: **Value for money conclusion criteria and my findings**

Criteria	Risk	Findings
<p><b>1. Financial resilience</b></p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>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.</p>	<p>The Council's proposals for cost reduction would not progress as quickly as forecast and savings were not made reducing the Council's financial resilience.</p>	<p>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.</p> <p>The Council produced an updated Medium Term Financial Strategy in December 2011. This highlighted a funding gap of £4.5 million between 2011/12 and 2014/15. The Council has planned to make significant savings in 2012/13 of £1.8 million. It is also planning to use £0.66 million from reserves to support the 2012/13 budget.</p>

Criteria	Risk	Findings
		<p>In 2011/12 the Council has continued to operate within budget underspending by £1.57 million as a result of staff cost savings, additional income and reduced running costs. General Fund and earmarked reserves at 31 March 2012 were £9.08 million (82% of budgeted net expenditure for 2012/13).</p>
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>No significant risks identified.</p>	<p>The Council's well established transformation programme 'Choosing to Change' is designed to improve governance within the Council and to modernise how it does business. The Council has continued to made good progress in implementing the various projects within this programme during 2011/12. 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. It has reviewed service management and independent reviews of waste, parks and open spaces and IT services have been carried out by another council providing additional challenge. The Council now uses Cumbria County Council for procurement services to maximise access to economies of scale. The internal audit shared service is now fully operational and provide a more resilient service going forward.</p>

Criteria	Risk	Findings
<p><b>3. Weaknesses in risk management arrangements</b></p> <p>Focus for 2011/12:</p> <p>Weaknesses identified in the Council's risk management arrangements during 2011/12.</p>	<p>The Council's risk management arrangements in 2011/12 did not meet 'Proper practices'.</p>	<p>In April 2012 Internal Audit reported weaknesses in the Council's risk management arrangements for 2011/12. My review of the Council arrangements against proper practices has shown a risk management strategy is in place, risks are being managed and reviewed and that officers have an understanding of risk management arrangements. However, I agree with Internal Audit that the risk management strategy should be updated to reflect changes in Council new structures and responsibilities. Strategic risk register should be considered more frequently and refresher risk management training should be provided. By mid September 2012 progress was being made on updating the risk management strategy and the strategic risk register, and providing staff and member training on risk management.</p>

### Recommendation

**R13** Update the risk management strategy to reflect changes in Council new structures and responsibilities. Consider the strategic risk register more frequently and provide refresher risk management training for officers and members.

# Fees

## I reported my planned audit fee in the January 2012 Audit Plan.

I have agreed with the Head of Corporate Resources a revision to the fee because of the matters highlighted in this report. I have carried out additional work on the prior period adjustment (PPA) to correct the treatment of accumulated depreciation on assets re-valued in 2010/11. I have also undertaken additional work on the VFM Conclusion to consider whether risk management arrangement met proper practices. Both issues arose after the fee was agreed.

Table 4: **Fees**

	Original scale fee (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	117,760	117,760	121,310
Claims and returns		33,145	33,145
Non-audit work		0	0
<b>Total</b>		<b>150,905</b>	<b>154,455</b>

The Audit Commission has paid a rebate of £9,421 to reflect attaining internal efficiency savings, reducing the net amount payable for the audit fee to the Audit Commission to £108,339, prior to agreement of the additional fee.

# Appendix 1 – Draft independent auditor’s report

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## INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF COPELAND BOROUGH COUNCIL

### Opinion on the Authority financial statements

I have audited the financial statements of Copeland Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 Chief Financial Officer and Auditor

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



## **Scope of the audit of the financial statements**

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

## **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Copeland Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

## **Opinion on other matters**

In my opinion, the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which I report by exception**

I report to you if:

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

I have nothing to report in these respects.

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

### **Respective responsibilities of the Authority and the auditor**

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

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.

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

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 2011, 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 2012.

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 2011, 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 ended 31 March 2012.

## Certificate

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

Jackie Bellard  
District Auditor  
Audit Commission  
2nd Floor Aspinall House  
Aspinall Close  
Middlebrook  
Bolton  
BL6 6QQ

September 2012

# Appendix 2 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

		Cash Flow statement	
Item of account	Nature of error	Dr £'000s	Cr £'000s
Cash Flow statement – Adjustment to net surplus or deficit on the provision of services for non cash movements	The Code requires authorities to show the difference between the cash collected from NNDR taxpayers and the amount paid to the pool as an increase or decrease in 'other financing activities'. The difference between the share of cash received from Council tax payers attributable to major preceptors and the amounts paid to major preceptors should also be shown as an increase or decrease in other financing activities. Both of these had been incorrectly included in the adjustment to net surplus or deficit on the provision of services for non cash movements rather than in other financing activities. This has no impact on the General Fund balance.	2,144	
Cash Flow statement – Financing activities			2,144
Cash Flow statement – Financing activities	Cash inflows from VAT sharing receipts were incorrectly shown as financing rather than investing activities.	133	
Cash Flow statement – Investing activities			133

