

BOROUGH OF BARROW-IN-FURNESS

AUDIT COMMITTEE

Meeting, Wednesday, 23rd September, 2009
at 2.00 p.m.

A G E N D A

PART ONE

1. To note any items which the Chairman considers to be of an urgent nature.
2. To receive notice from Members who may wish to move any delegated matter non-delegated and which will be decided by a majority of Members present and voting at the meeting.

3. **Admission of Public and Press**

To consider whether the public and press should be excluded from the meeting during consideration of any of the items on the agenda.

4. Disclosure of Interests.

A Member with a personal interest in a matter to be considered at this meeting must either before the matter is discussed or when the interest becomes apparent disclose

1. ***The existence of that interest to the meeting.***
2. ***The nature of the interest.***
3. ***Decide whether they have a prejudicial interest.***

A note on declaring interests at meetings, which incorporates certain other aspects of the Code of Conduct and a pro-forma for completion where interests are disclosed accompanies the agenda and reports for this meeting.

5. To confirm the Minutes of the meeting held on 29th June, 2009 (copy attached).
6. Apologies for Absence/Attendance of Substitute Members.

FOR DECISION

- (D) 7. Audit Commission - Annual Governance Report for the Year 2008-2009.
- (D) 8. Letter of Representation 2008-2009.

- (D) 9. Final Accounts for the Year ended 31st March 2009 – Audit Amendments.
- (D) 10. Benefit Inspection Improvements Plan – Progress Report.
- (D) 11. Internal Audit – Progress Report April to September 2009.
- (D) 12. Internal Audit – Final Reports.

NOTE (D) - Delegated
(R) - For Referral to Council

Membership of Committee

Councillors Heath (Chairman)
Unwin (Vice-Chairman)
Barlow
Begley
Jefferson

For queries regarding this agenda, please contact:

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BOROUGH OF BARROW-IN-FURNESS

AUDIT COMMITTEE

Meeting: 29th June, 2009
at 2.00 p.m.

PRESENT:- Councillors Heath (Chairman), Unwin (Vice-Chairman), Barlow and Begley.

1 – Minutes

The Minutes of the meeting held on 18th March, 2009 were taken as read and confirmed.

2 – Final Accounts for the Year ended 31st March, 2009

The Borough Treasurer presented a report detailing the Council's Statement of Accounts for year ended 31st March, 2009. The Accounts and Audit Regulations 2003 required the approval of the Statement of Accounts by 30th June, 2009 and publication by 30th September, 2009.

The Statement of Accounts for 2008/09 had been distributed to Members prior to the meeting. The Borough Treasurer tabled some amendments to the report at the meeting as follows:-

- Page 12 – the figures in the top two rows of the table had been amended as a Cost Centre had been put in the wrong place however, this did not alter the total at the bottom of the table;
- Page 34 – the table had been amended to present the information in a different format;
- Page 35 – the table at the top of the page in respect of valuation certificates, these figures had been amended however the total remained the same; and
- Page 31 – half way down the table in the column titled 'impairment 31/3/2008' this had been amended to 2009.

The Borough Treasurer had informed the Committee that Local Authority Accounts are prepared to comply with Generally Accepted Accounting Principles (GAAP) in the United Kingdom. This meant that public sector accounts were moving towards alignment with company accounts. The professional accounting body for the public sector, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued Statement of Recommended Practice (SORP) and guidance to Authorities on the best way of producing the accounts.

In preparing the accounts for 2008/09, Officers had complied with recommended practice and all the relevant legislations.

The results for the financial year ended 31st March 2009 were:

The General Fund

The 2008-2009 original General Fund (GF) net revenue budget was set at £13,092,000. The net GF expenditure for the year was £13,145,927. The deficit for the year was £53,927.

The GF balance as at 31st March, 2009 was £1,971,258. This was a prudent level of balance to maintain and represented around 15% of the net revenue budget.

The actual expenditure was compared to the original budget and the difference formed part of the GF balance.

The main variations from the original budget had been reported to the Executive Committee on a quarterly basis throughout 2008/09. Full details of the year's variations had been detailed in the Borough Treasurer's report.

The Housing Revenue Account

The Housing Revenue Account (HRA) original budget for 2008/09 had been set at a surplus of £29,820. The outcome for the year was a surplus of £120,556.

The HRA balance as at 31st March, 2009 was £845,980.

The main reasons for the major variations had been detailed in the Borough Treasurer's report.

The Collection Fund

The Collection Fund (CF) resulted in a deficit of £260,788 for the year with an overall CF balance of £389,136. This deficit would be shared in 2010/11 amongst the Borough Council, Cumbria County Council and the Police Authority in proportion to their precepts for 2009/10.

Reserves

The available reserves as at the 31st March, 2009 were as follows:-

- The Opportunity Reserve at £1,195,552;
- The General Reserve stood at £461,623;
- Other earmarked reserves amounted to £1,348,798;
- The Usable Capital Receipts at the year end had been £1,572,673; and
- The Major Repairs Reserve for the HRA had been fully used in the year.

Detailed information and analysis of the accounts had been presented in the full Statement of Accounts which had been appended to the Borough Treasurer's report.

RESOLVED:- (i) To note that the Committee had reviewed and scrutinised the annual Statement of Account and considered that the accounting policies had been followed;

(ii) To agree to formally approve the Statement of Accounts for 2008/09 and agree its submission to the Audit Commission; and

(iii) To authorise the Chairman of this Committee to sign the accounts on behalf of the Council.

3 – Annual Governance Statement 2008/09

The Borough Treasurer presented a report detailing the Annual Governance Statement for 2008/09. The Accounts and Audit Regulations 2006, Regulation 4(2) required the Council to carry out an annual review of its governance arrangements. The outcome of this review resulted in the production of an Annual Governance Statement (AGS).

The AGS was the mechanism used to demonstrate that, during the financial year ended 31st March, 2009, the Council had an adequate governance regime in place and all business had been conducted in compliance with the existing arrangements. Instances of non-compliance or weakness identified required an action plan to eliminate re-occurrence.

A copy of the Annual Governance Statement which included the proposed action plan to be implemented in 2009/10 had been appended to the report.

The appointed Auditor had highlighted that the second to last paragraph on page 5 of the AGS did not read correctly and the Borough Treasurer agreed to amend this prior to the Chairman of the Committee signing the statement on behalf of the Council.

Members noted the comments made by the appointed Auditor and the Borough Treasurer, that the Monitoring Officer as the most senior corporate Officer would be better placed than the Section 151 Officer (Borough Treasurer) to take responsibility for the ongoing review of governance arrangements and the production of the Annual Governance Statement each year.

It was therefore agreed that the Director of Corporate Services as the Monitoring Officer, be charged with the responsibility of producing the Annual Governance Statement each year by mid May for the previous financial year and also to put in place appropriate ongoing review arrangements.

RESOLVED:- (i) To approve the Authority's Annual Governance Statement for 2008/09 and the action plan to be implemented in 2009/10;

(ii) To authorise the Chairman of this Committee to sign the Annual Governance Statement (as amended) on behalf of the Council, a copy of which was attached at **Appendix 1** to these Minutes; and

(iii) To agree that the Director of Corporate Services as the Monitoring Officer, be charged with the responsibility of producing the Annual Governance Statement each year by mid May for the previous financial year and also to put in place appropriate ongoing review arrangements.

4 – Internal Audit Annual Report 2008/09

The Head of Internal Audit was required to produce an annual report at the end of each financial year. The Internal Audit Annual for 2008/09 had been appended to the report.

The report presented an opinion on the overall adequacy and effectiveness of the internal control environment and presented a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies. It also drew attention to any issues the Head of Internal Audit judged particularly relevant to the preparation of the Annual Governance Statement and compared the work actually undertaken with the work that was planned.

The overall opinion was that, for the systems reviewed, the Council had basically sound systems of control in place, although there were weaknesses which put some of the system objectives at risk. There were a number of systems receiving low assurance and the majority of which related to contract letting and management.

The system of internal control was designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives; it could therefore only provide reasonable and not absolute assurance of effectiveness.

A copy of the full Internal Audit Annual Report for 2008/09 had been considered by the Committee.

RESOLVED:- To note the Internal Audit Annual Report for 2008/09.

The meeting closed at 2.40 p.m.

ANNUAL GOVERNANCE STATEMENT

Governance – How the Council ensures that the right things are done in the right way, for the right people at the right time, in an open, honest and accountable manner.

Annual Statement - The Accounts and Audit Regulations 2006, Regulation 4(2), requires the Council to carry out an annual review of its governance arrangements. The outcome of this review results in the production of the Annual Governance Statement (AGS).

Scope and responsibility

Barrow Borough Council is responsible for ensuring that its business is conducted in accordance with legal requirements and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Barrow Borough Council is also responsible for maintaining proper arrangements for the governance of its affairs, which facilitate the effective exercise of the Council's functions, including arrangements for the management of risk.

Barrow Borough Council has completed the Corporate Governance Compliance checklist which is consistent with the principles of the Delivering Good Governance in Local Government framework set out in the governance framework below.

The Council's statutory officers are:

The Chief Executive – Head of Paid Service;

The Borough Treasurer - Section 151 Officer under the Local Government Act 1972;

The Director of Corporate Services – Monitoring Officer.

The purpose of the governance framework

The governance framework comprises the culture and values, systems and processes used by the Council to direct and control its activities, enabling it to engage, lead and account to the community.

The framework allows the Council to monitor the achievement of its strategic objectives and to consider whether appropriate, cost effective services have been delivered.

A significant part of the framework is the Council's system of internal control which is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Barrow Borough Council for the year ended 31 March 2009, and up to the date of approval of the accounts.

The governance framework

The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) identified six principles of corporate governance that underpin the effective governance of all local authorities. Barrow Borough Council has used these principles when assessing the adequacy of its governance arrangements. The main elements that contribute to these arrangements are listed below each core principle:

Core Principle 1: focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area

- Love Barrow was initiated by the Regeneration Publicity Team, which represents business, tourism, the Urban Regeneration Company (West Lakes Renaissance), further and higher education and other regeneration organisations in the Borough
- The Council's policies, aims and objectives are well established and monitored at various levels, for example Corporate Business plan, annual service budget planning process and personal performance appraisals
- Regular consultation is undertaken on a range of issues
- The Local Strategic Partnership provides a partnership review forum
- Consultation informs our Sustainable Community Strategy which is available to the public
- The Sustainable Community Strategy and Annual Report articulate the Council's activities and achievements
- The Medium Term Financial plan underpins corporate aims
- The Council's budget shows financial plans at a detailed level for the financial year
- Effective Budget Monitoring takes place regularly
- Cashable and non-cashable savings under 'Gershon' have exceeded targets
- Performance management and reporting is embedded, including quarterly reporting to the Management Board and the Executive Committee and review by the Overview and Scrutiny Committees
- Scrutiny reviews have delivered tangible outcomes

Core Principle 2: members and officers working together to achieve a common purpose with clearly defined functions and roles

- Members attend meetings for several strategic working groups within the Council
- Official Member spokespersons for strategic objectives
- The Council's Constitution clearly states the roles and responsibilities of members and senior officers
- Terms of reference for Committees and the Council are clearly defined in the Constitution
- Clear delegations and accountabilities are laid down in the Constitution
- Joint Board meetings with Members and Management Team
- Executive Committee pre-agenda meetings with Members and Management Team
- Management Team and heads of service attend monthly Management Board
- Officers are appointed with clear job descriptions
- Adoption of statutory and professional standards
- Compliance with Financial Regulations and Contract Procedure Rules that are reviewed and approved by the Council
- Financial administration procedures are agreed by the Borough Treasurer
- Appropriate segregation of duties and management supervision

Core Principle 3: promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

- The Council's vision and aims statement exemplifies its priorities and values
- A Member / Officer protocol is set out within the Constitution
- There are codes of conduct in place for Members and Officers

- There is an established and effective Standards Committee
- Anti-fraud and corruption policy
- The Council has adopted the Payment Card Industry Data Security Standard with a statement of procedure to ensure that valuable cardholder account data is always secure
- The Council participates in the Audit Commissions National Fraud Initiative, an exercise that matches electronic data within and between audited bodies to prevent and detect fraud; including police authorities, local probation boards and fire and rescue authorities as well as local councils
- A whistle blowing policy is in place and available on the Council's web site
- Member and officer registers of declared interests, and hospitality and gift register

Core Principle 4: taking informed and transparent decisions which are subject to effective scrutiny and management of risk

- There are established and effective Overview and Scrutiny Committees, for corporate services and for regeneration
- There is an established and effective Audit Committee
- Decisions taken are formally minuted
- The Corporate Business plan is rolled forward and reviewed
- Active risk management, including
 - risk identification, registers and actions plans
 - Risk Management group
 - official Member spokesperson for risk management
 - guidance and training on risk management for members and staff
 - involvement of members in monitoring corporate risks
 - consideration of risk implications in committee reports and the decision making process.
- Active health and safety arrangements, including a robust policy, official Member spokesperson, consideration of issues at the quarterly Health and Safety Management Board; the membership includes Management Team, Members and other relevant officers.
- Continuous managerial review of services to ensure continuous improvement and the economic, effective and efficient use of resources
- Devolved financial management arrangements, where managers are responsible for managing their services within available resources and in accordance with agreed policies and procedures. Elements include:-
 - financial awareness training and working closely with service accountants in all aspects of financial management and administration
 - monthly review by officers and the appropriate service manager of budgetary control information, comparing expected and actual performance
 - formal quarterly budget monitoring reports to the Executive Committee
- Active performance management arrangements
- A robust complaints / compliments procedure is in place and is widely publicised
- Freedom of Information requests are dealt with in accordance with established protocols
- All committee reports include reference to the potential impact on the Council's key priorities or corporate aims, and address as appropriate any financial, risk, legal, health and safety and equal opportunities

Core Principle 5: developing the capacity and capability of members and officers to be effective

- An induction programme is in place for Officers and Members
- A Member training and development programme is in operation
- Deputy section 151 and Monitoring Officers are in place
- Officer's training requirements are considered at each personal performance appraisal
- Supervisor training is available
- European Computer Driving Licence training is available
- Members attend leadership residential training course run by Achieving Cumbria Excellence

Core Principle 6: engaging with local people and other stakeholders to ensure robust public accountability

- The Sustainable Community Strategy is positively used
- There is regular community engagement and participation both in general and for specific community groups and services provided, including Parish Councils
- The Council has a Consultation Policy to make sure that community consultation is effective, efficient and consistent
- Community Voice is the name for the Citizens' Panel for Cumbria; Citizen's Panels are made up of a representative sample of local residents who have agreed to take part in research over a given period of time
- Consultation for specific services, through bodies such as the Housing Forum, tenants and residents associations, landlord forum and trade unions are consulted on issues which affect Council staff
- Talking Point is Barrow Borough Council's new online service to help the people of Barrow Borough contact us about local issues
- Committee and Council meetings are open to the public, with papers available on the internet
- The Council Tax leaflet, issued annually, gives further information on the Council priorities and principal outcomes on delivering strategic objectives; these are sent to people's homes with the Council Tax bills
- Clear and colourful publications, including Annual Report, residents' magazine, tenants newsletter, A-Z of Council Services
- The Council engages by various means with hard to reach groups, such as the Citizens Advice Bureau, Furness Multicultural Forum, the Disability Association, Age Concern and the Blind Society
- Other harder to reach groups are served by the Cumbrian forums:
 - AWAZ (Cumbria), promotes the active participation of minority ethnic people and groups
 - Cumbria Disability Network
 - OutREACH Cumbria, is a new strategic partner working on equality issues
- The Council uses a computerised Customer Relationship Management system that includes a calls handling system and queuing and appointment systems
- Govmetrics is used online and at the main Council offices, this is a quick and easy way to collect customer satisfaction using expressions: 😊 😐 😞 to find out how customers rate information and services

Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. This responsibility is in practice carried out by Management Team and managers, with the Chief Executive informing the Executive Committee of any significant matters warranting their attention.

The Council's Overview and Scrutiny Committees exercise a general non-executive review role which in 2008-09 included specific work on:

- Corporate services: equalities performance, health and safety, and reviewing the Council's void commercial properties
- Regeneration and Community services: allotment management, off-street car parking, rent collection, and waste collection and recycling; this committee also receives Performance Information

The review of effectiveness of the system of internal control is informed by three main sources: the work of internal audit; by managers who have responsibility for the development and maintenance of the internal control environment and also by comments made by external auditors and other review agencies / inspectorates.

Internal audit

Barrow's responsibility for maintaining an effective Internal Audit function is set out in Regulation 6 of the Accounts and Audit Regulations 2003. This responsibility is delegated to the Borough Treasurer. The Internal Audit function has no operational responsibilities; this ensures that its duties are performed impartially.

