

# The Audit Findings for Copeland Borough Council

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**Year ended 31 March 2014**

September 2014

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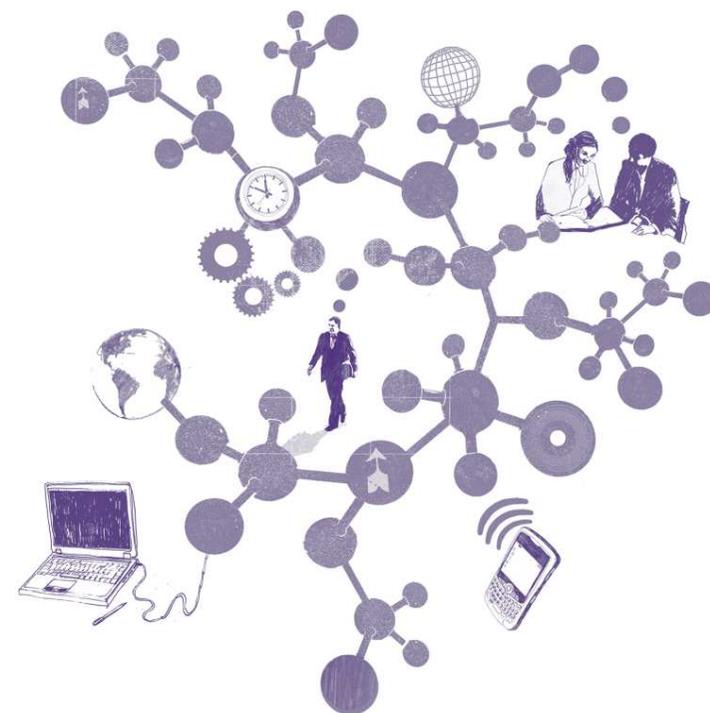
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is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

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

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## Section 1: Executive summary

**01. Executive summary**

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

We anticipate providing an unqualified opinion on the financial statements, and an unqualified value for money conclusion.

# Executive summary

## **Purpose of this report**

This report highlights the key matters arising from our audit of Copeland Borough Council's ('the Council') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

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

## **Introduction**

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan on 15 April 2014.

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

- final audit completion and review processes, in particular operating segments and detailed testing of housing benefit cases
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion, and
- Whole of Government Accounts.

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

## **Key issues arising from our audit**

### **Financial statements opinion**

We anticipate providing an unqualified opinion on the financial statements.

Our audit identified two adjustments to the Council's financial statements, which management has agreed to make, but these do not affect the Council's reported financial position. We have also requested a number of adjustments to the disclosure notes to improve the presentation of the financial statements and ensure that they comply with the Code of Practice on Local Authority Accounting 2013/14.

Further details of our audit findings and adjustments are set out in section 2 of this report.

### **Value for Money conclusion**

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

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

### **Whole of Government Accounts (WGA)**

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

## **Controls**

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

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

We identified one issue relating to BACSTEL payments where a bank signatory does not authorise these payments. Implementing a reasonableness check, and authorisation prior to payment, will minimise the risk of incorrect payments being made or problems with cashflow. The Council is currently considering the introduction of a control to obtain formal authorisation from a designated bank signatory prior to BACSTEL transmissions taking place.

Further details are provided within section 2 of this report.

## **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Interim s.151 officer.

## **Acknowledgment**

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

**Grant Thornton UK LLP**  
**September 2014**

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

We are expecting to issue an unqualified opinion on the financial statements.

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance Committee on 15 April 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 15 April 2014.

## **Audit opinion**

We anticipate that we will provide the Council with an unmodified (Unqualified) opinion. Our audit opinion is set out in Appendix A.