		Comprehensive income and expenditure statement	
Item of account	Nature of error	Dr £'000s	Cr £'000s
CIES – Taxation and non specific grant income	Disabled Facilities Grant £368,000 was incorrectly included in Taxation and Non Specific Grant Income in the CIES. This grant should be treated as a revenue grant and credited to services.	368	
CIES – Service income			368
CIES 2010/11 – Concessionary Fares (Income)	Responsibility for the administration of concessionary fares transferred from district councils to county councils on 1 April 2011. The Code requires authorities, if the amounts are material, to present concessionary fares separately in the Comprehensive Income and Expenditure Statement. The 2010/11 comparative figures in the CIES were amended to show concessionary fares on a separate line.		87
CIES 2010/11 – Highways and Transport Services (Income)		87	
CIES 2010/11 – Concessionary Fares (Expenditure)		582	
CIES 2010/11 – Highways and Transport Services (Expenditure)			582

		Balance Sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s
Revaluation Reserve	The Revaluation Reserve contained balances of £71,800 which related to Investment Property. These balances should have been transferred to the Capital Adjustment Account on the introduction of IFRS in 2010/11.	72	
Capital Adjustment Account			72

## Notes to the accounts and other disclosure issues

Issue	Findings and outcomes
<p><b>General</b></p> <p>I reviewed the Council’s accounts to ensure that disclosure in the financial statements complied with the requirements of the relevant and applicable accounting standards and the requirements of the Code.</p>	<p>Some amendments were made to the statements to increase clarity and ensure compliance with Code requirements. These included:</p> <ul style="list-style-type: none"> <li>■ clarification of accounting policies on heritage assets;</li> <li>■ clarification of the valuation methods used for investment property;</li> <li>■ disclosure of all employees with remuneration in excess of £50,000.</li> <li>■ restatement of narrative in several notes to improve clarity; and</li> <li>■ correction of minor addition and cross-referencing errors.</li> </ul>
<p><b>Note 7: Adjustments Between Accounting Basis and Funding Basis under Regulations</b></p>	
<p>The net adjustments between the General Fund Balance and reserves disclosed in this note were correct but the classification of the movements were incorrect in some cases and were inconsistent with figures disclosed in Note 9 – movements in unusable reserves and Note 20 – movements on PPE.</p>	<p>Amendments were made to classify correctly the adjustments shown in Note 7. Other notes were also amended to ensure consistent disclosure.</p> <p>The revenue expenditure funded from capital under statute figure and the transfer of deferred sale proceeds credited as part of the gain/ loss on disposal were both reduced by £391k.</p> <p>In the adjustments to the Capital Adjustment Account (CAA) section, the reversal of depreciation and impairment line was reduced by £550k with a corresponding increase to the revaluation losses on PPE line. Movements on the CAA disclosed in Note 9 were also amended to reflect this change.</p>
<p><b>Note 16 Amounts Reported for Resource Allocation Decisions</b></p>	
<p>The reconciliation provided to the CIES for 2010/11 did not agree to the CIES.</p> <p>The analysis of departmental income and expenditure did not reflect the Council’s internal reporting.</p>	<p>Prior year figures were corrected so that they reconciled to the CIES.</p> <p>This note was adjusted so that the starting point was the revenue outturn report for 2011/12 as presented to Members.</p>

**Issue****Findings and outcomes****Note 20 Property Plant and Equipment**

The history of asset valuations in Note 20 was misstated.

The analysis of movements on PPE did not properly reflect the split between revaluations charged to services and revaluations charged to the revaluation reserve.

The history of asset revaluations was restated by £5.276 million to reflect the impact of 2011/12 revaluations.

The analysis of movements on PPE was amended by transferring £133k from Depreciation written out to the surplus/ deficit on provision of services to Depreciation written out to the Revaluation Reserve to correctly reflect the split of revaluations charged to the revaluation reserve and charged to services.

**Note 34 Termination Benefits**

The disclosure of termination benefits did not include all benefits charged to the CIES in 2011/12. There was also inconsistency with Note 17 on Exit Packages.

The cost of termination benefits was increased by £16,941 as the note had excluded payments in lieu of notice in respect of two employees.

A minor adjustment of £1,340 was made to Note 17 on exit packages and we noted that the Council had failed to check the consistency of these notes which would have prevented these errors from occurring.

**Note 36 Leases**

The future minimum lease payments to be received by the Council from operating leases had been prepared based on current lease payments rather than minimum lease payments for some leases.