Internal Audit operates in accordance with best practice professional standards and guidelines. It independently and objectively reviews, on a continuous basis, the extent to which the internal control environment supports and promotes the achievement of the Council's objectives, and contributes to the proper, economic, efficient and effective use of resources. All audit reports go to the Audit Committee who review any recommendations and monitor their implementation. Members receive a quarterly and an annual report of internal audit activity and approve the annual risk-based audit plan for the forthcoming year.

During 2008-09 Internal Audit completed 450 days of review, which was spent undertaking 50 audits, 30 of which have had final reports issued. Of these 1 was assessed as being able to offer unqualified levels of assurance, 17 substantial assurance, and 12 were found to have restricted assurance. Internal Audit also performed agreed additional audit work commissioned by the Borough Treasurer, which did not require an assurance level.

In respect of the internal control arrangements, it should be noted that 9 of the completed audits are for contracted project works and all contain the same themes. Of these, 8 were assessed as being able to offer restricted assurance and only 1 was found to have substantial assurance. These audits relate to contracts let in previous financial years and although these have been helpful in shaping the proposed amendments to the Council's Contract Standing Orders. Assurance may be taken that these weaknesses are being addressed.

Taking the remaining system based audits, 81% of the reviews account for substantial or reasonable assurance, whilst only 19% of reviews placed a restricted assurance on the system of internal control in operation at the time of the review. The outcomes of these Internal Audit reviews are reported to the Audit Committee on a quarterly basis, giving Members an opportunity to understand the Council's compliance with key controls and to discuss any areas of concern with the Auditors.

Managers

Individual managers are responsible for establishing and maintaining an adequate system of internal control within their own sections and for contributing to the control environment on a corporate basis. There are a number of significant internal control areas which are subject to review by internal audit. All managers acknowledge their responsibilities and confirm annually that they have implemented and continuously monitored various significant controls. This is done on a checklist covering: management structures and reporting lines, strategy and planning, risk management, ethics, service delivery, performance management, policies and procedures, and financial controls. This checklist is reviewed by the Management Team.

External auditors and other review agencies / inspectorates

External auditors are appointed to the Council by the Audit Commission. They are required to conduct their audit work to the strictest standards as laid down by the Audit code of Practice, which ensures that they approach the work with the highest level of objectivity. The external auditors undertake a series of thorough and comprehensive audits that cover matters including financial reporting, financial stewardship and the Council's approach to its use of resources.

Each year the Council receives a report from its external auditor on the quality of its financial and management administrative arrangements. The most recent audit letter, which was presented for Members' consideration at the Audit Committee meeting on the 18 March 2009, indicated that the Council has arrangements in place for securing continuous improvement in corporate governance, with no significant weaknesses identified that would prevent improvement levels being sustained.

In March 2009 the Council was advised that it had achieved an overall level 2 in Use of Resources Assessment under the Comprehensive Performance Assessment which means that the Council is judged to be performing adequately. In terms of internal controls issues within the report, there were two areas where the auditors identified areas for improvement; these related to strengthening the arrangements for ensuring appropriate use of resources and ensuring that business planning could be measured against priorities.

During 2008 the benefits service, outsourced to Liberata UK Limited in 1998, was inspected by the Audit Commission. Following a formal appeal by the Council, the Audit Commission judgement remained that the service was poor with poor prospects for improvement. The Council has expanded its service improvement plan for benefits to incorporate the actions identified by the inspection and will continue to build a better service for the community in partnership with the contractor. The Barrow / Liberata Strategic Board continue to monitor the improvement plan.

A cross cutting review of health inequalities was completed during 2007-08 involving local government and health organisations. The report concluded that organisations in Cumbria have a strong commitment to tackling health inequalities and an increasing focus on collaborative action.

Other external reviews during the year included:

- ISO9001 accreditation for the building control services
- Investors in People accreditation
- Health and Safety Executive engagement programme
- North West Employers award for elected members development

Significant governance and internal control issues

The review of the governance arrangements has not identified any significant weaknesses. We believe that the existing governance arrangements are fit for purpose and are adequate to discharge the Council's legal responsibilities and to meet the Council's corporate aims.

The following governance issues were identified during 2008-09 as a result of the review of arrangements and by the work of external and internal audit:

- monitoring the performance of the housing benefit service and the implementation of the improvement plan
- monitoring the implementation of a new pay and grading system
- developing a workforce strategy
- monitoring of areas with restricted assurance Internal Audit by Audit Committee
- implementing the processes and systems for the transition to International Financial Reporting Standards in 2010-11
- establishing a corporate governance group

The issues identified above will be dealt with by the responsible officers and progress will be monitored by the Management Board and the Audit Committee when appropriate.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation an operation as part of our next annual review.

T O Campbell
Chief Executive
22 June 2009

Councillor J D Heath
Audit Committee Chairman
29 June 2009

| | | |
|---|--|---|
| AUDIT COMMITTEE | | Part One (D) Agenda Item 7 |
| Date of Meeting: 23rd September, 2009 | | |
| Reporting Officer: Borough Treasurer | | |
| Title: Audit Commission – Annual Governance Report for the Year 2008-2009 | | |
| Summary and Conclusions: | | |
| The Annual Governance Report is produced by the Audit Commission following the completion of their audit for each financial year. | | |
| The Council’s External Auditors will attend the meeting to present the report to Members. | | |
| Recommendations: | | |
| Members are recommended to: | | |
| 1. Receive the report; | | |
| 2. Raise any questions or concerns with the Appointed Auditor; and | | |
| 3. Approve the recommendations and action plan contained in the report. | | |

Report

The Audit Commission Annual Governance Report for 2008-2009 is attached at **Appendix 1**.

(i) **Legal Implications**

It is a statutory requirement to have the accounts certified and published by the 30th September 2009.

(ii) **Financial Implications**

None.

(iii) **Health and Safety Implications**

None.

(iv) Key Priorities or Corporate Aims

None.

(v) Risk Assessment

None.

(vi) Equal Opportunities

None.

Background Papers

Nil

Annual Governance Report

Barrow-in-Furness Borough Council

Audit 2008/09

Date

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

Dear Chair and Members of Barrow Borough Council Audit Committee

2008/09 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Borough Treasurer and has been updated since as issues have been resolved.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 7).

Yours sincerely,

Gina Martlew
Appointed Auditor
September 2009

Key messages

This report summarises the findings from the 2008/09 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 how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

| Financial Statements | Results | Page |
|---|---------|------|
| Unqualified audit opinion | Yes | 6 |
| Financial statements free from material error | Yes | 6 |
| Adequate internal control environment | Yes | 6 |
| Use of resources | Results | Page |
| Use of resources judgements | Yes | 9 |
| Arrangements to secure value for money | Yes | 9 |

Audit opinion

- 1 I propose to give an unqualified opinion on the accounts and the VFM conclusion.
- 2 I would like to thank the Borough Treasurer and his staff for their thorough work on the preparation and presentation of the accounts, there were few errors and working papers were very good.

Audit Fees

- 3 I reported to the Audit Committee in April 2009. Our report explained that at that stage, having considered risks that had arisen since the fee was originally agreed, there was no requirement to increase the fee. There have been no issues arising during the final accounts audit which would lead to an increase in the fee.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

4 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- take note of the VFM Conclusion (Appendix 6) and Use of Resources score (Appendix 5);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 7).

Financial statements

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

Opinion on the financial statements

- 5 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.

Errors in the financial statements

- 6 Our audit identified some errors in the financial statements. The purpose of our audit is to identify all material errors in the accounts. Some of the errors which have been amended are large amounts, but relate to the classification of assets.
- 7 The balance sheet total investment of £4.3m is more appropriately classified as cash, as the money was held in an overnight account. This has been amended in the financial statements.
- 8 The Mall and Shops which are valued at £1.4m in the financial statements have been classified as other land and buildings. It would be more appropriate to classify them as non-operational land and buildings. This has been amended in the financial statements.
- 9 The Council undertook a revaluation of assets in line with the Statement of Recommended Practice (SORP). Some of the valuations in the accounts were undertaken by a member of staff employed by Barrow-in-Furness BC. Following the start of the audit the member of staff decided that he was not adequately qualified to undertake the valuations and reported this to management. The member of staff has subsequently been disciplined. There are procedures in place to confirm the qualifications of staff when appointed.
- 10 These asset valuations, which totalled £5.7m, were reviewed by a firm of external valuers who provided a valuation which was £340,000 lower. Management have declined to amend these revaluations as they are not material.

Recommendation

- R1 Ensure that procedures are in place to confirm the qualifications of experts used to provide figures for the financial statements

Weaknesses in internal control

- 11** Our testing of systems work at the interim stage identified that there were weaknesses in the operation of authorisation controls over creditors. Testing of the authorisation of invoices identified that invoices had been authorised by members of staff who were not on the signatory list for the relevant cost code. The authorised signature list needs to be reviewed to ensure that authorised signatories are appropriate and up to date. The risks arising from this control weakness include the possibility that fraudulent expenditure could be entered into the Council's system.
- 12** Because of this control weakness we agreed an approach for additional testing of expenditure to ensure we had sufficient assurance over the classification, accuracy, completeness and occurrence assertions. A sample of expenditure was tested by internal audit. Where testing identified that the expenditure had been authorised incorrectly, a manager on the authorised list for that particular cost code was asked to confirm that the expenditure had correctly been incurred and provided retrospective approval. There were no matters arising from this detailed testing. Out of the sample of 75, 12 were found to not have been correctly authorised, but retrospective approval was obtained for these 12 items.

Recommendation

R2 Ensure that adequate controls operate over the authorisation of expenditure.

Key areas of judgement and audit risk

- 13** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1

Table 1 **Key areas of judgement and audit risk**

| Issue or risk | Finding |
|---|---|
| Economic downturn may affect the carrying value of assets held and an increase in bad debts. | The value of land and buildings on the balance sheet has been affected by the overall fall in property prices. Impairments of £35m have been reflected in the accounts. |
| The Council will need to prepare accounts in line with the requirements of International Financial Reporting Standards from 2010/11. This means that the 2009/10 comparative figures will need to be restated. The transition date for IFRS for local government is 31 March 2009. Barrow Borough Council will need to identify any changes to the 2008/09 figures which are required to restate the | The Council has begun to consider the issues arising from the implementation of IFRS. Sufficient resources will need to be devoted to this additional work. |

| Issue or risk | Finding |
|---|---|
| comparative figures for the 2009/10 accounts. | |
| New fixed asset register | Information had been transferred correctly from the old asset register to the new register. |

Accounting practice and financial reporting

- 14** I consider the qualitative aspects of your financial reporting.
- 15** Two prior period adjustments were made to the accounts which were not material, nor did they correct a fundamental error in previous years. FRS 3 and the SORP require prior period adjustments only when there is a material adjustment to prior years arising from changes in accounting policies or from the correction of a fundamental error in previous years' accounts.
- 16** The prior period adjustments made are not material and we have therefore agreed with management that they don't need to be amended.

| Recommendation |
|--|
| R3 In future, consider whether prior period adjustments are required by the SORP and FRS 3. |

Letter of representation

- 17** Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from you.

Use of resources

I am required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.

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

Use of resources judgements

- 18** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 19** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 20** The Council's use of resources theme scores are shown in Table 3 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 5.

Table 2 Use of resources theme scores

| Use of resources theme | Scored judgement |
|------------------------|------------------|
| Managing finances | 2 |
| Governing the business | 2 |
| Managing resources | 2 |

- 21** Summaries for each of the themes and KLOE scores can be found in Appendix 5.

Value for money conclusion

- 22** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 6.
- 23** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

24 Appendix 1 contains the wording of my draft report.

Appendix 1 – Independent Auditor’s report to Members of Barrow-in-Furness Borough Council

Independent Auditor’s report to the Members of Barrow-in-Furness Borough Council

Opinion on the financial statements

I have audited the Council accounting statements and related notes of Barrow-in-Furness Borough Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Barrow-in-Furness Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Borough Treasurer and auditor

The Borough Treasurer’s responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Council and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June

2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword and the content of the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In my opinion the Council financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Council as at 31 March 2009 and its income and expenditure for the year then ended.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Council’s Responsibilities

The Council 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 regularly to review the adequacy and effectiveness of these arrangements.

Appendix 1 – Independent Auditor’s report to Members of Barrow-in-Furness Borough Council

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council 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 in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Barrow-in-Furness Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

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

Gina Martlew

September 2009

Appointed Auditor

Audit Commission
2nd Floor, Aspinall House,
Aspinall Close,
Middlebrook,
Horwich,
Bolton, BL6 6QQ

Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

Table 3

| Description of error | Accounts affected | Value of error |
|--|--------------------------------------|----------------|
| The Mall and Shops are classified as other land and buildings where it would be more appropriate to classify them as non-operational land and buildings. | Balance sheet – fixed assets | £1,424,000 |
| The balance in the overnight account held by the Council has been shown as an investment, however it would more appropriately be shown as cash. | Balance sheet, investments and cash. | £4,303,000 |

There have also been changes made to some disclosures to aid understanding. Some of these are above our triviality threshold; however they are not individually significant to require reporting to those charged with governance.

Appendix 3 – Unadjusted misstatements in the accounts

The following misstatements were identified during the course of my audit and the financial statements have not been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 4

| Description of error | Accounts affected | Value of error |
|---|--------------------------------|----------------|
| The revaluation of fixed assets initially valued by a member of staff was reperformed by an external valuer. This produced a lower valuation overall. | Balance sheet – fixed assets | £340,000 |
| Two prior period adjustments were made to the accounts. However these adjustments do not comply with the SORP which states that material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors should be accounted for by restating the comparative figures for the preceding period in the Statement of Accounts. The adjustments made are not material and therefore did not need to be made. The adjustments were as follows: | | |
| The prior year's net expenditure for Cultural, Environmental and Planning Services was amended to include the Market Hall and the Outdoor Market which were previously disclosed separately as a trading operation. | Income and Expenditure account | £19,997 |

Appendix 3 – Unadjusted misstatements in the accounts

| Description of error | Accounts affected | Value of error |
|--|---------------------------------------|----------------|
| The opening collection fund balance was changed, and the amounts relating to precepting authorities have been included as creditors. | Collection fund balance and creditors | £139,907 |

Appendix 4 – Draft letter of representation

To:

Ms G Martlew

Senior Audit Manager

Audit Commission

2nd Floor

Aspinall House,

Aspinall Close,

Middlebrook,

Horwich,

Bolton, BL6 6QQ

Dear Ms Martlew

Barrow-in-Furness Borough Council - Audit for the year ended 31 March 2009

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Barrow-in-Furness Borough Council, the following representations given to you in connection with your audit of the

Council's financial statements for the year ended 31 March 2009. All representations cover the Council's accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice and United Kingdom Generally Accepted Accounting Practice which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed below are not material to the financial statements, either individually or in aggregate.

The uncorrected errors were as follows:

- The opening net expenditure for Cultural, Environmental and Planning Services was amended to include the Market Hall and the Outdoor Market which were previously disclosed separately as a trading operation.
- The opening collection fund balance was changed, and the amounts relating to precepting authorities have been included as creditors.

These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

- *reason 1 etc;*
- *reason 2*

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Irregularities

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

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

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; and
- 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.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Appendix 4 – Draft letter of representation

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For all assumptions, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. We have no lines of credit arrangements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

Specific representations

There have been no equal pay claims received by the Council.

Signed on behalf of Barrow-in-Furness Borough Council

I confirm that the this letter has been discussed and agreed by the Council on 23
September 2009

Signed

Name

Position

Date

Appendix 5 – Use of resources

The following tables summarise the key finding and conclusions for each of the three use of resources themes. The detailed findings will be reported separately.

