

Au 201210
Item 5

Annual Audit Letter

Copeland Borough Council

Audit 2009/10

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

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 4 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 10).**

Audit opinion and financial statements

- 1 I issued an audit report including an unqualified opinion on the financial statements on 30 September 2010, within the statutory deadline.
- 2 The 2009/10 financial statements approved by the Audit Committee in June 2010 included two material errors. The first related to the wrong measurement of the value of the Private Finance Initiative (PFI) asset meaning the PFI asset was understated by £6.1 million at 31 March 2010. The PFI error meant that amendments were required to the primary statements and several disclosure notes. The second error of £9.9 million related to the re-statement of the Cashflow statement for 2008/09. In addition there were a number of other disclosure errors in the accounts. The accounts and working papers were prepared to a good standard and have improved over recent years.
- 3 The Council must to prepare its 2010/11 accounts under new International Financial Reporting Standards (IFRS). Some progress has been made but much work still needs to be done. Resourcing this work is a key consideration.
- 4 The Council is relying on two experienced interim appointments to fill key senior posts within the finance team until March 2011. The Council's service review programme is continuing and being used to re-structure the finance function.

Value for money

- 5 I issued a qualified value for money conclusion. It stated the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except for managing its assets effectively and planning, organising and developing its workforce. Action plans are in place to improve both asset management and workforce planning.

Current and future challenges

- 6 About eighteen months ago the Council recognised the need to prepare itself for the key challenges of the future. Its response was the 'Choosing to Change' programme. This is about delivering sustainable council services while faced by reducing resources and the need to improve governance and leadership of the Council. Much has been achieved over the year including a new corporate management team being put in place. The Constitution has also been updated to modernise the way the Council does business.
- 7 In common with all public sector organisations, and particularly local government, the Council faces significant financial challenges in 2010/11 and over the following four years. The economic downturn, and the recent Comprehensive Spending Review (CSR) announcement of revenue and capital funding cuts for local government, will place the Council under increased financial pressures.
- 8 The Council has already started to reduce its costs through its service review programme. It has successfully secured efficiency savings and introduced shared services for revenues and benefits. However, the scale of additional savings now required as a result of the CSR is significant. Members are committed to making informed decisions about where savings are to be made.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September 2010, within the statutory deadline.

Overall conclusion from the audit

- 9 I issued an audit report including an unqualified opinion on the financial statements on 30 September 2010, within the statutory deadline.
- 10 The financial statements presented for audit contain two material errors. The first related to the wrong measurement of the value of the Private Finance Initiative (PFI) asset meaning it was understated on the balance sheet by £6.1 million at 31 March 2010. The brought forward value was understated by £6.45 million. PFI accounting is technical and complex and officers had taken external specialist advice in order to ensure the asset was valued and accounted for correctly. However, I did not consider the basis of valuation used to be right. I sought advice from a specialist valuer before agreeing with officers the way the asset needed to be accounted for. This occurred because the PFI asset was subsequently impaired to nil using the wrong valuation basis. The amendments to the accounts needed because of the change to the PFI asset affect the primary statements and several disclosure notes.
- 11 The second material error of £9.9 million relating to re-statement of the 2008/09 Cashflow statement was needed because of the change to accounting treatment of Collection Fund Adjustments. The NNDR adjustment was processed incorrectly.
- 12 There were also a number of other disclosure errors in the accounts. The Council and management agreed to amend the financial statements for all of the errors and omissions I identified. The accounts and working papers were prepared to a good standard and have improved over recent years.

Significant weaknesses in internal control

- 13 I reported in my Interim Audit Memorandum the Council had improved the way in which it undertook reconciliations for its material systems. However, some issues remained. Council tax and NNDR reconciliations were not completed for several months. After November 2009, monthly payroll reconciliations were not completed until the end of March 2010. Although reconciliations for Disabled Facilities Grants and Renovation Grants were undertaken they were not formally signed off and reviewed.
- 14 Timely reconciliations of key material systems to the general ledger reduce the risk of errors in the accounts. I agreed an action plan to improve arrangements and reported to the Audit Committee in August 2010.

Implementation of International Financial Reporting Standards (IFRS)

- 15 The Council must prepare its 2010/11 accounts under new International Financial Reporting Standards (IFRS). Progress has been made in preparing for this change during 2010 including producing an initial restatement of the financial position at 1 April 2009. However, this needs updated for new accounting arrangements for PFI, council tax and NNDR that were introduced in 2009/10 but applied to 2008/09.
- 16 An external consultant is reviewing the preparations for introducing IFRS. By December 2010 an updated action plan for IFRS implementation will be ready. This should document when key work on the 2008/09 and 2009/10 restatement will be completed and skeleton accounts for 2010/11 produced. Resourcing of this work is a key consideration. The Audit Committee should review progress against this action plan at its meeting in early February 2011.