The minimum lease payments in respect of land, commercial buildings and garage plots were reduced by:

Not later than one year	£4,360
Later than one year and not later than five years	£9,315
Later than five years	£496,980

**Note 40 Related Party Transactions**

A large number of transactions relating to Copeland Community Fund were disclosed as related party transactions. Most of these transactions were between Copeland Community Fund and third parties and did not involve the Council.

The note was amended to remove all Copeland Community Fund transactions apart from £130,000 which was funding received by the Council from the Fund and which was properly disclosed as a related party transaction.

Issue	Findings and outcomes
<b>Note 42 Cashflow statement – Operating Activities</b>	
<p>The note on interest received and paid incorrectly included some transactions relating to IAS19 adjustments and had not been converted to a cash basis</p>	<p>Interest received was reduced from £311,000 to £297,000. Interest paid was reduced from £1,781,000 to £1,101,000.</p>



# Appendix 3 – Uncorrected errors

I identified the following errors during the audit which management have not addressed in the revised financial statements.

Item of account	Nature of error	Statement of comprehensive income and expenditure		Balance sheet	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
CIES – Service Expenditure Balance Sheet – Short Term Creditors	The Council failed to accrue for termination benefits for one officer which had been agreed in 2011/12.	16			16
CIES – Service Expenditure Balance Sheet – PPE	The Council did not charge depreciation on the sub-structures for the Civic Hall and the Beacon Centre. This has no impact on General Fund balance.	260			260

# Appendix 4 – Draft letter of management representation

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Jackie Bellard  
District Auditor  
Audit Commission  
Aspinall Close  
Middlebrook  
Horwich  
Bolton  
BL6 6QQ

Dear Mrs Bellard

## **Copeland Borough Council – Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of Directors and other officer of Copeland Borough Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

## Uncorrected misstatements

The effects of uncorrected financial statements misstatements are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows.

- One termination benefit of £16,000 was not included within the 2011/12 accounts. The value is not material and the extent of work required to make the amendment would be disproportionate to the value involved. This amount will be included within the 2012/13 accounts.
- Depreciation of £260,000 not charged on sub-structures for the Civic Hall and the Beacon Centre. The value is not material and it has no impact on Council Tax or General Fund balance. We have already agreed to review componentised asset lives in 2012/13 and related depreciation charges so limited value in making this amendment in 2011/12.

## Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

## Optional – Internal control

I have communicated to you all deficiencies in internal control of which I am aware.

## Irregularities

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

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;
- 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; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

## **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

## **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

For the accounting estimate, I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Authority, where relevant to the accounting estimates and disclosures;
- the disclosures relating to the accounting estimate are complete and appropriate under the Code; and
- that no subsequent event requires the Authority to adjust the accounting estimate and related disclosures included in the financial statements.

## **Related party transactions**

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

## **Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

## **Comparative financial statements**

A restatement of £1.359 million was made to correct a material misstatement in the prior period financial statements relating to the incorrect accounting treatment of accumulated depreciation on some assets re-valued in 2010/11. This affects the comparative information of all four primary statements as shown in Note 1 to the accounts. Written representations previously made in respect of the prior period remain appropriate.

Signed on behalf of Copeland Borough Council

I confirm that this letter has been discussed and agreed by the Audit and Governance Committee on 20 September 2012.

Signed

Name Darienne Law

Position Head of Corporate Resources

Date September 2012

# Appendix 5 – Glossary

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## **Annual Audit Letter**

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion and conclusion.

## **Annual Governance Statement**

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

**Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Financial statements**

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

**Group accounts**

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

**Internal control**

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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**

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

## **Those charged with governance**

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit and Governance Committee.

## **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.



# Appendix 6 – Action plan

## Recommendations

### Recommendation 1

Update expert valuations for heritage asset or consider switching to using insurance values for the Council's 2012/13 accounts.

**Responsibility** Financial Services Manager

**Priority** Medium

**Date** 31 March 2013

**Comments** It is anticipated that under the current economic climate that a revised expert valuation will represent poor value for money and we will most likely move to using insurance values albeit whichever valuation is used we will need to ensure it is current.

### Recommendation 2

Ensure the implementation of the new asset register is well planned and resourced and that Internal Audit is used to provide assurance that the data has been transferred accurately.

**Responsibility** Head of Corporate Resources

**Priority** High

**Date** 31 December 2012

**Comments** It is currently anticipated that we will be implementing the Total Asset Register System (the same supplier as the Council's Finance system). A lot of work has been carried out on our asset records internally so we are in a good position to move forward but final confirmation that the Total System and the provider, Consilium, is fit for purpose, needs to be obtained. A second provider has been identified. Achievement of the timetable is highly dependent on whether we stay with the current provider. The exact process for data input is still to be confirmed, manual input or upload. The current spread-sheet system may need to be maintained for a period of time yet to be determined which may have a resource implication. Internal Audit will assist in the data assurance work.