Table 5 Managing finances - How effectively does the Authority manage its finances to deliver value for money?

| | |
|---|----------|
| Theme score | 2 |
| Key findings and conclusions | |
| <p>The Council has set key priorities for the Borough and for the delivery of services. The business plan for 2008/09 clearly links to the key priorities of the Council and schemes have been delivered in line with its key priorities. A Medium term financial plan is consistent with other plans. There has been consultation within and outside the council on the budget setting process.</p> <p>An approved treasury management policy is in place and the council has continued its prudent investment policy. The council understands its costs and performance and reports these to managers and councillors. It is aware of the issues that it has to deal with because of geographical isolation and because of the deprivation in parts of the borough.</p> <p>The council uses detailed analysis of costs and performance to support its decisions in service expansion and redesign. The council regularly reports cost and performance information to its managers and councillors. The routine reporting of performance information is based on reporting by exception.</p> <p>The Council needs to ensure that it is able to replicate its more efficient and effective methods of working and using cost and performance information in a consistent and systematic manner across the workings of the whole organisation.</p> <p>A comprehensive Council Finance report is submitted to the Management Board and the Executive Committee, which includes forecast information. The report is produced quarterly.</p> <p>The Council produced good quality accounts which were prepared and approved by the audit committee ahead of the deadline. The working papers supplied to support the accounts are of a good quality and all queries have been dealt with on a timely basis</p> <p>Staff are aware of the latest guidance and attend relevant training.</p> <p>The website includes a corporate documents section which includes all the key documents produced by the Council. An Annual Report is produced and includes financial information in an easy to understand format.</p> | |

Table 6 **Governing the business – how well does the Authority govern itself and commission services that provide value for money and deliver better outcomes for local people?**

| | |
|--|----------|
| Theme score | 2 |
| Key findings and conclusions | |
| <p>The council is delivering outcomes in line with priorities and has redesigned services and made appropriate investments to better meet those needs.</p> <p>The council is involving its partners, including suppliers and potential suppliers, in its procurement decision making.</p> <p>Data produced is reliable and relevant. Relevant and timely information is provided to managers and councillors to assist them in decisions. Data security procedures are in place and are working. The council has procedures in place to enable it to collect and analyse data from its services and activities.</p> <p>The Constitution sets out the roles of the different committees, the roles of officers and a protocol for officer/ member relations, code of conduct for members and the areas for which the council will have official spokespersons. The council has set out a clear vision.</p> <p>There is a programme for member development and learning</p> <p>The Council also works in partnership with Liberata in delivery of services. There is a partnership board which monitors the performance which reports to the scrutiny committee.</p> <p>The council has a standards committee. The Council works in partnership with a number of organisations through the LSP.</p> <p>The risk register scores the risks based on likelihood and impact, including risks in relation to partnerships, highlights mitigating and contingency actions and identifies a responsible officer for the risks. The executive management board considers the risk register which also is considered by the scrutiny committee.</p> <p>A counter fraud strategy is in place which is available on the Council's website, as is the whistleblowing policy and the fraud hotline is manned by internal audit. The Council has an audit committee and effective internal audit in place. There are arrangements in place to prepare the AGS. The Council has a good system of internal financial control.</p> | |

Appendix 5 – Use of resources

Table 7 Managing resources – How well does the authority manage its people to meet current and future needs and deliver value for money?

| | |
|--|----------|
| Theme score | 2 |
| Key findings and conclusions | |
| <p>The council's workforce is small compared with similar sized districts as many services have been contracted out. The workforce is relatively productive and generally well skilled. The council has an appraisal system in place and has a resourced annual training plan to help respond to training needs identified during appraisal. The council understands the profile of its workforce and reports on this annually to managers and councillors, the reports include equality and diversity figures.</p> <p>The council has produced a human resource strategy adopted from work undertaken by Cumbria County Council, dealing with Cumbria wide issues covering the period from 2007 to April 2009. The council has an understanding of areas where further recruitment is needed to meet key priorities and has used traineeships and modern apprenticeships to fill known gaps. They also have an understanding of likely workforce issues arising out of major projects, for example capacity of planning as the marina development continues.</p> <p>The business planning undertaken by the council considers the human resources available to each core service and the associated costs. The business plan links to the financial plan and the key priorities of the Council. Within the council reporting of general HR and people performance indicators takes place quarterly. The council can show evidence of engaging staff at times of organisational change using staff newsletters, the intranet and specific briefings.</p> <p>The Council has a variety of policies for good people management, flexible working and well being which are well publicised on its intranet, including an externally sourced employee assistance programme. Regular reporting of activity takes place including the scrutiny review of sickness absence which has led to immediate reductions in sickness absence, absence is now at 7.5 to 8.5 days compared with the initial 12.5</p> <p>The council has only got level one of the LG equality standard.</p> | |

KLOE scores

Table 8 Theme 1 Managing Finances

| KLOE | Score |
|---|-------|
| 1.1 Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health? | 2 |
| 1.2 Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities? | 2 |
| 1.3 Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people? | 3 |

Table 9 Theme 2 Governing the Business

| KLOE | Score |
|---|-------|
| 2.1 Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money? | 2 |
| 2.2 Does the organisation produce relevant and reliable data and information to support decision making and manage performance? | 2 |
| 2.3 Does the organisation promote and demonstrate the principles and values of good governance? | 2 |

Appendix 5 – Use of resources

| KLOE | Score |
|---|-------|
| 2.4 Does the organisation manage its risks and maintain a sound system of internal control? | 2 |

Table 10 Theme 3 Managing Natural Resources

| KLOE | Score |
|--|-------|
| 3.3 Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities? | 2 |

Appendix 6 – Value For Money Conclusion

Value for Money Conclusion Criteria

Table 11 Managing finances

| VFM Criterion | VFM Conclusion met? |
|---|---------------------|
| Does the organization plan its finances effectively to deliver its strategic priorities and secure sound financial health? | Yes |
| Does the organization have a sound understanding of its costs and performance and achieve efficiencies in its activities? | Yes |
| Is the organization's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people? | Yes |

Table 12 Governing the business

| VFM Criterion | |
|---|-----|
| 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 | Yes |

Appendix 6 – Value For Money Conclusion

| | |
|----------|--|
| control? | |
|----------|--|

Table 13 Managing resources

| VFM Criterion | VFM Conclusion met? |
|---|---|
| Is the organisation making effective use of natural resources? | n/a for 2008/09, but will be assessed in 2009/10. |
| Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs? | n/a for 2008/09. Will not be assessed in 2009/10. |
| Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities? | Yes. Will not be assessed in 2009/10. |

Appendix 7 – Action Plan

| Page no. | Recommendation | Priority Low Med High | Responsibility | Agreed | Comments | Date |
|----------|---|--------------------------------|----------------|--------|----------|------|
| | Annual Governance Report 2008/09 - Recommendations | | | | | |
| | Ensure that procedures are in place to confirm the qualifications of experts used to provide figures for the financial statements | High | | | | |
| | Ensure that adequate controls operate over the authorisation of expenditure. | High | | | | |
| | In future, consider whether prior period adjustments are required by the SORP and FRS 3. | Med | | | | |
| | | | | | | |

The Audit Commission

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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www.audit-commission.gov.uk

| | | |
|--|--|---|
| AUDIT COMMITTEE | | Part One (D) Agenda Item 8 |
| Date of Meeting: 23rd September, 2009 | | |
| Reporting Officer: Borough Treasurer | | |
| Title: Letter of Representation 2008-2009 | | |
| Summary and Conclusions: | | |
| As part of the annual process of finalising the Accounts, there is a requirement to provide assurance to the Audit Commission on relevant and significant matters relating to the financial year. A letter of representation is issued to disclose material facts affecting the 2008-2009 transactions of the Council. | | |
| Recommendations: | | |
| Members are recommended to: | | |
| 1. Approve the letter of representation for 2008-2009; and | | |
| 2. Authorise the Chairman of the Committee and the Borough Treasurer to sign the letter on behalf of the Council. | | |

Report

The letter of representation is reproduced below:-

Barrow-in-Furness Borough Council – Audit for the year ended 31st March, 2009

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Barrow-in-Furness Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2009. All representations cover the Council's accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice and United Kingdom Generally Accepted Accounting Practice which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial misstatements listed below are not material to the financial statements, either individually or in aggregate.

The uncorrected errors were as follows:

1. Some of the valuations in the accounts were undertaken by a member of staff employed by Barrow-in-Furness BC. Following the start of the audit the member of staff decided that he was not adequately qualified to undertake the valuations and reported this to management. These asset valuations, which totalled £5.7m, were reviewed by a firm of external Valuers who provided a valuation which was £340,000 lower.
2. The opening net expenditure for Cultural, Environmental and Planning Services was amended to include the Market Hall and Outdoor Market which were previously disclosed separately as a trading operation.
3. the opening collection fund balance was changed, and the amounts relating to precepting authorities have been included as creditors.

These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

1. The change in valuation of £340,000 is not significant as it only represents 0.2% of the total fixed assets amount in the balance sheet.
- 2&3 This information will aid the reader of the accounts to follow the changes made compared to the previous years even though the amounts involved are not together significantly large.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Irregularities

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

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;

- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

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; and
- 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.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For all assumptions, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;

- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. We have no lines of credit arrangements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

Specific representations

There have been no equal pay claims received by the Council.

Signed on behalf of Barrow-in-Furness Borough Council

I confirm that the this letter has been discussed and agreed by the Audit Committee on 23 September 2009

Signed:

Name: Councillor JD Heath

Mr M Saleh

Position: Chairman of the Audit
Committee

Borough Treasurer

Date: 23rd September 2009

23rd September 2009

(i) Legal Implications

It is a statutory requirement to have the accounts certified and published by the 30th September 2008.

(ii) Financial Implications

None.

(iii) Health and Safety Implications

None.

(iv) Key Priorities or Corporate Aims

None.

(v) Risk Assessment

None.

(vi) Equal Opportunities

None.

Background Papers

Nil

| | | |
|--|--|--------------------------------------|
| AUDIT COMMITTEE | | Part One |
| Date of Meeting: 23rd September, 2009 | | (D) Agenda Item 9 |
| Reporting Officer: Borough Treasurer | | |
| Title: Final Accounts for the Year ended 31st March 2009 – Audit Amendments | | |
| Summary and Conclusions: | | |
| <p>The Statement of Accounts and Annual Governance Statement for 2008-2009 were reported to this Committee on the 29th June 2009, following approval they were submitted to the Audit Commission for audit and certification.</p> <p>A number of amendments were agreed and this report highlights them to the Committee.</p> | | |
| Recommendations: | | |
| <p>Members are recommended to:</p> <ol style="list-style-type: none">1. Note and approve the amendments agreed by the Borough Treasurer with the Audit Commission; and2. Authorise the Chairman of the Committee to sign the amended Statement of Accounts. | | |

Report

The Audit Commission suggested a number of amendments to the Accounts and the Annual Governance Statement for 2008-09 that I have agreed to make the following amendments:

- Reclassify £4,303,412 investments into cash,
- Reclassify the value of the Mall and shops of £1,424,200 from an operational to non operational category,

Other items highlighted by the Audit Commission were noted but not amended because it is felt that they are not significant:

- Some of the valuations in the accounts were undertaken by a member of staff employed by Barrow-in-Furness BC. Following the start of the audit the member of staff decided that he was not adequately qualified to undertake the valuations and reported this to management. These asset valuations, which totalled £5.7m, were

reviewed by a firm of external Valuers who provided a valuation which was £340,000 lower.

- The opening net expenditure for Cultural, Environmental and Planning Services was amended to include the Market Hall and the Outdoor Market which were previously disclosed separately as a trading operation.
- The opening collection fund balance was changed, and the amounts relating to precepting authorities have been included as creditors.

The amended Statement of Accounts including the Annual Governance Statement is attached to this report at **Appendices 2 and 3**.

(i) Legal Implications

It is a statutory requirement to have the accounts certified and published by the 30th September 2009.

(ii) Financial Implications

None.

(iii) Health and Safety Implications

None

(iv) Key Priorities or Corporate Aims

None

(v) Risk Assessment

None.

(vi) Equal Opportunities

None

Background Papers

Nil



Barrow Borough Council

Statement of Accounts for 2008-09

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Published September 2009

Explanatory Foreword to the Accounts

Introduction

The Statement of Accounts summarises the Council's transactions for the 2008-09 financial year and its position at the year-end 31 March 2009. Figures for the previous year are included to assist in the interpretation of the accounting statements.

The purpose of the Statement of Accounts is to give readers clear information about the Council's finances. It discloses the cost of Council services in the year, where the money came from to pay for the services and what the assets and liabilities were at the year-end.

The accounting statements consist of core financial statements followed by a consolidated set of notes covering all of the core statements. Supplementary statements are presented (with their own notes) after the notes on the core statements.

The Statement of Accounts comprises:

- Statement of Accounting Policies
- Statement of Responsibilities for the Statement of Accounts
- Accounting Statements:
 - The Core Financial Statements:
 - Income and Expenditure Account
 - Statement of the Movement on the General Fund Balance
 - Statement of Total Recognised Gains and Losses
 - Balance Sheet
 - Cash Flow Statement
- Notes to the Core Financial Statements
- Supplementary Statements:
 - Housing Revenue Account (HRA) Income and Expenditure Account and Statement of Movement on the HRA Balance
 - Collection Fund
- Annual Governance Statement.

Statement of Accounting Policies

The purpose of this statement is to explain the basis for the recognition, measurement and disclosure of transactions and other events in the accounts. The accounting policies and estimation techniques disclosed are those that are significant to the understanding of the Statement of Accounts (**Pages 5 to 10**).

Statement of Responsibilities for the Accounts

This statement sets out the Council's responsibilities for the accounts under local government legislation and other requirements, and the Borough Treasurer's legal and professional responsibility for the accounts (**Page 11**).

Accounting Statements

The Income and Expenditure Account (**Page 12**) brings together all of the functions of the Council and summarises all of the resources that have been generated, consumed or set aside in providing services during the year.

The Statement of Movement on the General Fund Balance (**Page 13**) takes the surplus or deficit from the Income and Expenditure Account and then applies certain statutory items that are taken into account in determining the Council's budget requirement and in turn its Council Tax demand. This results in the General Fund Balance.

The Statement of Total Recognised Gains and Losses (**Page 14**) brings together all gains and losses recognised by the Council in the financial year.

The Balance Sheet (**Page 15**) sets out the Council's financial position as at the 31 March 2009. It shows balances and reserves at the Council's disposal, its long-term indebtedness, and the long-term and net assets employed in its operations, together with summarised information on the fixed assets held.

The Cash Flow Statement (**Page 16**). This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes for the financial year.

Notes to the Core Financial Statements

The notes to the core financial statements (**Pages 17 to 44**) add to and interpret the content of the individual accounting statements. They provide more explanation and analysis where matters of financial significance cannot adequately be shown in the statements themselves.

Supplementary Statements

The Housing Revenue Account (**Pages 45 to 52**) reflects the statutory obligation to account separately for Council housing provision. The HRA has two statements. The HRA Income and Expenditure Account show the HRA services in more detail than the whole authority statement. The Statement of Movement on the HRA Balance adjusts the HRA Income and Expenditure surplus or deficit by applying statutory items. This results in the year end HRA balance.

The Collection Fund (**Pages 53 to 55**) reflects the statutory requirement to maintain a separate record of transactions in relation to council tax and non-domestic rates, and illustrates the way in which these have been distributed to precepting authorities, the national non-domestic rates pool and the General Fund.

Annual Governance Statement

The Annual Governance Statement is the mechanism used to demonstrate that, during the financial year ended 31 March 2009, the Council had an adequate governance regime in place and that all business was conducted in compliance with the existing arrangements. (**Pages 56-61**).

Comparison with revenue budget

The Council's original spending plans (budget) in overall terms and the actual outturn for 2008-09 are shown below:

| 2007-08 | | | 2008-09 | |
|------------|------------|---|------------|------------|
| Budget | Actual | | Budget | Actual |
| £ | | | £ | |
| 12,729,110 | 12,305,622 | Net General Fund budget approved by Council on the 25 February 2008 | 13,092,000 | 13,145,927 |
| 423,488 | | Movement in the General Fund balance for the year | (53,927) | |
| | | To be funded by: | | |
| 8,672,680 | | Central Government | 8,887,317 | |
| 4,056,430 | | Council Tax | 4,204,683 | |

The net actual expenditure after contributions to reserves for 2008-09 is £53,927 above the Council's net General Fund budget. There was a net under-spend on the General Fund services of £978,707, including £357,098 of Area Based Grant. A net contribution to earmarked reserves of £1,032,634 was made leaving the overall deficit of £53,927.

For the Housing Revenue Account the original spending plans (budget) and the actual outturn for 2008-09 are shown below:

| 2007-08 | | Housing Revenue Account budget approved by Council on the 25 February 2008 | 2008-09 | |
|----------------|-------------------|--|----------------|-----------------|
| Budget | Actual | | Budget | Actual |
| £ | | | £ | |
| 17,140 surplus | 1,851,136 deficit | | 29,820 surplus | 120,557 surplus |

The main reason for the surplus of £120,557 for 2008-09 is higher than budgeted dwelling rents.

Balances and reserves

The balances and reserves available to the Council at the 31 March 2009:

| | 31 March 2008 | 31 March 2009 |
|---|---------------|---------------|
| | £ | £ |
| General Fund revenue balance | (2,025,186) | (1,971,258) |
| General Fund earmarked reserves | (1,973,339) | (3,005,972) |
| HRA revenue balance | (725,423) | (845,980) |
| Collection Fund balance Page 54 Note 4 | (22,187) | 52,185 |
| Usable capital receipts reserve | (1,728,568) | (1,572,673) |
| Total usable reserves and balances | (6,474,703) | (7,343,698) |

Retirement benefits

The Balance Sheet (**Page 15**) shows the Council's pension liability matched by the pension reserve at the balance sheet date. This reflects the Council's future liability for pensions relating to current and previous staff. There is no overall effect from pension liabilities on Council Tax or housing rent levels.