# Audit findings against significant risks

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

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards with an additional significant risk for this audit.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• Substantive testing of material revenue streams</li> <li>• Substantive sample testing of debtors and income accruals</li> <li>• Review of revenue recognition policies</li> <li>• Review of unusual significant transactions</li> <li>• Testing of journal entries</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> <li>• Discussions with internal audit</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>
3.	<p><b>Property, Plant &amp; Equipment (PPE)</b></p> <p>Revaluation measurements may not be correct, or may not be compliant with the CIPFA Code</p>	<ul style="list-style-type: none"> <li>• Discussion about valuation process for 2013/14 and the effect of the amended wording in the CIPFA Code of Practice on PPE revaluation</li> <li>• Identification of controls operating for the revaluation of PPE</li> <li>• Discussions with the in-house valuer over the valuation methods and frequencies</li> <li>• Substantive testing for a sample of individual assets</li> <li>• Review of the new asset register and controls around the transfer of data from the old to the new system</li> </ul>	<p>The Council operates a five year rolling programme of asset valuations, designed to cover all asset held by the Council over this period. In our view, however, this rolling programme does not meet the Code's requirement in paragraph 4.1.2.35 to value items within a class of property, This is explained further on page 12.</p> <p>Beyond this, our audit work has not identified any further significant issues in relation to the risk identified.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Operating expenses</b></p>	<p>Creditors understated or not recorded in the correct period</p>	<ul style="list-style-type: none"> <li>• Review of the systems and controls in place to pay and record expenditure</li> <li>• Walkthrough a transaction to demonstrate that appropriate controls are in place and designed effectively</li> <li>• Substantive testing on a sample of expenditure items</li> <li>• Substantive testing of a sample of year end creditors and accruals</li> <li>• Testing of both expenditure transactions and a sample of creditors and accruals to ensure 'cut-off' is correct (i.e. that they are recorded in the right period).</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Employee remuneration</b></p>	<p>Employee remuneration accrual understated</p>	<ul style="list-style-type: none"> <li>• Review of the systems and controls in place over payroll</li> <li>• Walkthrough a transaction to demonstrate that appropriate controls are in place and designed effectively</li> <li>• Substantive testing on a sample of payroll transactions and deductions</li> <li>• Substantive testing of a sample of year end payroll accruals</li> <li>• Analytical procedures to identify any discrepancies in monthly payrolls and consider whether the payroll expenditure is in line with our expectations based on substantiating evidence</li> <li>• Testing of the reconciliation between the payroll system and the amounts recorded in the financial statements</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Welfare expenditure</b></p>	<p>Welfare benefit expenditure improperly computed</p>	<ul style="list-style-type: none"> <li>• Review of the systems and controls in place to calculate, pay and record benefit expenditure</li> <li>• Walkthrough a transaction to demonstrate that appropriate controls are in place and designed effectively</li> <li>• Detailed HB COUNT testing of a sample of housing benefit payments and other substantive benefits tests as directed by the Audit Commission / DWP</li> <li>• Substantive testing of payments for Council Tax Reduction scheme</li> <li>• Testing of the reconciliation between the benefits system and the amounts recorded in the financial statements</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified, subject to the satisfactory completion of our detailed testing of housing benefit cases.</p>

# Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>• Revenue from provision of services is recognised when the percentage completion of the transaction can be reliably measured and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council.</li> <li>• Revenue from sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.</li> <li>• Expenditure is recognised when goods or services are received rather than when payments are made.</li> <li>• Grants and contributions are recognised when there is reasonable assurance that the monies will be received and that any conditions attached will be met.</li> </ul>	<p>The Council's policies are in accordance with the requirements of the Code of Practice for Local Government, and are deemed appropriate. Our review of revenue recognition policies has not highlighted any issues which we wish to bring to your attention.</p>	 <b>Green</b>
<b>Judgements and estimates (excluding PPE)</b>	<ul style="list-style-type: none"> <li>• Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>– lease classification</li> <li>– future funding of local government</li> <li>– pension fund valuations and settlements</li> <li>– Business Rates Appeals provision</li> <li>– Private Finance Initiatives (PFI) and interest rates and RPI forecasts</li> </ul> </li> </ul>	<p>Note 3 on Critical Adjustments in Applying Accounting Policies, did not make reference to the judgement that the PFI scheme is a service concession under IFRIC12. This has now been added.</p> <p>No further issues regarding judgements and estimated were identified.</p>	 <b>Amber</b>

## Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate and disclosures sufficient

● Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & judgements

Accounting area	Summary of policy	Comments	Assessment
<p><b>Judgements and estimates - PPE</b></p>	<ul style="list-style-type: none"> <li>Note 20 to the accounts sets out the Council's rolling programme of revaluations. This shows that the date of valuations vary between 31 March 2010 and 31 March 2014.</li> <li>In our view, however, this rolling programme does not meet the Code's requirement in paragraph 4.1.2.35 to value items within a class of property, plant and equipment simultaneously. This paragraph of the Code, which is based on IAS 16 Property, Plant and Equipment, does permit a class of assets to be revalued on a rolling basis provided that:                             <ul style="list-style-type: none"> <li>- the revaluation of the class of assets is completed within a 'short period'</li> <li>- the revaluations are kept up to date</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>This approach is similar to many other authorities and we are satisfied that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014.</li> <li>In our view, however, we would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.</li> <li>The Council may wish to consider an alternative approach to valuations to achieve full compliance with the requirements of the Code as currently stated.</li> </ul>	<p style="text-align: center;"> <b>Amber</b></p>
<p><b>Other accounting policies</b></p>	<ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	<ul style="list-style-type: none"> <li>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</li> </ul>	<p style="text-align: center;"> <b>Green</b></p>

**Assessment**

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

# Adjusted misstatements

Two adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management. There are no unadjusted misstatements.

## Impact of adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 Capital grants were credited to Cultural and Related Services but should have been credited below the Cost of Services line as Taxation and Non Specific Grant income.			
<ul style="list-style-type: none"> <li>• Reduction to Cultural and Related Services income</li> <li>• Increase to Taxation and Non Specific Grant income</li> </ul>	(180) 180	0	0
2 Non-housing benefits administration expenditure incorrectly classified in the Housing Services line in the Comprehensive Income and Expenditure Account. Classification adjustment between service lines made.			
<ul style="list-style-type: none"> <li>• Reduction to Housing Services expenditure</li> <li>• Increase to Central Services expenditure</li> </ul>	(255) 255	0	0
<b>Overall impact</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>

## Misclassifications & disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	181	Note 9 - Unusable Reserves: Capital Adjustment Account	Application of grants to capital financing from the Capital Grants Unapplied Account of £181,000 should have been included against Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing.
2 Misclassification	319	Note 14 - Grant Income	Other Grants Credited to Services includes discount rent allowances of £319,000. These should be accounted for under housing benefit and have therefore been removed from the note.
3 Misclassification	8,803	Note 43 - Reconciliation of the Net Deficit to the Net Cashflow from Revenue Activities	Classification movement between lines in the note from Movement in Provisions to Other non-cash items.
4 Disclosure	N/A	Explanatory Foreword	Additional disclosure added to explain the reason for the large increase in the General Fund balance.
5 Disclosure	1,758	Note 5 - Material Items of Income and Expenditure	The purpose of this note is to disclose the nature and amount of material items which are not individually disclosed on the face of the CIES. We have identified that the unitary charge of around £1,758k had not been disclosed in the PFI section.
6 Disclosure	49	Note 17 – Officers Remuneration	The Head of Corporate Resources is shown as leaving the Council's employment in September 2013. This reflects the change from being an employee to being paid as a contractor. The note has been amended by £49,000 to include the total amounts paid to the Head of Corporate Resources in 2013/14.