## Recommendations

### Recommendation 3

Continue the work on improving historic costs records as part of the implementation of the new asset register.

<b>Responsibility</b>	Accountant – Financial Reporting and Technical
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<b>Priority</b>	High
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<b>Date</b>	31 October 2012
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<b>Comments</b>	This process is well underway ready for implementation of the new asset system.
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### Recommendation 4

Ensure depreciation is charged on all components of an asset including the sub-structure.

<b>Responsibility</b>	Accountant – Financial Reporting and Technical
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<b>Priority</b>	Medium
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<b>Date</b>	31 March 2013
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<b>Comments</b>	This was an isolated human error. Once the system is implemented comprehensively the error will not be possible. System testing on implementation, particularly by Internal Audit, and parallel running with the spreadsheet will ensure the same mistake is not repeated.
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### Recommendation 5

Ensure that there is dialogue between the Valuer, the staff responsible for componentisation assessment of asset lives and finance so that the asset lives used for depreciation of componentised assets is consistent.

<b>Responsibility</b>	Head of Corporate Resources
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<b>Priority</b>	High
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<b>Date</b>	31 March 2013
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<b>Comments</b>	A more co-ordinated approach between all of the parties will be planned for the 2012/13 closedown taking into account the various professional disciplines view of asset lives and the Council's business requirements.
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## Recommendations

### Recommendation 6

Consider the impact of assessed components useful economic lives and what plans the Council has in place to replace these components. If replacement is to be longer then consider re-assessing the component asset life assessments.

<b>Responsibility</b>	Head of Corporate Resources
<b>Priority</b>	High
<b>Date</b>	31 March 2013
<b>Comments</b>	A more co-ordinated approach between all of the parties will be planned for the 2012/13 closedown taking into account the various professional disciplines view of asset component lives and the Council's business requirements going forward.

### Recommendation 7

Review asset lives and depreciation charges for vehicles and plant to ensure they are being depreciated based on the initial expected life for the asset. Where asset lives have been amended the Council needs to assess the impact on depreciation charges of this change.

<b>Responsibility</b>	Accountant – Financial Reporting and Technical
<b>Priority</b>	Medium
<b>Date</b>	31 October 2012
<b>Comments</b>	This process is well underway ready for implementation of the new system.

## Recommendations

### Recommendation 8

Ensure information supplied by experts, and on which the Council is to rely on for entries in its accounts, is quality checked and where considered necessary challenged.

<b>Responsibility</b>	Estates and Valuation Manager
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<b>Priority</b>	Medium
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<b>Date</b>	31 March 2013
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<b>Comments</b>	The restructure of the property valuation service and recruitment to the vacant post of Valuer will assist us in quality assuring data valuation and other information on which the accounts rely.
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### Recommendation 9

Improve the Council's arrangements for identifying and disclosing related party transactions (RPTs). These arrangements should ensure disclosures cover the whole year, all relevant members and officers and only those RPTs in respect of Copeland Borough Council.

<b>Responsibility</b>	Democratic Services Manager
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<b>Priority</b>	Medium
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<b>Date</b>	31 December 2012
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<b>Comments</b>	The arrangements will be reviewed to ensure disclosure for the whole year for all members.
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### Recommendation 10

Reconcile the agreed exit packages note and the termination benefits note to ensure all relevant information included and disclosed in the correct note.

<b>Responsibility</b>	Human Resources Manager
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<b>Priority</b>	Medium
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<b>Date</b>	31 March 2013
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<b>Comments</b>	Agreed – reconciliation will be carried out.
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## Recommendations

### Recommendation 11

Ensure the note on 'Amounts reported for resource allocation decisions' clearly links back to in-year financial reporting.

<b>Responsibility</b>	Accountant – Financial Reporting and Technical
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<b>Priority</b>	Medium
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<b>Date</b>	31 March 2013
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<b>Comments</b>	Agreed
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### Recommendation 12

Ensure the Council re-assess whether a provision is required for Municipal Mutual Insurance Ltd (MMI) as part of the production of its 2012/13 accounts.

<b>Responsibility</b>	Accountant – Financial Reporting and Technical
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<b>Priority</b>	Medium
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<b>Date</b>	31 March 2013
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<b>Comments</b>	We will have updated information from MMI on which to base any possible calculation for a provision.
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### Recommendation 13

Update the risk management strategy to reflect changes in Council new structures and responsibilities. Consider the strategic risk register more frequently and provide refresher risk management training for officers and members.

<b>Responsibility</b>	Head of Policy and Transformation
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<b>Priority</b>	High
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<b>Date</b>	31 October 2012
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<b>Comments</b>	Strategy updated July 2012. Staff and Member training September 2012. Report to Executive October 2012. Risk Register now a quarterly item on CLT and Audit Committee agenda.
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