Prudential code

The Council adopted the Prudential Code for Capital Finance in Local Authorities in 2004-05. This sets out a framework for the self-regulation of capital expenditure within the restrictions of prudential indicators designed to maintain affordability, prudence and sustainability.

Capital programme

The Council's capital investment for 2008-09 and how it has been financed is shown below, together with the current debt outstanding and the prudential limit on external borrowing.

| 2007-08 | | 2008-09 |
|--------------|------------------------------------|--------------|
| £ | | £ |
| 12,741,814 | Capital investment | 15,656,880 |
| (1,366,076) | Financed by borrowing | (2,115,177) |
| (6,689,167) | Financed by grant | (10,817,391) |
| (912,707) | Financed by capital receipts | (642,407) |
| (3,773,864) | Financed by balances and reserves | (2,081,905) |
| (12,741,814) | | (15,656,880) |
| (39,000,000) | Authorised limit for external debt | (39,000,000) |
| (29,000,000) | Total of external loans | (29,000,000) |

Group accounts

Where the Council has a group relationship with a separate entity it is required to consolidate both sets of accounts and prepare group accounting statements. During 2008-09 the Council has not had a group relationship with any organisations, therefore there are no group accounting statements or disclosures in the Statement of Accounts.

Accounting policies

These accounts comply with relevant accounting practices and present fairly the financial performance and position of the Council. The accounting policies adopted by the Council are reviewed annually to ensure that the financial information presented is relevant, reliable, comparable and understandable. In 2008-09 a new category of expenditure has been introduced to replace deferred charges. This is Revenue Expenditure Funded From Capital Under Statute (REFFCUS). This has been treated as a change in accounting policy and therefore requires some of the 2007-08 figures to be restated See **Page 16, Note 26** and **Note 46**.

The credit crunch

During the financial year the international banking system faced major liquidity difficulties caused by the American sub-prime mortgage markets which affected the rest of the world banking institutions. A number of banks needed central governments intervention to stabilise the situation. In addition signs of an economic slow down were already becoming apparent. In this country a recession was officially confirmed towards the end of this financial year. The impact of the banking crisis and the recession will affect localities to various extents.

This Council was fortunate not to lose funds unlike a number of local authorities and public bodies.

There was no significant financial impact on the Council's liquid resources during this financial year. The Council exceeded its budget for earned interest on investments and there was no noticeable decline in other income. The effect of the credit crunch may be more apparent in the next financial year.

International Financial Reporting Standards (IFRS)

New financial reporting standards are being introduced from the financial year 2010-11 to comply with IFRS requirements, as required by HM Treasury. For comparative purposes the current year balance sheet has to be restated using the IFRS requirements in preparation for full compliance in 2010-11.

Statement of Accounting Policies

General

The accounts have been prepared in accordance with the following:

- Code of Practice on Local Authority Accounting in the United Kingdom 2008 (SORP), published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority Scottish Accounts Advisory Committee (LASAAC);
- Guidance issued by CIPFA on the application of UK Accounting Standards:
 - Statements of Standard Accounting Practice (SSAP);
 - Financial Reporting Standards (FRS);
- Best Value Accounting Code of Practice (BVACOP); and
- Prudential Code on Capital Finance in Local Authorities.

Accruals of income and expenditure

Customer and client receipts that appear in the accounts as sales, fees, charges and rents are accrued into the period that they relate to. Basic employee costs are charged to the period within which the employee worked. Expenses and any additional working are paid in the following month and are accounted for in the accounting period they are paid in.

Interest payable on external loans and external interest earned is accrued and accounted for in the period it relates to, reflecting the overall economic effect in the accounting period. The accumulated interest due but not paid or due but not yet received at the 31 March is aggregated to the principal outstanding in the Balance Sheet.

The cost of supplies and services is accrued and accounted for in the period of consumption or receipt. Accruals are made on an estimated or actual basis for all material amounts unpaid at the year-end for goods and services received or works completed.

Bad debt provisions are created to adjust the carrying amount of debtors for doubtful and uncollectable debts. The Council annually reviews the amount held in each provision to reflect the current best estimate, primarily based on the age of the debts.

Acquired/discontinued operations

Any material income and expenditure directly related to acquired or discontinued operations is shown as a separate item in the Income and Expenditure Account.

Any liability in respect of discontinued operations is disclosed as a separate item in the Balance Sheet.

Contingent assets and liabilities

Where the Council has contingent assets and liabilities they are disclosed as a note to the accounts if an economic benefit or obligation is probable.

Contingent assets and liabilities are not included in the accounting statements. Should contingent assets or liabilities materialise then the resulting transaction will be accounted for appropriately.

Events after the balance sheet date

Where an event after the balance sheet date, favourable or unfavourable, which provides evidence of conditions that, existed at the balance sheet date occurs (adjusting event) the amounts recognised in the Statement of Accounts are adjusted.

Where an event that occurs after the balance sheet date is indicative of conditions that arose after the balance sheet date (non-adjusting event) the amounts recognised in the Statement of Accounts is not adjusted. For each material category of non-adjusting event after the balance sheet date, the nature of the event and an estimate of the financial effect (or a statement that such an estimate cannot be made reliably) are disclosed.

Events after the balance sheet date are reflected up to the date the Statement of Accounts is authorised for issue. The date when the Statement of Accounts was authorised for issue by the Borough Treasurer is disclosed in the Notes to the Accounts, including confirmation of the date up to which events after the balance sheet date have been considered.

Exceptional items, extraordinary items and prior period adjustments

Exceptional items are part of the ordinary activities of the Council and are included in the cost of the service they relate to, unless they would materially distort the service's cost and its use as a comparative. Where necessary they are disclosed separately in the Income and Expenditure Account and explained in Notes to the Accounts.

Extraordinary items are shown separately in the Income and Expenditure Account after the Council's ordinary activities, and are disclosed in a note to the accounts.

Prior period adjustments arise from corrections and adjustments from estimations and accounting treatments used in the accounting process. Where practicable, the comparative figures for the previous period are restated in the accounting statements and an explanatory note included in the accounts.

Financial instruments

The accounting treatment of financial instruments is covered by three Financial Reporting Standards (FRS's). FRS 26 deals with recognition and measurement, FRS 25 with presentation and disclosures, and FRS 29 replaces the disclosures part of FRS 25.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Financial instruments therefore, cover both financial assets and financial liabilities. In a local authority context and particularly for the Council, financial liabilities include; trade payables (creditors) and borrowings. Financial assets include; trade receivables (debtors), bank deposits and investments.

Financial liabilities are included in the accounts when, in the case of trade payables, the goods or services are received. Borrowing is recognised in the accounts when the amount borrowed is received.

Financial assets are included in the accounts when, in the case of trade receivables, the goods or services have been delivered or rendered. Investments and deposits are recognised at the contract date.

Financial assets and liabilities are included in the accounts at fair value less any transactions costs relating to the acquisition or issue of the financial instrument. Fair value is defined as the amount for which financial assets could be exchanged or a financial liability settled under normal market conditions.

The accounting treatment of financial instruments depends on the classification used and the Council adopts the following classification:

- Financial liabilities – amortised cost
- Financial assets – loans and receivables

Amortised cost using the effective interest rate is a method of determining the Balance Sheet carrying amount and the charges to the Income and Expenditure Account for the financial instrument.

The carrying amount of loans and receivables and the interest income are measured using the effective interest rate method, except for short duration receivables with no stated interest that are measured at the original invoice amount.

Where statutory requirements dictate a different treatment for the carrying amounts relating to premiums and discounts resulting from the early repayment and replacement of loans, the Income and Expenditure Account will be charged or credited with the amount calculated using the effective interest rate method, with a matching adjustment made to the Financial Instruments Adjustment Account (FIAA) to reflect the statutory requirements.

Other types of financial instruments such as financial guarantees, soft loans, equities and derivatives are not currently used by the Council.

Foreign currency translation

Income and expenditure arising from foreign currency transactions would be translated into pounds sterling at the exchange rate on the transaction date.

Any assets or liabilities at the balance sheet date would be shown at the closing rate if no other exchange rate were fixed.

Government grants and other contributions

Grants and other contributions are accounted for on an accruals basis.

Revenue grants are credited against the appropriate service revenue account to match the expenditure they relate to.

Government grants that finance either all or part of an addition to the Council's assets follow the deferred credit method. Capital grants are credited to a government grants unapplied account. Where the grant is used to finance the creation, acquisition or enhancement of a fixed asset, amounts equivalent to the grants applied in financing are transferred to a government grants-deferred account and as depreciation is charged over the life of the asset, the grant is released to the service revenue account over the useful life of the asset, to match the depreciation of the asset it relates to.

Similar accounting treatment has been adopted for grants and contributions from other bodies, using a private grants-deferred account.

However, capital grants relating to Revenue Expenditure Funded From Capital Under Statute (REFFCUS) are credited to the revenue account to match the expenditure charged under this category.

Group accounts

Group accounting requires the consolidation of separate entities accounts where a group relationship exists with the Council. Where such relationships do exist group accounting statements are prepared in addition to the Council's own, separate entity, accounts.

Intangible assets

Intangible assets are held at cost and amortised over their economic lives subject to a maximum of 20 years.

The Council annually reviews the economic lives of each intangible asset to reflect the current best estimate.

Service revenue accounts are charged with a provision for amortisation and where required, impairment, to reflect their use of assets in the course of providing their services.

Leases

The capital value and future liabilities of items acquired by operational leases are recorded as a note to the Income and Expenditure Account. Annual lease payments are charged to the appropriate service revenue account.

Rental payments under finance leases are apportioned between the finance charge and the reduction of the outstanding obligation. The finance charge is allocated and charged to revenue over the term of the lease.

Overheads

In accordance with CIPFA guidance the costs of corporate and democratic management are not recharged to services, they are shown as a separate objective heading in the Income and Expenditure Account. Similarly non distributed costs are not recharged to services and are shown separately in the Income and Expenditure Account.

The cost of support services are allocated or charged to individual services using the most appropriate basis including staff time, number of employees or floor space; reflecting the nature and type of service provided.

If any overheads are not charged or apportioned, the reason together with the details are disclosed in a note to the Income and Expenditure Account.

Pension costs

The Council contributes to the Local Government Pension Scheme managed by Cumbria County Council. It is a multi-employer, funded defined benefit scheme.

The pension costs charged to service revenue accounts are equal to the current service costs rather than the contributions paid to the fund.

The contributions paid into the fund on behalf of current employees together with costs arising in respect of pensions paid to retired employees are set off against the current service cost with any compensating adjustment coming from a transfer with the Pensions Reserve.

There is no impact on the bottom line of the Income and Expenditure Account.

The pension costs are determined on the basis of contribution rates that are set to meet the known liabilities of the fund. Triennial valuations are carried out to determine the level of contributions required.

The treatment and reporting of retirement benefits complies with the accounting and disclosure requirements of FRS 17 – Retirement Benefits.

Provisions

Provisions are created to meet potential liabilities or losses that have been incurred but where timing or amounts are uncertain.

Revenue expenditure funded from capital under statute (REFFCUS)

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the creation of a fixed asset. The purpose of this is to enable this type of expenditure to be funded from capital resources rather than being a charge on the council tax. These items are generally grants and expenditure on property not owned by the authority,

and amounts directed under section 16(2) of Part I of the Local Government Act 2003. This type of expenditure will be charged to the Income and Expenditure Account but reversed out in the Statement of Movement on the General Fund Balance to neutralise the impact on the Council Tax.

This replaces the Deferred Charges category used in previous years.

Research and development

Expenditure on research and development is written off as it is incurred as part of the continuing operations of the Council.

Reserves

Reserves are used to earmark funds to cover future expenditure. Expenditure should not be charged directly to any reserve.

Capital reserves are not available for revenue purposes and certain reserves can only be used for specific statutory purposes.

The Major Repairs Reserve is a statutory account and relates to the Housing Revenue Account. The account can be used to finance HRA capital expenditure or repay the principal of any amounts borrowed.

Stocks

Stocks are included in the Balance Sheet at the lower of cost and net realisable value in accordance with SSAP 9 – Stocks and long-term contracts.

Tangible fixed assets

All expenditure on the creation, acquisition or enhancement of tangible fixed assets is capitalised. This includes any assets acquired under finance leases that have been capitalised and included in the Balance Sheet on the basis of the outstanding obligation to make future rental payments.

All asset values shown in the Balance Sheet are net of depreciation. Council dwellings are included at their Existing Use Value – Social Housing Value. Operational assets are included at the lower of net current replacement value or net realisable value in existing use. Non-operational assets are included at the lower of net current replacement value or net realisable value. Infrastructure assets, equipment and community assets are included at historical cost. Assets under construction are held at cost as non-operational assets until they are commissioned.

The Council appoints qualified valuers to undertake the revaluation of its assets every five years. The asset values used in the accounts are based on the last valuation certificates issued. For the HRA assets this was at 1 April 2008 and was carried out in accordance with specific government guidance on stock valuation issued in July 2005. For all other assets the last valuation was at the 1 April 2008 and those valuations were carried out in accordance with guidelines issued by CIPFA and the Royal Institute of Chartered Surveyors ('RICS'). The valuation covered all major assets valued over the £10,000 de-minimis level.

Additions to the Council's fixed assets are initially included in the accounts at their cost of acquisition until they fall into the next valuation or impairment review.

Where the disposal of a fixed asset results in a gain or a loss, the equivalent amount is transferred to the Income and Expenditure Account. In order to comply with the statutory restrictions on the use of capital receipts the gain or loss is then reversed in the Statement of Movement on the General Fund or HRA Balance. Disposal proceeds are subject to a de-

minimum value of £10,000, except the sale of Council dwellings that are all treated as capital receipts.

In accordance with FRS 11 – Impairment of Fixed Assets and Goodwill – the value at which each category of asset is included in the Balance Sheet is reviewed annually. Where there is a material change between the carrying amount and the recoverable amount, an impairment adjustment is made in the accounts.

In accordance with FRS 15 – Tangible Fixed Assets – all assets are depreciated except land. Assets are not depreciated in the year of their acquisition or creation; they are depreciated in the year of their disposal. Assets are depreciated for full years and not for interim periods if disposed of part way through a year. Assets are depreciated on a straight-line basis and are calculated on the opening balance.

Due to the requirements of the current statutory framework the depreciation charges are replaced with the statutory requirement for the repayment of external loans.

All financial transactions relating to fixed assets in the balance sheet are reflected in a Capital Adjustment Account and a Revaluation Reserve.

The Capital Adjustment Account records all transactions relating to the financing of capital expenditure.

The Revaluation Reserve reflects the valuation gains on fixed assets owned by the Council. The reserve holds information relating to individual assets and their accumulated balance, created from revaluations, can only be used in the impairment and disposal of the individual assets. No individual asset can have a negative balance within the Revaluation Reserve. Impairment and disposal entries can only be charged against the balance built up from revaluation gains.

Value Added Tax

VAT is only included in the accounts where it is deemed to be irrecoverable.

Statement of Responsibilities for the Accounts

The Authority's Responsibilities

The authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Borough Treasurer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

The Borough Treasurer's Responsibilities

The Borough Treasurer is responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the SORP).

In preparing this Statement of Accounts, the Borough Treasurer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- Complied with the local authority SORP.

The Borough Treasurer has also:

- kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

We certify that the accounts set out on **Pages 12 to 55** of this Statement of Accounts presents fairly the financial position of the Council for 2008-09 and its income and expenditure for the year ended 31 March 2009.