Capacity within the finance function

- 17 The Council decided not to appoint to its vacant Accountancy Services Manager post. It is relying on two experienced interim appointments to fill key senior positions within the finance team. The Council's service review programme is continuing and being used to re-structure the finance function.
- 18 Technical accounting knowledge among permanent members of the finance team needs strengthened. Understanding PFI accounting requirements and the 'Model' to be used to generate the accounting entries is a key development area. The Council is engaging an external consultant to provide a programme of training.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

- 19 At the end of May 2010, the Commission wrote to all chief executives. It informed them that following the government's announcement, work on Comprehensive Area Assessment would cease with immediate effect. The Commission will no longer issue scores for its use of resources assessments.
- 20 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.
- 21 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

- 22 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.
- 23 This is a summary of my findings.

Criteria	Adequate arrangements?
Managing finances	
Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	Yes
Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	Yes
Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	Yes
Governing the business	
Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	Yes
Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	Yes
Does the organisation promote and demonstrate the principles and values of good governance?	Yes
Does the organisation manage its risks and maintain a sound system of internal control?	Yes
Managing resources	
Is the organisation making effective use of natural resources?	Yes
Does the organisation manage its asset effectively to help deliver its strategic priorities and service needs?	No
Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	No

Qualified VFM conclusion

- 24 I issued an except for qualified conclusion stating the Council had unsatisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources. I identified weaknesses in your arrangements for strategic asset management and workforce planning.

- 25 The Asset Management Plan (AMP) for 2010-2015 was only approved on 23 March 2010. Your assets were not managed strategically because of the absence of a clear plan for most of the year. There was a lack of target setting and monitoring of how assets performed.
- 26 The plan approved at the end of 2010 will support a strategic approach to asset management going forwards. By January 2011 the Council will have updated it for the outcome of organisational change, the new Corporate Plan and the revised Medium Term Financial Strategy (MTFS). Introducing robust target setting and monitoring arrangements are key to assessing how assets are performing. An asset transfer policy has now been approved and is being used to as the framework for the sale of assets held by the Council. There has also been a housing redevelopment project within the Borough.
- 27 An initial workforce strategy was only approved until 23 March 2010. For most of 2009/10 the workforce strategy was not specific on current skills mix or staff needed over next 3 to 5 years. No clear recruitment strategy in place to meet identified skills gap. Sickness absence very poor and deteriorated to 15.05 days in 2009/10. The workforce strategy approved in March sets out the strategic drivers and issues for the Council's staffing needs going forwards but it will need to be updated for the new corporate plan. The revised strategy should identify the skills and profile of the workforce required to deliver future strategic priorities and how this will be achieved.
- 28 The Council is prioritising reducing sickness absence levels to maximise its available resources. Sickness absence has improved in the seven months to the end of October 2010 to 5.65 days. This reflects the Council's success in tackling long term sickness absence.

Managing finances

- 29 The Council has improved its longer term financial planning. The Medium Term Financial Strategy integrates financial and corporate planning processes but it now needs to be updated to reflect the revenue and capital impact of the Government's Comprehensive Spending Review (CSR). The outcomes of improved budget consultation were fed into the 2010/11 budget setting round.
- 30 The Council is continuing to develop its understanding of its costs. Shared services for revenues and benefits were introduced in 2010/11 with potential savings of £923,000 over six years. The Council needs to ensure it achieves expected savings while maintaining or improving performance of the revenues and benefits service.
- 31 There have been improvements made in capital programme monitoring. However, capital spending for 2009/10 was still underspent by £1.5m (20%) which has reduced from £3.2m (39 per cent) in the previous year.

Governing the business

- 32 The Council knows what it wants from its activities. It is starting to use information on local needs in its commissioning. The procurement strategy and action plan were revised for 2010-13 and now include reference to the sustainability agenda. Alternative procurement options are being implemented, notably a shared revenues and benefits service with Allerdale and Carlisle district councils.
- 33 There is a corporate commitment to ensuring quality data is available to support decision making. Most of the data quality improvement plan has been implemented although not all actions are yet complete.
- 34 The Council has appointed an experienced independent Chair to the Audit Committee. This has helped to promote the principles of good governance. There is a strong anti-fraud culture and supporting processes in place.

Managing resources

- 35 The Council is developing its understanding of its use of natural resources and impact on the environment. In November 2009 it appointed a sustainability officer to increase the pace of change on the sustainability agenda. The Council approved an environmental policy statement in March 2010. Baseline data on emissions from energy, transport and fuel have been established but further work is required on water consumption data.
- 36 The Council has set a target to reduce its carbon footprint by 10 per cent in 2010/11. The Council's Carbon Management Board is responsible for developing action plans and monitoring their implementation to ensure environmental objectives are met.

Approach to local value for money work from 2010/11

- 37 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.
- 38 My work will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on ensuring that the Council has proper arrangements in place to:
- secure financial resilience; and
 - challenge how it secures economy, efficiency and effectiveness.