## Misclassifications & disclosure changes (continued)

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
7	Disclosure	5	Note 19 - External Audit Costs	Classification split between fees payable for the certification of grant claims and returns and fees payable with regard to external audit services has been amended by £5,000. No overall effect on this note.
8	Disclosure	93	Note 25 - Assets Held for Sale	Reclassification of 93k shown in the note as a net figure. Presentation expanded to show newly classified PPE assets of £312,000 and declassified PPE assets of £405,000.
9	Disclosure	N/A	Note 30 - Provisions	Narrative added to provide further information as to the nature of the NNDR appeals provision.
10	Disclosure	N/A	Note 32 - Contingent Liabilities	A contingent liability has been added to reflect the fact that local businesses can still appeal against the rateable value on the 2010 Rating List until 31 March 2017. As it is difficult to estimate the likelihood of businesses both submitting, and being successful for an appeal that is yet to be made, the Council has made no provision in its accounts for future appeals.
11	Disclosure	N/A	Various	Various other minor changes were made to the supporting notes to improve presentation and ensure consistency.
12	Disclosure	N/A	Annual Governance Statement	Several minor amendments made following audit review of the Annual Governance Statement.

## Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

Internal controls were observed to have been implemented in accordance with our documented understanding. We identified one issue relating to BACSTEL payments. An IT officer initiates BACSTEL payments based on electronic files provided by paying departments. No bank signatory authorises these payments. Implementing a reasonableness check, and authorisation prior to payment, will minimise the risk of incorrect payments being made or problems with cashflow. The Council is currently considering the introduction of a control to obtain formal authorisation from a designated bank signatory prior to BACSTEL transmissions taking place.

## Other communication requirements

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

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have been made aware of a number of benefit frauds. Apart from these, we have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit
2.	<b>Matters in relation to laws and regulations</b>	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	<b>Written representations</b>	A standard letter of representation has been requested from the Council.
4.	<b>Disclosures</b>	Our review found no material omissions in the financial statements
5.	<b>Matters in relation to related parties</b>	We are not aware of any related party transactions which have not been disclosed
6.	<b>Going concern</b>	Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non audit services and independence

05. Communication of audit matters

We propose to give an unqualified VFM conclusion

# Value for Money

## Value for money conclusion

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

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

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

These criteria are:

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

## Key findings

### Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Overall our work highlighted the Council has adequate systems and processes in place to manage financial risks effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. However, future funding uncertainty and the localisation of business rates collection and risk of low future NDR growth will represent significant challenges for the Council. Steps have been taken in year to improve revenue reporting. Delivery of the capital programme has slipped in 2013/14 with re-profiling of the Whitehaven Town Heritage Initiative (THI) into 2014/15 and 2015/16.

### Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. There is a clear focus on delivering efficient and effective statutory services. Savings has focused on discretionary services and the need to consider how services can be delivered differently in the future.

## Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
<b>Key indicators of performance</b>	<p>The Council continues to demonstrate good financial performance in 2013/14. Its working capital ratio (current assets divided by current liabilities) is 4.21 at 31 March 2014 and confirms the Council has no liquidity problems. Ratio of borrowing to tax revenue ratio shows Copeland has a ratio of 1.18. which means that long term borrowing exceeds tax revenue. The ratio is only marginally above 1 and reflects no increased borrowing by the Council but decreasing levels of government funding and council tax freezes.</p> <p>The General Fund Risk Based Balance is set at a minimum level of £2 million. At 31 March 2014 actual General Fund balance is £9.108 million which includes nearly £5.5 million relating to the safety net receipt as part of the new accounting arrangements for business rates. If the GF balance was net of this it would be £3.6 million which is still £1.6 million above minimum level recommended by the s.151 officer.</p> <p>Revenue budget outturn for 2013/14 was an underspend of £1.27 million (9.85%) after carry forwards and net contributions to reserves. The main reasons for the underspend were strong vacancy management, reduced spending on the Civic Hall, additional external funding and a general level of underspending in Directorates,</p> <p>The Capital outturn for 2013/14, prior to any carry forwards to 2014/15 was an underspend of £3.234 million against a revised budget of £4.017 million. This represents an underspend of 80.5% (2012/13 was 33.6%). The main reasons for underspending were that Whitehaven Town Heritage Initiative (THI) (£1.29 million) is a 5 year programme which only commenced in October 2013 when funding confirmed, work on the Copeland Pool fitness extension (£0.67 million) commencing in May 2014 and lower than expected take up of housing grants.</p> <p>Sickness absence for 2013/14 was 9.95 days per FTE, a slight increase on 9.43 days in 2012/13. Senior management are aware of the need to maintain a robust approach to sickness absence. This is a significant reduction since a high of 15.05 days in 2009/10.</p>	<b>Green</b>	<b>Green</b>