M Saleh CFPA, BA, M.Litt
Borough Treasurer
22 June 2009 revised 14 September 2009

Councillor J D Heath
Audit Committee Chairman
29 June 2009 revised 23 September 2009

Accounting Statements

Income and Expenditure Account

This account summarises the resources that have been generated and consumed in providing services and managing the Council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the period.

| Previous Year Net Spend £ | | Gross Spend £ | Gross Income £ | Net Spend £ |
|---------------------------------|---|---------------------|----------------------|----------------|
| 1,835,297 | Central services to the public | 8,139,194 | (6,544,341) | 1,594,853 |
| 7,766,197 | Cultural, environmental and planning services | 22,583,688 | (8,286,673) | 14,297,015 |
| 827,651 | Highways, roads and transport services | 2,999,402 | (1,492,984) | 1,506,418 |
| (801,165) | Local authority housing (HRA) | 16,072,122 | (8,806,042) | 7,266,080 |
| (310,396) | Other housing services | 18,826,888 | (17,873,278) | 953,610 |
| 125,453 | Exceptional items Note 4 | 45,790 | (192,131) | (146,341) |
| 1,472,034 | Corporate and democratic core | 1,551,342 | (71,837) | 1,479,505 |
| 358,864 | Non distributed costs | 17,179 | 0 | 17,179 |
| 11,273,935 | Net Cost of Services | 70,235,605 | (43,267,286) | 26,968,319 |
| (45,485) | Loss/ (Gain) on the disposal of fixed assets | | | 406,155 |
| (78,075) | Gain on the disposal of contingent assets Note 5 | | | (3,258) |
| 99,700 | Parish council precepts | | | 108,500 |
| 2,320,177 | Interest payable and similar charges Note 6 | | | 1,276,500 |
| 1,407,928 | Contribution of housing capital receipts to Government Pool Note 7 | | | 235,905 |
| (624,145) | Interest and investment income Note 6 | | | (462,405) |
| 297,000 | Pensions interest cost and expected return on pensions assets Note 8 | | | 1,276,000 |
| 14,651,035 | Net Operating Expenditure | | | 29,805,716 |
| (4,147,973) | Demand on the Collection Fund | | | (4,273,918) |
| (8,157) | Collection fund (surplus) / deficit | | | (39,265) |
| (1,246,300) | Revenue Support Grant | | | (1,086,006) |
| (7,426,380) | Non-domestic rates redistribution | | | (7,801,311) |
| (161,971) | Local Authority Business Growth Incentive | | | (13,635) |
| 0 | Area Based Grant | | | (2,809,693) |
| 1,660,254 | Deficit for the year | | | 13,781,888 |

Statement of Movement on the General Fund Balance

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government scores as a loss in the Income and Expenditure Account, but is met from usable capital receipts rather than council tax.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the council's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance:

| Previous Year | | Current Year |
|---------------|---|--------------|
| £ | | £ |
| 1,660,254 | Deficit for the year on the Income and Expenditure Account | 13,781,888 |
| (2,083,742) | Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year Note 3 | (13,727,961) |
| (423,488) | (Increase)/decrease in General Fund Balance for the Year | 53,927 |
| (1,601,698) | General Fund Balance brought forward | (2,025,186) |
| (2,025,186) | General Fund Balance carried forward | (1,971,259) |

Statement of Total Recognised Gains and Losses

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the deficit generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

| Previous Year | | Current Year |
|---------------|---|--------------|
| £ | | £ |
| 1,660,254 | Deficit for the year on the Income and Expenditure Account | 13,781,888 |
| (17,684,000) | Surplus arising on the revaluation of fixed assets Note 43 | (14,688,294) |
| 7,633,000 | Actuarial (gains)/losses on pension fund assets and liabilities Note 8 | (1,461,000) |
| 0 | Actuarial loss on restatement of pension fund assets and liabilities to fair value at 31 March 2008 Note 8 | 116,000 |
| 25,236 | Deficit on the Collection Fund–Barrow share Page 54 Note 4 | 74,372 |
| (8,365,510) | Total recognised gains for the year | (2,177,034) |

In 2008-09 the actuarial loss for 2007-08 of £7,633,000 has been revised to £7,627,000. The Statement of Total Recognised Gains and Losses (STRGL) for 2007-08 has not been restated (**Note 8**). The cumulative amount of actuarial gains and losses recognised in the STRGL is £3,696,000.

The Balance Sheet figures for 31 March 2008 have been adjusted from those included in the Statement of Accounts for 2007-08 to accommodate the change in accounting treatment for the Collection Fund balance (**Note 1**).

Balance Sheet

| 31 March 2008 | | | 31 March 2009 |
|---------------|---|-------------|---------------|
| £ | | | £ |
| | Tangible Fixed Assets <i>Notes 19 to 30</i> | | |
| | Operational assets: | | |
| 95,994,027 | Council dwellings | 80,370,912 | |
| 24,408,379 | Other land and buildings | 43,591,465 | |
| 1,528,377 | Equipment | 2,198,441 | |
| 1,542,476 | Infrastructure assets | 1,877,376 | |
| 5,596,759 | Community assets | 9,466,305 | |
| | Non-operational assets: | | |
| 28,005,335 | Commercial and other properties | 15,739,045 | |
| 1,088,929 | Assets under construction | 10,565,905 | |
| 6,761,374 | Surplus assets, held for disposal | 8,182,464 | |
| 164,925,656 | Total fixed assets | | 171,991,913 |
| 9,425 | Long-term debtors Note 31 | | 7,367 |
| 164,935,081 | Total long-term assets | | 171,999,280 |
| | Current assets | | |
| 26,547 | Stocks Note 32 | 30,586 | |
| 6,937,989 | Debtors Note 33 | 8,456,783 | |
| 4,934,751 | Investments Note 6 | 0 | |
| 564,118 | Cash and bank | 4,592,394 | |
| | | | 13,079,763 |
| 177,398,486 | Total assets | | 185,079,043 |
| | Current liabilities | | |
| (6,509,463) | Creditors Note 36 | (7,111,927) | |
| | | | (7,111,927) |
| 170,889,023 | Total assets less current liabilities | | 177,967,116 |
| (29,633,282) | Long-term borrowing Note 6 | | (29,633,282) |
| (698,146) | Provisions Note 37 | | (509,095) |
| (2,626,899) | Unapplied grants Note 45 | | (3,020,970) |
| (33,692,522) | Grants deferred Note 45 | | (39,011,597) |
| (22,822,190) | Liability related to defined benefit pension scheme Note 8 | | (22,199,154) |
| 81,415,984 | Total assets less liabilities | | 83,593,018 |
| | | | |
| | Financed by: (Note 39) | | |
| (82,504,574) | Capital adjustment account Note 40 | | (69,836,971) |
| 905,791 | Financial instruments adjustment account Note 41 | | 664,718 |
| (16,155,263) | Revaluation reserve Note 43 | | (29,268,854) |
| (1,728,568) | Usable capital receipts reserve Note 44 | | (1,572,673) |
| (9,425) | Deferred capital receipts | | (7,367) |
| 22,822,190 | Pensions reserve Note 8 | | 22,199,154 |
| 0 | Major repairs reserve Page 51 Note 13 | | 0 |
| (2,025,186) | General Fund balance | | (1,971,258) |
| (725,423) | Housing Revenue Account balance | | (845,980) |
| (22,187) | Collection Fund balance | | 52,185 |
| (1,973,339) | Earmarked reserves Note 42 | | (3,005,972) |
| (81,415,984) | Total net worth | | (83,593,018) |

Cash Flow Statement

| 2007-08 | | 2008-09 | |
|--------------|---|------------|--------------|
| £ | | £ | £ |
| | Revenue activities | | |
| | Cash outflows | | |
| 8,148,925 | Cash paid to and on behalf of employees | 8,343,296 | |
| 25,192,604 | Other operating cash payments | 19,599,566 | |
| 8,852,186 | Housing Benefit paid out | 10,451,953 | |
| 19,982,734 | NNDR payments to national pool | 20,293,169 | |
| 26,633,936 | Precepts paid | 27,954,964 | |
| 1,570,878 | Payments to the Capital Receipts Pool | 521,021 | |
| | Cash inflows | | |
| (2,427,735) | Rents | | (2,614,842) |
| (25,452,390) | Council Tax receipts | | (26,790,280) |
| (7,714,303) | NNDR receipts from national pool | | (7,801,311) |
| 0 | NNDR prior year settlement | | (1,112,864) |
| (19,788,299) | NNDR receipts | | (20,731,504) |
| (1,246,300) | Revenue Support Grant | | (1,086,006) |
| (20,435,180) | DWP grants for benefits | | (21,354,908) |
| 0 | Area Based Grant | | (2,809,693) |
| (8,404,021) | Other government grants Note 49 | | (3,013,165) |
| (5,816,630) | Cash received for goods and services | | (4,567,106) |
| (903,595) | Net movement on revenue activities Note 50 | | (4,717,710) |
| | Returns on Investments and Servicing of Finance | | |
| | Cash outflows | | |
| 1,267,187 | Interest paid | 1,276,500 | |
| | Cash inflows | | |
| (599,359) | Interest received | | (493,277) |
| 667,828 | Net movement in servicing of finance | | 783,223 |
| | Capital Activities | | |
| | Cash outflows | | |
| 3,360,517 | Purchase of fixed assets | 5,560,775 | |
| 7,701,137 | Other capital cash payments | 8,526,239 | |
| | Cash inflows | | |
| (2,615,806) | Sale of fixed assets | | (798,601) |
| (12,244,574) | Capital grants received Note 51 | | (8,445,373) |
| (146,752) | Other capital cash receipts Note 52 | | (33,417) |
| (3,945,478) | Net movement on capital activities | | 4,809,623 |
| (4,181,245) | Net cash (inflow)/outflow before financing Note 53 | | 875,136 |
| | Management of liquid resources | | |
| 3,400,000 | Net increase/(decrease) in short-term deposits | | (4,900,000) |
| 4,065 | Net increase/(decrease) in other liquid resources | 104 | |
| 3,404,065 | Net movement on liquid resources | | (4,899,896) |
| | Financing | | |
| | Cash outflows | | |
| 3,595,000 | Repayments of amounts borrowed | 2,000,000 | |
| | Cash inflows | | |
| (3,595,000) | New loans raised | | 0 |
| 0 | New short-term loans | | (2,000,000) |
| 0 | Net movement on financing | | 0 |
| (777,180) | Net (increase)/decrease in cash | | (4,024,760) |

The 2007-08 figures have been restated to reflect the change in accounting policy relating to the treatment of REFFCUS see **Note 26** and **Note 46**. Also the DWP grants for benefits line, for 2007-08 has been restated to include all benefit grants which were included in the other government grants line previously.

Notes to the Core Financial Statements

1. Prior period adjustments

- In 2008-09 a review of service classification in accordance with the Best Value Accounting Code of Practice (BVACOP) 2008 was carried out to ensure compliance with the code.

In previous years, the Market Hall and the Outdoor Market were classified as trading operations. However, following the review, it was decided to incorporate these two services within the Cultural, environmental and planning services grouping.

For 2007-08 the net expenditure for the Cultural, environmental and planning services, has been restated to include the Market Hall and Outdoor Market. The restated total is £7,766,197 and the restated total for the Net Cost of Services is £11,273,935. The line, in the income and expenditure account, and the note relating to trading operation have therefore been removed.

- In previous years, the Collection Fund balance was included in the balance sheet to show the total amount attributable to the Borough and the two precepting authorities, Cumbria County Council and Cumbria Police Authority. A review of this accounting treatment resulted in separating the Borough's share and showing this amount as the Collection Fund balance in the net worth section of the balance sheet. The amounts relating to the precepting authorities are included in the balance sheet as debtors or creditors. The effect of this on the 2007-08 figures is:

| 2007-08 Before restatement | | 2007-08 After restatement |
|---------------------------------------|-------------------------|--------------------------------------|
| £ | | £ |
| (162,094) | Collection fund balance | (22,187) |
| (6,369,556) | Creditors | (6,509,463) |
| (6,531,650) | | (6,531,650) |

2. Explanation of the significance of the Statement of Movement on the General Fund Balances

The Income and Expenditure Account discloses the income receivable and expenditure incurred in running the Council for the year. The surplus or deficit achieved on the Income and Expenditure Account represents the amount by which income is greater than or less than expenditure.

However, the items of income and expenditure that are required to be credited or charged to the General Fund and which therefore must be taken into account in determining the Council's budget requirement and in turn its Council Tax demand is determined by statute and non-statutory practices rather than in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

The surplus or deficit on the Income and Expenditure Account is the best measure of the Council's financial result for the year in accordance with UK GAAP, the movement on the General Fund Balance is also an important aspect of the Council's stewardship.

To arrive at the Movement on the General Fund Balance it is necessary to include the following areas:

- Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year.
- Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year.

- Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year.

The summation of these items is the net effect of statutory provisions that specify the net expenditure that authorities need to take into account when setting local taxes. This net expenditure is applied to the surplus or deficit on the Income and Expenditure Account to arrive at the Movement on the General Fund Balance in accordance with statutory and non-statutory proper practices.

3. Breakdown of reconciling items in the Statement of Movement on the General Fund Balance

The amounts in addition to the Income and Expenditure Account surplus or deficit for the year that are required by statute and non-statutory proper practices to be charged or credited to the General Fund in determining the movement on the General Fund Balance are as follows:

| Previous Year | | Current Year | |
|---------------|--|--------------|--------------|
| £ | | £ | £ |
| (1,349,540) | Depreciation of fixed assets | (1,466,433) | |
| (1,912) | Impairment of fixed assets | (16,023,975) | |
| 0 | Assets written down to revenue | (1,018,295) | |
| 448,480 | Grants deferred amortisation | 2,870,884 | |
| (328,062) | Revenue Expenditure Funded From Capital Under Statute net of grant Note 46 | (35,003) | |
| 45,485 | Net gain/(loss) on sale of fixed assets | (406,155) | |
| 78,075 | Net gain on sale of contingent assets | 3,258 | |
| (1,561,000) | Net charges made for retirement benefits in accordance with FRS 17 Note 8 | (2,354,000) | |
| (905,791) | Differences between amounts charged to income and expenditure for premiums and discounts and the charge for the year determined in accordance with statute | 241,073 | |
| (3,574,265) | Total to be excluded from Income and Expenditure account | | (18,188,646) |
| 720,146 | Minimum revenue provision for the repayment of debt Note 34 | 813,984 | |
| (1,407,928) | Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool Note 7 | (235,905) | |
| 1,985,674 | Capital expenditure charged to revenue | 1,223,263 | |
| 1,546,839 | Employer's contributions payable to the Superannuation Pension Fund and retirement benefits payable direct to pensioners Note 8 | 1,632,035 | |
| 2,844,731 | Total to be included in Income and Expenditure account | | 3,433,377 |
| (1,851,136) | HRA balance Page 46 | 120,557 | |
| (187,060) | Transfers to or from the Major Repairs Reserve | (125,882) | |
| 683,988 | Net transfer to or from earmarked reserves Note 42 | 1,032,633 | |
| (1,354,208) | Total movement in reserves | | 1,027,308 |
| (2,083,742) | Net additional amount required to be credited to the General Fund balance for the year | | (13,727,961) |

The previous year figures have been restated to enable comparison with the current year after the HRA statement of movement items have been incorporated into this statement.

4. Exceptional items

The exceptional items for 2008-09 are shown in the table below.

| 2007-08 | | 2008-09 |
|----------------|--|------------------|
| £ | | £ |
| | Exceptional expenditure items: | |
| 84,317 | VAT treatment of Fitness Suite income | 0 |
| 74,376 | Costs of Pay and Grading review | 0 |
| 0 | Employment tribunal | 15,000 |
| 0 | Consultant fees for VAT claim | 30,789 |
| | Exceptional income items: | |
| (33,240) | Bank of Credit and Commerce International dividend | (38,181) |
| 0 | VAT repaid including interest cultural services | (153,949) |
| 125,453 | | (146,341) |

5. Contingent assets

Contingent assets represent proceeds to the Council where a dwelling sold under the tenant's Right To Buy is sold on within five years of the purchase from the Council. There is a statutory calculation to effectively claw back a proportion of the discount originally awarded to the tenant purchasing the dwelling from the Council.

6. Financial instruments

Financial instruments balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

| | Long-term | | Current | |
|--|------------------|------------------|------------------|------------------|
| | 31 March 2008 | 31 March 2009 | 31 March 2008 | 31 March 2009 |
| | £ | £ | £ | £ |
| Financial liabilities at amortised cost | | | | |
| Trade creditors Note 36 | 0 | 0 | (3,284,103) | (4,263,075) |
| Long-term borrowing | (29,633,282) | (29,633,282) | 0 | 0 |
| Total borrowings | (29,633,282) | 0 | (3,284,103) | (4,263,075) |
| Loans and receivables | | | | |
| Trade debtors Note 33 | 0 | 0 | 800,418 | 1,594,998 |
| Investments | 0 | 0 | 4,934,751 | 4,303,412 |
| Total investments | 0 | 0 | 5,735,169 | 5,898,410 |

Financial instruments gains and losses

The gains and losses recognised in the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses in relation to financial instruments are as follows:

| 2008-09 | Financial liabilities: measured at amortised cost | Financial assets: loans and receivables | Total |
|-------------------------------------|--|---|------------------|
| | £ | £ | £ |
| Interest payable | (1,276,500) | 0 | (1,276,500) |
| Interest and investment income | 0 | 462,405 | 462,405 |
| Net gain/(loss) for the year | (1,276,500) | 462,405 | (814,095) |

| 2007-08 | Financial liabilities: measured at amortised cost | Financial assets: loans and receivables | Total |
|---|--|---|--------------------|
| | £ | £ | £ |
| Interest payable | (1,270,693) | 0 | (1,270,693) |
| Losses on derecognition | (1,049,484) | 0 | (1,049,484) |
| Interest payable and similar charges | (2,320,177) | 0 | (2,320,177) |
| Interest income | 0 | 624,145 | 624,145 |
| Interest and investment income | 0 | 624,145 | 624,145 |
| Net gain/(loss) for the year | (2,320,177) | 624,145 | (1,696,032) |

Fair value of assets and liabilities carried at amortised cost

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Estimated interest rates at 31 March 2009 of 3.97% to 4.15% for loans from the PWLB.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

| 31 March 2008 | | | 31 March 2009 | |
|---------------------|---------------------|------------------------------------|---------------------|---------------------|
| Carrying amount | Fair value | | Carrying amount | Fair value |
| £ | £ | | £ | £ |
| (29,633,282) | (30,985,366) | PWLB debt | (29,633,282) | (30,993,447) |
| (3,284,103) | (3,284,103) | Trade creditors | (4,263,075) | (4,263,075) |
| (32,917,385) | (34,269,469) | Total Financial Liabilities | (33,896,357) | (35,256,522) |
| 4,934,751 | 4,934,751 | Money market loans | 4,303,412 | 4,303,412 |
| 800,418 | 800,418 | Trade debtors | 1,594,998 | 1,594,998 |
| 5,735,169 | 5,735,169 | Total Loans and Receivables | 5,898,410 | 5,898,410 |

The fair value is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. This commitment to pay interest above market rates increases the amount that the Council would have to pay if an early repayment of the loans was made.