- 39 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

National Fraud Initiative

- 40 The National Fraud Initiative is a computerised data matching exercise designed to identify overpayments to suppliers and benefit claimants and to detect fraud perpetrated on public bodies. The referrals from the current exercise were released to participating bodies in February 2009.
- 41 The Council has made effective use of the NFI reports to identify and appropriately review data matches. From the current exercise the Council has identified savings of just under £48,000 from single person council tax discounts.

Current and future challenges

Future developments

- 42 About eighteen months ago the Council recognised the need to prepare itself for the key challenges of the future. Its response was the 'Choosing to Change' programme. It aims to meet key future challenges by:
- delivering sustainable council services while faced by reducing resources;
 - improving governance and leadership of the Council;
 - maximising the benefits of current and future partnership working; and
 - getting closer to the community it serves.
- 43 Much has been done to deliver 'Choosing to Change'. For example:
- the Council's constitution has been updated to modernise the way in which it does business;
 - corporate management team has been restructured to ensure it can focus on the things that matter; and
 - Internal service reviews have been carried out to challenge the way that the Council spends its money.
- 44 'Choosing to Change' is now entering its second phase. There is a clear programme of work set out to deliver the Council's improvement agenda over the next year. This involves external support and challenge.
- 45 In addition to its own improvement agenda, the Council faces some additional challenges. The local economy is unique because it is heavily dependent upon the nuclear sector. The Council plays a major role in negotiating additional socio economic benefits for the wider Copeland economy to support diversification. The Council also has a key role in attracting nuclear new build to Copeland. The Council must maintain its focus on the nuclear agenda in order to secure the economic benefits for Copeland but also more widely across Cumbria.
- 46 In common with all public sector organisations, and particularly local government, the Council faces significant financial challenges in 2010/11 and over the following four years. The impact of the economic downturn, and the recent Comprehensive Spending Review (CSR) announcement of revenue funding cuts for local government of approximately 7% per year over the period 2011 to 2015, increases the pressures on public spending. Capital funding for local government has been reduced by 45% over the next four years which will impact on the Council's capital programme.

- 47 The funding reductions in local government will place the Council under unprecedented financial pressures. In 2009/10 the Council successfully secured efficiency savings of £1.76 million with a further £1.45 million planned for 2010/11. It introduced shared services for revenues and benefits in 2010/11. The Council's service review programme has already reduced costs in 2010/11 by removing £0.45 million from the budget of which £0.35 million are recurring savings. However, the scale of additional savings now required because of the CSR is significant. The Council will need to make difficult decisions, such as the level of discretionary services provided, to address the funding shortfall and ensure that the Council is financially viable over the medium term.

Closing remarks

- 48 I have discussed and agreed this letter with the Chief Executive and Corporate Directors. I will present this letter to the Audit Committee in December 2010 and will provide copies to all Council members.
- 49 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Annual audit fee 2009/10 letter	4 November 2009
Opinion audit plan	June 2010
Interim memorandum	August 2010
Annual governance report	September 2010
Auditor's report giving an opinion on the financial statements	30 September 2010
Value for money conclusion	30 September 2010
Auditor's assurance statement on whole of government accounts (WGA)	25 October 2010
Annual audit letter	November 2010

The Audit Commission

- 50 The Secretary of State for Communities and Local Government has announced the proposed abolition of the Audit Commission and the transfer of its audit practice to the private sector. This will be from 2012/13 at the earliest and is subject to legislation.
- 51 Our priority is to ensure our professional standards and commitment will be maintained. You will see no deterioration in customer service and audit quality.
- 52 We are working to develop an independent audit practice to continue beyond the abolition of the Audit Commission, including the option of a potential mutualisation or buy-out. Whatever model we adopt, we will remain committed to providing excellent service to our existing clients.

Concluding comments

- 53 The Council has taken a positive and helpful approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Karen Murray
District Auditor
November 2010

Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	111,905	86,958	24,947
Value for money	38,904	38,904	0
Total audit fees	150,809	125,862	24,947
Non-audit work	4,000	4,000	0
Total	154,809	129,862	24,947

Since the audit fee was set for 2009/10 in November 2009 I have had to undertake additional work. This included work on reviewing your Private Finance Initiative (PFI) scheme to provide my view that your PFI scheme was on balance sheet. I had to undertake further work on your valuation and accounting arrangements for the PFI asset as these were complex and material to your accounts. A significant number of changes were required to the accounts to reflect the correct entries. The extra fee agreed with the Corporate Director - Resources and Transformation was £14,980.

I also undertook additional work during 2009/10 in respect of concerns raised with me by:

- the Chair of Overview and Scrutiny - the fee for this was £3,413;
- a member of public in respect of their renovation grant - the fee for this was £6,554.

Appendix 2 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

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

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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