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
<b>Strategic financial planning</b>	<p>The Council has sound financial planning and review processes in place. The Council's four year Medium Term Financial Strategy (MTFS) approved in February 2014 covers the period 2014/15 to 2017/18. The MTFS is linked to the Council's policy and budget frameworks and highlights the key financial challenges that the Council faces with savings of £3.40 million required between 2014/15 and 2017/18</p> <p>The Council continues to operate in an uncertain environment but its willingness to frequently update its MTFS and track record of delivering savings means that it has processes in place to help it meet the future financial challenges. However, the current inherent uncertainties in the level of future funding to be received from Government, the impact this will have on savings required, and specific issues such as the localisation of business rates collection and risk of low future NDR growth will represent significant challenges for the Council.</p>	<b>Green</b>	<b>Green</b>
<b>Financial governance</b>	<p>Members and officers have continued to demonstrate a good understanding and awareness of the financial environment and challenges facing the Council. The leadership team has also communicated the financial position of the Council and future plans to staff and stakeholders.</p> <p>The Corporate Leadership Team (CLT) monitors the financial position on a monthly basis to ensure that any remedial action can be taken promptly. On a quarterly basis the Executive formally considers the revenue and capital monitoring reports. Last year we recommended that budget and actual to date figures were included within the quarterly revenue monitoring reports to help members assess the reasonableness of the projected outturn figures. This recommendation was implemented in quarter 2 of 2013/14.</p> <p>In year reporting of revenue included a forecasted outturn in Q3 and this suggested a year end underspend for 2013/14 of £0.95 million, which turned out to be an underspend of £2.24 million, reducing to an underspend of £1.27 million after committed carry forward and net contribution to reserves. There was a £1.29 million increase in the revenue underspend between Q3 and outturn. The Q3 report showed that £3.849 million (33%) of the budget was planned to be spent in the last quarter. Before carry forwards only £2.65 million was spent. There is improved commentary on the areas underspending in the quarterly and outturn reports. In response to our recommendation last year the outturn report has included a detailed analysis of movement between projected outturn at Q3 and final outturn after carry forwards and net contribution to reserves with some additional commentary for the movement.</p> <p>The capital budget is adjusted during the year. The quarterly capital monitoring reports include spend to date and an assessment of the outturn position. At Q3 the outturn was estimated at £1.44 million with £0.88 million to be spent in the last quarter. However, only £0.22 million (25%) was spent in Q4. The difference of £0.66 million was due to work only starting on the Copeland pool extension (£0.3 million) in May 2014, lower than expected take up of Disabled Facilities Grants (£0.12 million) and delays in starting drainage work on St Bees children's playground (£0.09 million). An exercise has been undertaken to re-profile the Whitehaven Town Heritage Initiative (THI) into 2014/15 and 2015/16.</p>	<b>Green</b>	<b>Green</b>