Nature and extent of risks arising from financial instruments

The Council's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates.

Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks.

The procedures for risk management are set out through a legal framework set out in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance prudential indicators for the following three years limiting:
 - The Council's overall borrowing;
 - Its maximum and minimum exposures to fixed and variable rates;
 - Its maximum and minimum for exposures of the maturity structure of its debt;
 - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance;

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported at least annually to Members.

These policies are implemented by the Treasurer. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed periodically.

The Council achieves the objectives it has set itself within Treasury Risk Management by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates, exchange rates or inflation.

The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard and Poors Ratings Services.

The Annual Investment Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category.

Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined below:

| Type | Fitch | Moody's | Standard & Poor's | Asset size | Time limit | Value limit |
|-----------------------------------|--|----------------------------------|----------------------------------|-------------------------------------|---------------|-------------|
| Specified investments: | | | | | | |
| <u>Short term only</u> | | | | | | |
| Banks and building societies | F1 | P1 | A1 | - | Up to 1 year | £5 million |
| Non-specified investments: | | | | | | |
| <u>Short term</u> | | | | | | |
| Building societies | - | - | - | In excess of £1 billion | Up to 1 year | £5 million |
| Building societies | - | - | - | Between £250 million and £1 billion | Up to 1 year | £4 million |
| Building societies | - | - | - | Less than £250 million | Up to 1 year | £3 million |
| <u>Long term</u> | | | | | | |
| Banks and building societies | A (including +/- or equivalent) | A (including +/- or equivalent) | A (including +/- or equivalent) | - | Up to 2 years | £3 million |
| Banks and building societies | AA (including +/- or equivalent) | AA (including +/- or equivalent) | AA (including +/- or equivalent) | - | Up to 4 years | £4 million |
| Banks and building societies | AAA | AAA | AAA | - | Up to 5 years | £5 million |
| Local authorities | - | - | - | - | - | £3 million |
| Bank subsidiaries | Subject to the parent bank having necessary credit rating to qualify in its own right. | | | | | |

The following analysis summarises the Authority's maximum exposure to credit risk. The table (from Fitch) gives details of global corporate finance, average cumulative default rates (including financial organisations) for the period 1990 – 2007 on investments out to 5 years.

| | Amount at 31 March 2009 | Historical experience of default | Adjustment for market conditions at 31 March 2009 | Estimated maximum exposure to default |
|---|----------------------------|--|---|--|
| | a | b | c | a x c |
| Deposits with banks and financial institutions | | | | |
| AA rated counterparties: | | | | |
| HSBC Bank | £4,303,412 | 0.06% | 0.06% | £2,582 |

No breaches of the Council's counterparty criteria occurred during the financial year and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council is exposed to credit risk from non-payment by trade debtors and the maximum risk is calculated and set aside as a bad debt provision, held in the Balance Sheet. The bad debt provision is based on the age of the debt and is weighted to reflect the recoverability of the debts owed to the Council.

The provision is reviewed annually to ensure that it reflects the experience as well as the history of default and uncollectability:

| Debt outstanding | Default and uncollectability provision |
|----------------------------|--|
| Less than 3 months | 50% |
| Three months to six months | 75% |
| Six months to one year | 100% |
| More than one year | 100% |

The Council does not generally allow credit for customers, such that £488,520 of the £1,594,998 balance owed by trade debtors is past its due date for payment (£467,559 of the £800,418 for 2007-08). The past due amount can be analysed by age as follows:

| 31 March 2008 | | 31 March 2009 |
|---------------|----------------------------|---------------|
| £ | Debt outstanding | £ |
| 226,836 | Less than 3 months | 232,339 |
| 38,257 | Three months to six months | 40,407 |
| 62,072 | Six months to one year | 74,176 |
| 140,394 | More than one year | 141,598 |
| 467,559 | Total | 488,520 |

Liquidity risk

As the Council has ready access to borrowings from the Public Works Loans Board there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates.

The Council will ensure that its borrowing is negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Council as can reasonably be achieved in the light of market conditions prevailing at the time.

The maturity analysis of financial liabilities is as follows:

| 31 March 2008 | | 31 March 2009 |
|---------------|--------------------------------------|---------------|
| £ | Analysis of loans by type | £ |
| (29,000,000) | PWLB loans | (29,000,000) |
| (633,282) | PWLB interest due but not paid | (633,282) |
| | Analysis of loans by maturity | |
| (633,282) | Within 1 year: PWLB interest | (633,282) |
| (10,000,000) | Between 20 and 30 years | (10,000,000) |
| (19,000,000) | More than 30 years | (19,000,000) |
| (29,633,282) | | (29,633,282) |

All trade and other payables are due to be paid in less than one year.

Market risk

The Council is exposed to interest rate movements on its borrowing and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- Borrowing at variable rates – the interest expense charged to the Income and Expenditure Account will rise;
- Borrowing at fixed rates – the fair value of the borrowing will fall;
- Investments at variable rates – the interest income credited to the Income and Expenditure Account will rise; and
- Investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or Statement of Total Realised Gains and Losses. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and affect the General Fund balance £ for £. Movements in the fair value of fixed rate investments will be reflected in the Statement of Total Realised Gains and Losses.

The Council manages its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in

its budgetary arrangements. As required by the Local Government Bill 2003, the Council must approve before the beginning of each financial year the Treasury Management Strategy and prudential indicators. The interest rates used in the budget setting process are based on the Council's Treasury Management Strategy.

For 2008-09 (and 2007-08) the Council did not hold any variable rate borrowings or investments. The Treasury Management Strategy sets out the maximum proportion of borrowings and investments that may be held in variable rate instruments.

For 2008-09 (and 2007-08) the Council held fixed rate borrowings with the Public Works Loans Board and short-term fixed rate investments.

Price risk

The Council does not invest in equity shares and thus has no exposure to loss arising from movements in the stock markets.

Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies, therefore there is no exposure to loss arising from movements in the exchange rates.

7. Contribution to housing pooled capital receipts

Since the 1 April 2004 authorities are required to pay a proportion of specified housing related capital receipts into a Government pool for redistribution.

This levy does not have an impact on council tax as it is funded by a transfer from usable capital receipts in the Statement of Movement on the General Fund Balance.

8. Retirement benefits

As part of the terms and conditions of employment of its officers the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The authority participates in the Local Government Pension Scheme administered by Cumbria County Council – this is a funded defined benefit final salary scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

Change of accounting policy

Under the 2008 SORP the Council has adopted the amendment to Financial Reporting Standard 17 (FRS17). As a result, quoted securities held as assets in the pension scheme are now valued at bid price rather than mid-market value.

The effect of this change is that the value of the scheme assets at 31 March 2008 has been revised from £56,287,000 to £56,171,000 a decrease of £116,000 which is reflected in a higher pension deficit.

This adjustment has been treated as an actuarial loss on assets in 2008-09.

Transactions relating to retirement benefits

The cost of retirement benefits is recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions.

However, the charge which is required to be made against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement on the General Fund Balance.

The following transactions have been made in the Income and Expenditure Account and Statement of Movement on the General Fund Balance during the year:

| | Local Government Pension Scheme | |
|--|--|----------------|
| | £ | |
| | 2007-08 As Revised | 2008-09 |
| Income and Expenditure Account | | |
| Net Cost of Services: | | |
| current service cost | 914,000 | 1,078,000 |
| past service (gain) cost | 350,000 | 0 |
| Net Operating Expenditure: | | |
| - interest cost | 3,863,000 | 4,761,000 |
| - expected return on assets in the scheme | (3,559,000) | (3,485,000) |
| Net Charge to the Income and Expenditure Account | 1,568,000 | 2,354,000 |
| | | |
| Statement of Movement on the General Fund Balance: | | |
| - reversal of net charges made for retirement benefits in accordance with FRS 17 | (1,358,144) | (1,942,594) |
| Statement of Movement on the HRA Balance: | | |
| - reversal of net charges made for retirement benefits in accordance with FRS 17 | (209,856) | (411,406) |
| | (1,568,000) | (2,354,000) |
| | | |
| Actual amount charged against General Fund Balance for pensions in the year: | | |
| - employers' contributions payable to scheme | 997,197 | 1,074,593 |
| - retirement benefits payable to pensioners | 321,858 | 308,198 |
| | 1,319,055 | 1,382,791 |
| Actual amount charged against HRA Balance for pensions in the year: | | |
| - employers' contributions payable to scheme | 208,280 | 227,587 |
| - retirement benefits payable to pensioners | 19,504 | 21,658 |
| | 227,784 | 249,245 |
| Total actual pensions paid in the year | 1,546,839 | 1,632,036 |

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial gain of £1,461,000 (a loss of £7,633,000 in 2007-08, revised to £7,627,000) was included in the Statement of Total Recognised Gains and Losses (STRGL). The cumulative amount of actuarial gains and losses recognised in the STRGL is £3,696,000.

Assets and liabilities in relation to retirement benefits

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March are as follows:

| | Local Government Pension Scheme | |
|---|--|----------------|
| | 2007-08 | 2008-09 |
| Present Value of the scheme liabilities: | £ | £ |
| 1 April | 72,669,000 | 79,108,000 |
| Current service cost | 914,000 | 1,078,000 |
| Interest cost | 3,863,000 | 4,761,000 |
| Contributions by scheme members | 335,000 | 371,000 |
| Actuarial (gains) and losses | 4,498,000 | (15,111,000) |
| Benefits paid | (3,521,000) | (3,557,000) |
| Past service costs | 350,000 | 0 |
| 31 March | 79,108,000 | 66,650,000 |

| | Local Government Pension Scheme | |
|---|--|----------------|
| | 2007-08 | 2008-09 |
| Fair Value of the scheme assets: | £ | £ |
| 1 April | 57,379,000 | 56,171,000 |
| Expected return on assets | 3,559,000 | 3,485,000 |
| Actuarial gains and (losses) | (3,129,000) | (13,650,000) |
| Employer contributions | 1,548,000 | 1,625,000 |
| Contributions by scheme members | 335,000 | 371,000 |
| Benefits paid | (3,521,000) | (3,557,000) |
| 31 March | 56,171,000 | 44,445,000 |

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return in the respective markets.

The actual return on scheme assets in the year was £10,165,000 (£220,000 in 2007-08).

Scheme history

| All in £'s | 2004-05* | 2005-06* | 2006-07 As Revised | 2007-08 As Revised | 2008-09 |
|------------------------------|-----------------|-----------------|---------------------------|---------------------------|----------------|
| Present Value of liabilities | 67,555,000 | 74,245,000 | 72,669,000 | 79,108,000 | 66,650,000 |
| Fair Value of assets | 47,255,000 | 55,540,000 | 57,379,000 | 56,171,000 | 44,445,000 |
| Scheme deficit | 20,300,000 | 18,705,000 | 15,290,000 | 22,937,000 | 22,205,000 |

* The Council has elected not to restate the fair value of assets for 2004-05 and 2005-06 as permitted by FRS17.

The liabilities show the underlying commitments that the Council has in the long term to pay retirement benefits. The net liability of £22,205,000 at 31 March 2009 (£22,937,000 at 31 March 2008) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy as it will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary. The total contributions expected to be made to the Local Government Pension Scheme in the year to 31 March 2010 is £1,765,520.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

The liabilities have been assessed by Mercer Human Resources Consulting Limited, an independent firm of actuaries, estimates for the Cumbria County Council fund being based on the latest full valuation of the scheme as at 31 March 2007.

The main assumptions used in their calculations have been:

| | Local Government Pension Scheme | |
|---|--|----------------|
| | 2007-08 | 2008-09 |
| Rate of inflation | 3.6% | 3.3% |
| Rate of increase in salaries | 5.35% | 5.05% |
| Rate of increase in pensions | 3.6% | 3.3% |
| Rate for discounting scheme liabilities | 6.1% | 7.1% |
| Take-up of option to convert annual pension into retirement grant | 50% | 50% |

| | Local Government Pension Scheme | |
|--|---------------------------------|---------|
| | 2007-08 | 2008-09 |
| Expected rate of return on assets: | | |
| - Equities | 7.5% | 7.5% |
| - Government Bonds | 4.6% | 4.0% |
| - Other Bonds | 6.1% | 6.0% |
| - Property | 6.5% | 6.5% |
| - Cash /Liquidity | 5.25% | 0.50% |
| - Other | 7.5% | 7.5% |
| Mortality assumptions: | | |
| Longevity at 65 for current pensioners – men | 21.1 | 21.2 |
| – women | 24.0 | 24.0 |
| Longevity at 65 for future pensioners – men | 22.2 | 22.2 |
| – women | 25.0 | 25.0 |

The scheme's assets consist of the following categories, by proportion to the total assets held:

| | 31 March 2008 | 31 March 2009 |
|------------------|---------------|---------------|
| | % | % |
| Equities | 54.9 | 49.7 |
| Government Bonds | 19.9 | 20.5 |
| Other Bonds | 10.3 | 8.9 |
| Property | 7.3 | 6.3 |
| Cash / Liquidity | 4.6 | 2.3 |
| Other | 3.0 | 12.3 |
| Total | 100 | 100 |

History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2008-09 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2009:

| | 2004-05 | 2005-06 | 2006-07 as revised | 2007-08 as revised | 2008-09 |
|--|---------|---------|-----------------------|-----------------------|---------|
| | % | % | % | % | % |
| Differences between the expected and actual return on assets | 3.7 | 12.9 | 0.6 | (5.6) | (30.7) |
| Experience gains and loses on liabilities | 0.7 | (1.0) | 0.0 | 0.4 | 0.0 |

9. Extraordinary items

There are no extraordinary items for 2008-09.

10. Discretionary expenditure

Section 137 of the Local Government Act 1972, as amended, empowers local authorities to make contributions to certain charitable funds, not-for-profit bodies providing a public service in the United Kingdom and mayoral appeals.

The Council made no expenditure under this power for 2008-09 or for 2007-08.

11. Expenditure on publicity

Under the requirements of section 5(1) of the Local Government Act 1986, the Council's expenditure on publicity was:

| 2007-08 | | 2008-09 |
|---------|-------------------------|---------|
| £ | | £ |
| 7,279 | Recruitment advertising | 7,845 |
| 74,148 | Publicity | 55,732 |
| 58,666 | Other advertising | 81,726 |
| 140,093 | Total | 145,303 |

12. Members allowances

The Council has 36 (38 in 2007-08) councillors, the details of allowances and expenses are:

| 2007-08 | | 2008-09 |
|---------|--------------------------------|---------|
| £ | | £ |
| 86,478 | Basic allowance | 81,644 |
| 33,128 | Extra responsibility allowance | 33,106 |
| 13,943 | Expenses | 13,646 |
| 4,500 | Mayoral expenses | 5,020 |
| 138,049 | Total | 133,416 |

13. Officers emoluments

Regulation 7(2) of the Accounts and Audit Regulations 2003 specifically requires disclosure of amounts paid to officers whose remuneration fell in each bracket of a scale in multiples of £10,000 starting with £50,000.

| Remuneration band | 2007-08 | 2008-09 |
|-------------------|---------------------|---------------------|
| | Number of employees | Number of employees |
| £50,000 - £59,999 | 1 | 1 |
| £60,000 - £69,999 | 2 | 1 |
| £70,000 - £79,999 | 0 | 1 |
| £80,000 - £89,999 | 0 | 0 |
| £90,000 - £99,999 | 1 | 1 |

14. Audit costs

In 2008-09 the Council incurred the following fees relating to external audit:

| 2007-08 | | 2008-09 |
|---------|--|---------|
| £ | | £ |
| 116,534 | Fees payable to the Audit Commission: | |
| | For external audit services carried out by the appointed auditor | 117,166 |
| 35,250 | For the certification of grants and claims | 40,270 |
| 1,250 | National Fraud Initiative | 1,150 |
| 153,034 | Total | 158,586 |

15. Value Added Tax

There is £2,510 of irrecoverable VAT within the Central Services to the Public, Net Cost of Services line, relating to the VAT element of officer and Member mileage claims; £2,458 for 2007-08. The Council has decided that it is more beneficial to the Council not to recover this VAT element. The cost of administration would outweigh the amount foregone.

16. Building Control

The building control service operates under the requirements of the Building Act 1984 and the Local Authority Building Control Regulations (Statutory Instrument 1998/3129).

The statutory requirement for charging schemes is that charges are fixed so that income will not be less than expenditure over a three-year period.

Certain activities performed by the building control service cannot be charged for, such as providing general advice and liaising with other statutory authorities.

The statement below shows the financial performance of the building control service divided between the chargeable and non-chargeable activities.

| 2007-08 | | 2008-09 |
|-----------|-------------------------------------|-----------|
| £ | | £ |
| | Non-chargeable | |
| 167,606 | Expenditure | 223,934 |
| (31,590) | Income | (32,458) |
| 136,016 | Deficit or surplus | 191,476 |
| | | |
| | Chargeable | |
| 202,522 | Expenditure | 163,179 |
| (198,919) | Income | (164,037) |
| 3,603 | Deficit or surplus | (858) |
| | | |
| | Chargeable three-year period | |
| 7,951 | 2005-06 | |
| (11,963) | 2006-07 | (11,963) |
| 3,603 | 2007-08 | 3,603 |
| | 2008-09 | (858) |
| (409) | | (9,218) |

17. Related parties

The Council is required to disclose material transactions with related parties. These are bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council.

Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have restricted another party's ability to bargain freely with the Council.

Central government has effective control over the general operations of the Council. It is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Details of transactions with government departments are set out in **Note 49** and **Note 51**.

27 senior officers and all 36 members were asked to declare any direct financial relationships, other than remuneration, with the authority.

For 2008-09 there was 1 officer and 4 members receiving housing benefit as a private landlord and there were 3 members that transacted business as a supplier of the Council.

In 2007-08 there was 1 officer and 3 members receiving housing benefit as a private landlord and there was 1 member that transacted business as a supplier of the Council.

The value of the transactions with the Council is shown below.

| 2007-08 | | 2008-09 |
|---------|--|---------|
| £ | | £ |
| | Officers | |
| 3,513 | Received housing benefit as a private landlord | 3,650 |
| | Members | |
| 132,666 | Received housing benefit as a private landlord | 39,408 |
| 850 | Traded with the Council as a supplier | 95,153 |
| 137,029 | | 138,211 |

18. Other items of Income and Expenditure

The Council does not currently have any transactions relating to leases, acquired or discontinued operations, foreign currency translation or research and development.

19. Tangible fixed assets – reclassification of assets

Several assets have changed in classification and these changes can be seen in **Note 21** movement on operational fixed assets and **Note 22** movement on non-operational fixed assets. The movements are the values as at 1 April 2008, historic net book value and are summarised below:

| Asset classification | Moved out of this asset classification | Depreciation | Moved into this asset classification | Depreciation | Net movement |
|-----------------------------------|--|--------------|--------------------------------------|--------------|--------------|
| | £ | £ | £ | £ | £ |
| Operational assets: | | | | | |
| Land and buildings | 0 | 0 | (352,790) | 9,250 | (343,540) |
| Community assets | 0 | 0 | 3,528,111 | (8,650) | 3,519,461 |
| Infrastructure | 0 | 0 | 401,337 | 0 | 401,337 |
| Non-operational assets: | | | | | |
| Commercial and other properties | (8,160,224) | 23,000 | 0 | 0 | (8,137,224) |
| Assets under construction | 0 | 0 | 4,751,085 | (23,600) | 4,727,485 |
| Surplus assets, held for disposal | (167,519) | 0 | 0 | 0 | (167,519) |
| Net movement | (8,327,743) | 23,000 | 8,327,743 | (23,000) | 0 |

20. Tangible fixed assets – transfer and merge of assets

A number of assets were transferred and merged together where applicable:

| Asset classification | Moved out of this asset classification | Moved into this asset classification | Total Gross movement |
|-----------------------------------|--|--------------------------------------|----------------------|
| | £ | £ | £ |
| Operational assets: | | | |
| Land and buildings | 0 | 212,490 | 212,490 |
| Community assets | 0 | 73,466 | 73,466 |
| Non-operational assets: | | | |
| Commercial and other properties | (403,534) | 0 | (403,534) |
| Assets under construction | 0 | 457,771 | 457,771 |
| Surplus assets, held for disposal | (340,193) | 0 | (340,193) |
| Net movement | (743,727) | 743,727 | 0 |

21. Movement on operational fixed assets

| | Council dwellings | Land and buildings | Equipment | Infra-structure | Community assets | Total |
|--|--------------------------|---------------------------|--------------------|------------------------|-------------------------|--------------------|
| | £ | £ | £ | £ | £ | £ |
| Balance sheet value | | | | | | |
| At 31 March 08 | 97,853,957 | 24,872,559 | 2,180,397 | 1,599,986 | 5,612,169 | 132,119,068 |
| Eliminate 2007-08 depreciation* | (32,880) | 0 | 0 | 0 | 0 | (32,880) |
| Reclassification of assets | 0 | (352,790) | 0 | 401,337 | 3,528,111 | 3,576,658 |
| Transfer and merge of assets | 0 | 212,490 | 0 | 0 | 73,466 | 285,956 |
| Items written down to revenue | 0 | (132,319) | 0 | 0 | (135,920) | (268,239) |
| Eliminate depreciation on assets written down to revenue | 0 | (10,013) | 0 | 0 | 0 | (10,013) |
| Eliminate depreciation on revaluation | (3,786,051) | (935,999) | 0 | 0 | 0 | (4,722,050) |
| Revaluations 1/4/08 | 6,912,069 | 21,188,359 | 0 | 0 | 13,250 | 28,113,678 |
| Impairments 1/4/08 | (9,291,095) | (2,502,236) | 0 | 0 | (2,910) | (11,796,241) |
| Acquisitions in year | 0 | 0 | 1,181,716 | 0 | 0 | 1,181,716 |
| Enhancements in year | 1,977,594 | 1,251,414 | 152,105 | 0 | 428,185 | 3,809,298 |
| Disposals in year | (163,200) | 0 | 0 | 0 | 0 | (163,200) |
| Impairment 31/3/09 | (13,099,482) | 0 | 0 | 0 | 0 | (13,099,482) |
| At 31 March 09 | 80,370,912 | 43,591,465 | 3,514,218 | 2,001,323 | 9,516,351 | 138,994,269 |
| Depreciation | | | | | | |
| At 31 March 08 | (1,859,930) | (464,180) | (652,020) | (57,510) | (15,410) | (3,049,050) |
| Eliminate 2007-08 depreciation* | 32,880 | 0 | 0 | 0 | 0 | 32,880 |
| Reclassification of assets | 0 | 9,250 | 0 | 0 | (8,650) | 600 |
| Charged in the year | (1,959,001) | (491,082) | (663,757) | (66,437) | (25,986) | (3,206,263) |
| Items written down to revenue | 0 | 10,013 | 0 | 0 | 0 | 10,013 |
| Eliminate depreciation on revaluation | 3,786,051 | 935,999 | 0 | 0 | 0 | 4,722,050 |
| At 31 March 09 | 0 | 0 | (1,315,777) | (123,947) | (50,046) | (1,489,770) |
| Net Book Value at 31 March 08 | 95,994,027 | 24,408,379 | 1,528,377 | 1,542,476 | 5,596,759 | 129,070,018 |
| Net Book Value at 31 March 09 | 80,370,912 | 43,591,465 | 2,198,441 | 1,877,376 | 9,466,305 | 137,504,499 |
| Estimated useful economic life | 30 years | 5-75 years | 1-45 years | 3-47 years | 17-25 years | |

*Accumulated depreciation on dwellings sold in 2007-08, not eliminated in the year.

22. Movement on non-operational fixed assets

| | Commercial and other properties | Assets under construction | Surplus assets, held for disposal | Total |
|--|--|--------------------------------------|--|-------------------|
| | £ | £ | £ | £ |
| Balance sheet value | | | | |
| At 31 March 08 | 28,273,665 | 1,088,929 | 6,761,374 | 36,123,968 |
| Reclassification of assets | (8,160,224) | 4,751,085 | (167,519) | (3,576,658) |
| Transfer and merge of assets | (403,534) | 457,771 | (340,193) | (285,956) |
| Items written down to revenue | (750,057) | 0 | 0 | (750,057) |
| Eliminate depreciation on assets written down to revenue | (4,455) | 0 | 0 | (4,455) |
| Eliminate depreciation on revaluation | (568,127) | 0 | 0 | (568,127) |
| Revaluations 1/4/08 | 5,422,997 | 72,855 | 30,000 | 5,525,852 |
| Impairment 1/4/08 | (7,234,865) | 0 | (829,173) | (8,064,038) |
| Acquisitions in year | 762,810 | 1,230,000 | 2,386,250 | 4,379,060 |
| Enhancements in year | 523,436 | 3,625,369 | 568,135 | 4,716,940 |
| Disposals in year | (126,101) | (626,494) | (226,410) | (979,005) |
| Eliminate depreciation on disposal | 0 | (18,950) | 0 | (18,950) |
| Impairment 31/3/09 | (1,996,500) | 0 | 0 | (1,996,500) |
| At 31 March 09 | 15,739,045 | 10,580,565 | 8,182,464 | 34,502,074 |
| Depreciation | | | | |
| At 31 March 08 | (268,330) | 0 | 0 | (268,330) |
| Reclassification of assets | 23,000 | (23,600) | 0 | (600) |
| Charged in the year | (327,252) | (10,010) | 0 | (337,262) |
| Items Written down to revenue | 4,455 | 0 | 0 | 4,455 |
| Eliminate depreciation on revaluation | 568,127 | 0 | 0 | 568,127 |
| Eliminate depreciation on disposal | 0 | 18,950 | 0 | 18,950 |
| At 31 March 09 | 0 | (14,660) | 0 | (14,660) |
| Net Book Value at 31 March 08 | 28,005,335 | 1,088,929 | 6,761,374 | 35,855,638 |
| Net Book Value at 31 March 09 | 15,739,045 | 10,565,905 | 8,182,464 | 34,487,414 |
| Estimated useful economic life | 5-50 years | Not applicable | Not applicable | |

Depreciation of all fixed assets is calculated to write down the value of an asset less its residual value over the economic life of that asset. Depreciation is calculated on a straight line basis and charged to the appropriate revenue service.

23. Tangible fixed assets – impairment

Where on revaluation there has been a decrease over the previous carrying amount, an impairment loss has occurred. For 2009-10 these decreases relate to a decline in market value during the period. The decrease in value is charged against any previous revaluation gains held in the Revaluation Reserve on an individual asset basis. Where there is a nil

balance in the Revaluation Reserve, the decrease is charged in the Income and Expenditure Account.

| Loss from | Total £ | Revaluation Reserve £ | Income and Expenditure £ |
|--------------------|---------------------|--------------------------|-----------------------------|
| Impairment 1/4/08 | (19,860,279) | (8,728,905) | (11,131,374) |
| Impairment 31/3/09 | (15,095,982) | (10,203,381) | (4,892,601) |
| Total | (34,956,261) | (18,932,286) | (16,023,975) |

24. Tangible fixed assets – written down to revenue

Some assets have been written down to revenue to remove them from the Council's asset base.

These changes can be seen in **Note 21** movement on operational fixed assets and **Note 22** movement on non-operational fixed assets.

The movements are summarised below:

| Asset classification | Written down to revenue £ |
|---------------------------------|------------------------------|
| Operational land and buildings | (132,319) |
| Community assets | (135,920) |
| Commercial and other properties | (750,057) |
| Net movement | (1,018,296) |

25. Tangible fixed assets - disposals

| 2007-08 £ | | 2008-09 £ | £ |
|--------------|---|--------------|-----------|
| | Sale proceeds: | | |
| (1,923,640) | Dwellings | (236,000) | |
| (773,666) | Commercial and other properties | (126,101) | |
| 0 | Assets under construction | (205,000) | |
| 0 | Surplus assets, held for disposal | (150,000) | |
| (2,697,306) | Total sale proceeds | | (717,101) |
| | Carrying value: | | |
| 1,923,640 | Dwellings | 163,200 | |
| 728,181 | Commercial and other properties | 126,101 | |
| 0 | Assets under construction | 607,544 | |
| 0 | Surplus assets, held for disposal | 226,410 | |
| 2,651,821 | Total carrying value | | 1,123,255 |
| (45,485) | (Gains)/losses on disposals of fixed assets | | 406,154 |

26. Capital Financing Requirement

| 2007-08 £ | | 2008-09 £ |
|--------------|---|--------------|
| 30,520,281 | Opening Capital Financing Requirement | 32,573,297 |
| 1,407,086 | Write out adjustment A (see note below) | 0 |
| 31,927,367 | Capital Financing Requirement unabated | 32,573,297 |
| | Capital investment: | |
| 6,475,847 | Operational assets | 4,562,830 |
| 4,585,807 | Non-operational assets | 523,436 |
| 0 | Surplus assets | 2,954,385 |
| 0 | Assets under construction | 5,618,179 |

| | | |
|-------------|---|-------------|
| 0 | Community assets | 428,185 |
| 1,680,160 | Revenue Expenditure Funded From Capital Under Statute (REFFCUS) | 1,569,865 |
| | Sources of finance: | |
| (912,707) | Capital receipts | (642,407) |
| (5,096,691) | Government grants and contributions | (9,282,529) |
| (1,592,476) | Grants relating to REFFCUS | (1,534,862) |
| (3,773,864) | Balances, reserves and revenue contributions | (2,081,905) |
| (720,146) | Minimum revenue provision | (813,984) |
| 32,573,297 | Closing Capital Financing Requirement | 33,874,490 |
| | Explanation of movements in year: | |
| 1,366,076 | Increase in underlying need to borrow | 2,115,177 |
| (720,146) | Increase in provision to repay borrowing | (813,984) |
| 645,930 | Increase in Capital Financing Requirement | 1,301,193 |

REFFCUS expenditure and related grants form part of the deficit on the Income and Expenditure Account.

The write out of adjustment A in the table above is a one off exercise in 2007-08 that came as a result of changes to the calculation for the provision to repay debt by the Department for Communities and Local Government. Historically, Councils borrowing was controlled through credit approvals from Central Government that were added annually to form a credit ceiling; the limit on borrowing activities. The credit ceiling was used to calculate the Minimum Revenue Provision each year; the amount to set aside into the provision to repay external borrowing. From the 1 April 2004, the Prudential Code came into force and it set out the framework for the self-regulation of capital expenditure and borrowing powers. The calculation of the Minimum Revenue Provision was changed to be based on the Capital Financing Requirement, an aggregation of items from the Balance Sheet that reflect the underlying need to borrow. There was a provision within the Prudential Code to remove any difference between the old credit ceiling value and the new Capital Financing Requirement; known as adjustment A. For the Council, the Capital Financing Requirement as calculated at the 1 April 2004 was £1,407,086 higher than the credit ceiling. The Department for Communities and Local Government issued new regulations during 2007-08, providing optional ways to calculate the Capital Financing Requirement for previous years and future years. The Council has opted to base the Minimum Revenue Provision on the actual Capital Financing Requirement from 2007-08 onwards.