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Financial control	<p>The Council has well established budget setting processes that encourage involvement and ownership from budget holders. There is a strategic approach to savings with a desire to achieve medium to long term sustainable services. Balanced budgets were set for both 2013/14 and 2014/15. Progress against the annual savings plan is monitored by the Change Programme Board with savings in excess of those required being delivered in 2013/14.</p> <p>The Council has well established arrangements for the quarterly monitoring and reporting of performance against the revenue and capital budgets with a history of both revenue and capital underspending as outlined in earlier themes.</p> <p>The Council's key financial systems provide reliable and timely financial monitoring information to enable them to identify and manage financial risks. During 2013/14 the Council also introduced the REAL asset register.</p> <p>The Strategic risk register includes financial risks such as securing financial viability, meeting statutory responsibilities during a time of budgetary change and NNDR &amp; Business Growth. There is corporate ownership and management of these risks. The Audit and Governance Committee gains assurance that risk management arrangements are in place and working as expected.</p>	Green	Green
Prioritising resources	<p>The Medium Term Financial Strategy (MTFS) 2014/15 to 2017/18 approved by Council in February 2014 shows awareness of the financial position and demonstrates the Council taking appropriate steps to secure a stable financial position. There is a clear focus on delivering efficient and effective statutory services. The Savings Strategy continues to focus on producing a balanced longer term budget with emphasis on:</p> <ul style="list-style-type: none"> <li>• maximising business rates and new homes bonus through accelerated growth</li> <li>• reshaping of office accommodation, customer access strategy and the move to web enabled access</li> <li>• moving to a commissioning approach.</li> </ul> <p>The leadership team has fostered an environment where staff and stakeholders are clear about the financial position of the Council and future plans. Public consultation has been based on a savings cycle of two years and involved roadshows and large spread in 'Copeland Matters'.</p> <p>From 2013/14 the focus for savings switched to discretionary services and using Policy Development Groups (PDGs) to look at whether these service should continue, reduce, cease or perhaps encouraging partners to take on the provision.</p>	Green	Green

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
<b>Improving efficiency &amp; productivity</b>	<p>The Change Programme Board has been responsible for monitoring and managing the delivery of the savings programme. A savings target of £1.76m was set as part of the 2013/14 budget and savings in excess of those required have been delivered. This demonstrates the Council's ability to deliver its savings and efficiencies agenda. Required savings have been identified for 2014/15 so that a balanced budget could be set.</p> <p>The Council has a reasonable awareness of its costs and is taking steps to reduce them. In 2011/12 they commissioned an external review of 6 service strands by Chorley Borough Council in order to identify areas to increase cost effectiveness and reduce costs e.g. Parks and open spaces review. Focus for 2013/14 and 2014/15 has been on discretionary services and PDG reviews have considered some comparative information.</p> <p>The Council has explored different ways of delivering services with shared services for the Revenue and Benefits Service and Internal Audit and outsourcing its procurement service. They have also found a partner to operate the Beacon Centre.</p> <p>There is quarterly reporting of progress against the Corporate Plan for 2013/15. At the end of 2013/14 this showed that Business rates collection rates were on target, as was the processing of planning applications. The number of households where homelessness prevented was above target. However, processing time for benefit claims and the percentage of household waste sent for reuse, recycling and composting were below target.</p>	<b>Green</b>	<b>Green</b>

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## Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non audit services and independence**

05. Communication of audit matters

There are no significant facts or matters that impact on our independence as auditors

# Fees, non audit services and independence

We confirm below our final fees charged for the audit. We did not provide any **non-audit services**.

## Fees

	Per Audit plan £	Actual fees £
Council audit	70,656	71,556
Grant certification	20,328	20,328
<b>Total audit fees</b>	<b>90,984</b>	<b>91,884</b>

There is an additional fee of £900 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for a district council and is subject to agreement by the Audit Commission.

Our grant certification fee is still an estimate as our work on the Council's Housing benefits subsidy claim is still ongoing and will not be finalised until late November 2014.

## Fees for other services

Service	Fees £
None	Nil

## Independence and ethics

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

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

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

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

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

## Respective responsibilities

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

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

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

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

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

# Appendices

# Appendix A: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

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

### **Opinion on the Authority financial statements**

We have audited the financial statements of Copeland Borough Council for the year ended 31 March 2014 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 2013/14.

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

### **Respective responsibilities of the Chief Financial Officer and auditor**

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

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

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

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of Copeland Borough Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

### **Opinion on other matters**

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

**Matters on which we report by exception**

We report to you if:

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

We have nothing to report in these respects.

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

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

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Copeland Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

**Certificate**

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

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

Grant Thornton UK LLP  
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September 2014



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