27. Valuation information

Valuations as at 1st April 2008 have been undertaken by the following:

External Valuers

Mr R Bulger BSc (Hons) FRICS of the Valuation Office Agency

Mr S Adams BSC (Hons) FRICS of Peill and Company

Mr M Messenger MRICS of Norfolk Property Services

| Valuation certificates | £ |
|---------------------------|--------------------|
| District Valuer | 84,050,408 |
| Norfolk Property Services | 39,568,751 |
| Peill and Company | 14,637,706 |
| Total | 138,256,865 |

Equipment and infrastructure assets were not part of the valuation exercises and are held in the Balance Sheet at historical cost. The following statement shows the Council's latest valuation information:

| | Council Dwellings | Other Operational Land and Buildings | Commercial and other property | Community Assets | Surplus Assets | Assets Under Construction | Total of valuation certificate |
|---|--------------------------|---|--------------------------------------|-------------------------|-----------------------|----------------------------------|---------------------------------------|
| | £ | £ | £ | £ | £ | £ | £ |
| Valuation basis: | | | | | | | |
| Depreciated Historical Cost at 1 April 2008 | 0 | 37,655,653 | 597,424 | 0 | 0 | 0 | 38,253,077 |
| Current Value at 1 April 2008 | 0 | 1,790,200 | 5,613,776 | 77,000 | 341,400 | 273,000 | 8,095,376 |
| Current Value at 31 March 2009 | 0 | 0 | 6,945,500 | 0 | 0 | 0 | 6,945,500 |
| Existing Use Value at 1 April 2008 | 0 | 4,486,980 | 0 | 10,000 | 0 | 0 | 4,496,980 |
| Existing Use Value at 31 March 2009 | 80,370,912 | 95,020 | 0 | 0 | 0 | 0 | 80,465,932 |

Following advice from the Valuers concerned, the following assets types have been impaired for the twelve months to 31st March 2009 as show below:

| Asset class | Impairment |
|-------------------------------|-------------------|
| Dwellings | 12% |
| Depot | 21% |
| Non-Operational Offices | 0% - 27% |
| Industrial Land and Buildings | 0% - 26% |

28. Assets numbers

| | Number as at 31 March 2008 | Number as at 31 March 2009 |
|--------------------------------|-----------------------------------|-----------------------------------|
| Operation fixed assets: | | |
| Dwellings | 2,739 | 2,735 |
| Arches | 1 | 1 |
| Artificial Pitch | 1 | 1 |
| Arts Centre | 1 | 1 |
| Car Parks | 13 | 14 |
| Cemetery Buildings | 4 | 4 |
| Conveniences | 11 | 8 |
| Dog Kennels | 1 | 1 |
| Community Centres | 13 | 12 |
| HRA Garages | 487 | 487 |
| Leisure Centre | 1 | 1 |
| Markets | 2 | 2 |
| Museums | 1 | 1 |
| Operational Offices | 2 | 2 |
| Parks Buildings | 4 | 4 |
| Equipment | 40 | 52 |
| Community Assets | 96 | 98 |
| Infrastructure Assets | 11 | 11 |

| | | |
|------------------------------------|----|-----|
| Non-Operation fixed assets: | | |
| Commercial and other property | 89 | 76 |
| Surplus assets | 98 | 142 |
| Assets under construction | 10 | 14 |

29. Information on major assets held

| 2007-08 £ | | Valuation base | Expected life | 2008-09 £ |
|--------------|---------------------------|------------------------------|---------------|--------------|
| | Operational assets | | | |
| 4,280,808 | Town Hall | Depreciated Historic Cost | 75 years | 8,970,619 |
| 4,087,307 | Park Leisure Centre | Depreciated Historic Cost | 50 years | 8,832,016 |
| 5,155,520 | Forum 28 | Depreciated Historic Cost | 30 years | 8,528,153 |
| 2,630,329 | Dock Museum | Depreciated Historic Cost | 25 years | 5,796,786 |
| 2,173,721 | Market and Mall complex | Net Current Replacement Cost | 25 years | 1,929,449 |
| 2,571,194 | Crematorium | Net Current Replacement Cost | 20 years | 1,814,624 |

30. Capital commitments

As at 31 March 2009 the Council was contractually committed to capital works which amounted to £169,662. Capital commitments at 31 March 2008 were £2,505,126.

| 31 March 2008 £ | Capital projects | 31 March 2009 £ |
|--------------------|---------------------------------|--------------------|
| 34,492 | Housing IT system | 8,501 |
| 107,824 | Hindpool Urban Park phase 1 & 2 | 0 |
| 430,407 | Environmental improvements | 0 |
| 988,593 | Building refurbishment | 34,292 |
| 891,238 | New build | 0 |
| 52,572 | Retentions held | 126,869 |
| 2,505,126 | | 169,662 |

31. Long-term debtors

Long-term debtors relates to the outstanding mortgage principal for Council dwellings purchased under the Right To Buy scheme.

32. Stocks

At the Balance Sheet date the Council had the following stocks:

| 31 March 2008 £ | | 31 March 2009 £ |
|--------------------|--------------------------------------|--------------------|
| 8,718 | Tourist Information Centre | 11,854 |
| 9,730 | Dock Museum shop | 11,220 |
| 8,099 | Other stocks held for internal issue | 7,512 |
| 26,547 | | 30,586 |

33. Debtors

At the Balance Sheet date the Council had the following debtors:

| 31 March 2008 | | 31 March 2009 |
|---------------|-------------------------------------|---------------|
| £ | | £ |
| 5,632,217 | Collection Fund arrears | 5,905,196 |
| 456,769 | HRA rent arrears | 404,706 |
| 3,873,289 | Government departments | 4,315,757 |
| 800,418 | Trade debtors | 1,594,998 |
| 783,377 | Sundry debtors | 877,985 |
| 0 | Benefit overpayments | 511,050 |
| 242,079 | Payments in advance | 266,176 |
| (4,850,160) | Provision for bad and doubtful debt | (5,419,085) |
| 6,937,989 | | 8,456,783 |

34. Minimum Revenue Provision

The Minimum Revenue Provision (MRP) is the statutory requirement for the Council to make provision to repay external debt. The calculation is prescribed by statute and is set as 4% of the General Fund Capital Financing Requirement each year.

35. Interests in companies

The Council holds no interests in companies.

36. Creditors

In 2007-08 it was relevant for the Council to provide for a potential claw back of benefit subsidy, as a number of previous year's claims were not settled by the Department of Works and Pensions. In 2008-09 this is no longer necessary as all previous year's outstanding claims have been settled. Therefore, the creditor was reversed back into the Income and Expenditure account.

At the Balance Sheet date the Council had the following creditors:

| 31 March 2008 | | 31 March 2009 |
|---------------|-------------------------------------|---------------|
| £ | | £ |
| (842,640) | Government departments | (216,795) |
| (208,557) | Potential benefit subsidy claw back | 0 |
| (904,907) | Collection Fund | (1,591,444) |
| (3,284,103) | Trade creditors | (4,263,075) |
| (1,269,256) | Receipts in advance | (1,040,613) |
| (6,509,463) | | (7,111,927) |

37. Provisions

The Council established an early retirement provision in 2005-06. This provides for the payment of annual amounts due to be paid following early retirements from 2005-06 onwards.

The Council established an insurance provision in 2006-07. This provides for the payment of potential insurance claims for which the Council is not insured; also see Contingent Liabilities (**Note 48**). The movements on provisions for the year were:

| 2007-08 | | 2008-09 |
|-----------|-----------------------------------|-----------|
| £ | | £ |
| | Early retirement provision | |
| (72,324) | Brought forward | (66,106) |
| 6,218 | Provision used during the year | 6,217 |
| (66,106) | | (59,889) |
| | Insurance provision | |
| (312,040) | Brought forward | (632,040) |
| (320,000) | New provision made | 0 |
| 0 | Provision used during the year | 182,834 |
| (632,040) | | (449,206) |
| (698,146) | Total of provisions | (509,095) |

38. Analysis of net assets employed

To provide an indication of the level of resources employed in providing the main services of the Council, the net assets employed are split between General Fund, the HRA and Collection Fund.

Year on year the net assets employed in the General Fund and HRA have changed significantly. The carrying value of assets has been affected this year by both a revaluation and an impairment exercise. This has reduced the Balance Sheet value of Council dwellings by £15,623,115 and increased the remaining tangible fixed assets by £22,689,372.

| 2007-08 | | 2008-09 |
|-------------|-------------------------|------------|
| £ | | £ |
| (4,921,224) | General Fund | 15,178,675 |
| 86,315,021 | HRA | 68,803,479 |
| 22,187 | Collection Fund | (389,136) |
| 81,415,984 | Total net assets | 83,593,018 |

39. Reserves

The Council keeps a number of reserves in the Balance Sheet.

Some reserves are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans.

The movements on reserves for the year were:

| | Balance 1 April 2008 | Net Movement in Year | Balance 31 March 2009 | |
|--|-------------------------|---|--------------------------|---|
| Reserve | £ | £ | £ | Purpose of Reserve |
| Capital Adjustment Account Note 40 | (82,504,575) | 12,667,604 | (69,836,971) | Store of capital resources set aside to meet past expenditure |
| Financial Instruments Adjustment Account Note 41 | 905,791 | (241,073) | 664,718 | Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments |
| Revaluation Reserve Note 43 | (16,155,263) | (13,113,591) | (29,268,854) | Store of gains on revaluation of fixed assets not yet realised through sales |
| Usable Capital Receipts Reserve Note 44 | (1,728,568) | 155,896 | (1,572,672) | Proceeds of fixed asset sales available to meet future capital investment |
| Pensions Reserve Note 8 | 22,822,190 | (623,036) | 22,199,154 | Balancing amount to allow inclusion of Pensions Liability in the Balance Sheet |
| Major Repairs Reserve Page 51 Note 13 | 0 | The full amount of the reserve was used in the year | 0 | Resources available to meet capital investment in council housing |
| General Fund Balance Page 13 | (2,025,186) | 53,927 | (1,971,259) | A prudent level of balance maintained for potential emergency/ extraordinary expenditure on non-housing services |
| HRA Balance Page 46 | (725,423) | (120,557) | (845,980) | A prudent level of balance maintained for potential emergency/ extraordinary expenditure on Council housing services |
| Earmarked Reserves Note 42 | (1,973,339) | (1,032,634) | (3,005,973) | Revenue set aside for specific purposes |
| Total | (81,384,373) | (2,253,464) | (83,637,837) | |

The movement notes referred to in this table may sometimes differ by rounding. This occurs when transactions are shown separately for presentation.

40. Movement on Capital Adjustment Account

| 2007-08 | | 2008-09 |
|--------------------|--|-------------------|
| £ | | £ |
| 1,349,540 | Depreciation of General Fund assets | 1,466,433 |
| 1,967,840 | Depreciation of HRA assets | 2,077,092 |
| 1,912 | Impairment of assets | 17,042,270 |
| (274,240) | Conversion of current value depreciation to historic cost depreciation | (1,505,467) |
| 2,651,821 | Carrying value of assets on disposal | 1,123,256 |
| (1,254,497) | Revaluation gains for assets on disposal | (69,235) |
| 328,062 | Revenue Expenditure Funded From Capital Under Statute (REFFCUS) net of grant | 35,003 |
| (912,707) | Capital receipts used in capital financing | (642,407) |
| 0 | Grants used in capital financing | (1,092,569) |
| (1,985,674) | Revenue used in capital financing | (57,225) |
| (1,788,189) | Reserves used in capital financing | (2,024,680) |
| (720,146) | Minimum Revenue Provision | (813,984) |
| (448,480) | Deferred grants released to revenue | (2,870,884) |
| (1,084,758) | | 12,667,603 |

41. Movement on Financial Instruments Adjustment Account

The movement for 2007-08 includes the derecognition of deferred premiums and discounts from the early repayment of debt, previously held on the Balance Sheet. These relate to the Housing Revenue Account (HRA) and are amortised to the HRA in line with the subsidy determination. Further details about the Council's financial liabilities and financial assets are contained in **Note 6** and the Statement of Total Recognised Gains and Losses **Page 14**.

| 2007-08 | | 2008-09 |
|------------------|--|------------------|
| £ | | £ |
| | Premiums from the early repayment of debt: | |
| (1,231,468) | Deferred premiums from previous years amortised to the HRA | 0 |
| 980,218 | Differences between amounts debited/credited to the Income and Expenditure Account and amounts payable/receivable to be recognised under statutory provisions relating to premiums on the early repayment of debt | (249,970) |
| (251,250) | Premiums from the early repayment of debt charged to the HRA in accordance with statutory provisions | (249,970) |
| | Discounts from the early repayment of debt: | |
| 63,878 | Deferred discounts from previous years amortised to the HRA | 0 |
| (74,427) | Differences between amounts debited/credited to the Income and Expenditure Account and amounts payable/receivable to be recognised under statutory provisions relating to discounts on the early repayment of debt | 8,897 |
| (10,549) | Discounts from the early repayment of debt charged to the HRA in accordance with statutory provisions | 8,897 |
| (261,799) | | (241,073) |

42. Movement on Earmarked reserves

| 2007-08 | | 2008-09 |
|------------------|--------------------------|--------------------|
| £ | | £ |
| (788,800) | New contributions made | (1,165,628) |
| 104,812 | Reserve used in the year | 132,995 |
| (683,988) | | (1,032,633) |

43. Movement on Revaluation Reserve

| 2007-08 | | 2008-09 | |
|---------------------|--|----------------|---------------------|
| £ | | £ | £ |
| (17,684,000) | Gains on the revaluation of fixed assets | (33,620,580) | |
| 0 | Loss on the revaluation of fixed assets | 8,728,905 | |
| 0 | Loss on the impairment of fixed assets | 10,203,381 | (14,688,294) |
| 1,254,497 | Gains written out on the disposal of fixed assets | | 69,235 |
| 274,240 | Conversion of current value depreciation to historic cost depreciation | | 1,505,467 |
| (16,155,263) | | | (13,113,592) |

44. Movement on Usable Capital Receipts reserve

| 2007-08 | | 2008-09 |
|------------------|--|----------------|
| £ | | £ |
| (1,923,640) | Proceeds from the sale of Council dwellings | (236,000) |
| (3,887) | Proceeds from the repayment of mortgage principal | (2,058) |
| (78,075) | Proceeds from the repayment of Right To Buy discount | (3,258) |
| (773,666) | Proceeds from the sale of fixed assets | (481,101) |
| 912,707 | Receipts used in capital financing | 642,408 |
| 1,407,928 | Share of receipts paid to Capital Receipts Pool | 235,905 |
| (458,633) | | 155,896 |

45. Unapplied grants and grants deferred

All capital grants and contributions claimed and received in the year have been credited to an unapplied grant accounts. Capital grants used to finance capital expenditure are transferred to grants-deferred accounts. Amounts are released to the relevant revenue service in line with any depreciation charged on the assets financed by those grants.

| 31 March 2008 | Unapplied grants | 31 March 2009 |
|----------------------|---|----------------------|
| £ | | £ |
| (861,523) | Balance brought forward | (2,626,899) |
| (9,155,668) | Grants receivable for the year | (8,838,491) |
| 7,390,292 | Grants applied to finance capital expenditure | 8,444,420 |
| (2,626,899) | Balance carried forward | (3,020,970) |

| 31 March 2008 | Deferred grants | 31 March 2009 |
|----------------------|---|----------------------|
| £ | | £ |
| (29,117,175) | Balance brought forward | (33,692,522) |
| 521,344 | Grants released to revenue | 2,870,884 |
| (5,096,691) | Grants applied to finance capital expenditure | (8,189,959) |
| (33,692,522) | Balance carried forward | (39,011,597) |

46. Revenue Expenditure Funded From Capital Under Statute (REFFCUS)

This is a new category of expenditure which has been introduced to replace the previously categorised Deferred Charges. Legislation allows some expenditure, which does not create a fixed asset, to be classified as capital for funding purposes. This will enable the authority to use capital resources and not impact on the Council Tax.

This type of expenditure will be charged, with any related grants, to the Income and Expenditure Account and neutralised in the Statement of Movement on General Fund Balance (SMGFB).

47. Trust funds

The Council acts as an administrator of four trust funds created for charitable purposes, they do not belong to the Council and are not included in any of the accounting statements. Their financial information is shown in aggregation below:

| 2007-08 | | 2008-09 |
|----------|------------------------------------|----------|
| £ | | £ |
| 91,310 | Assets | 90,727 |
| (19,202) | Gross income | (18,445) |
| 16,038 | Gross expenditure | 26,004 |
| (3,164) | Net (surplus)/deficit for the year | 7,559 |

48. Contingent liabilities

The Council is aware that there is the potential to receive claims for uninsured risks, particularly for events in the past.

As far as possible the insurance provision (**Note 37**) reflects the quantifiable liability, but there may remain unquantifiable liabilities.

49. Analysis of other revenue government grants

The other revenue government grants received on a cash basis by the Council were:

| 2007-08 | | 2008-09 |
|-------------|---|-------------|
| £ | | £ |
| (62,136) | Concessionary travel | (364,814) |
| (383,651) | Housing Benefit administration subsidy | (361,969) |
| (354,131) | Council Tax Benefit administration subsidy | (334,128) |
| 0 | European Regional Development Fund | (145,670) |
| (60,000) | Homelessness funding | (85,000) |
| 0 | NHS Life check roll out grant | (70,000) |
| (228,565) | West Lakes Renaissance housing market renewal | (158,157) |
| (200,899) | Planning Delivery Grant | (56,114) |
| (4,038,598) | Safer, Stronger Communities Fund | (45,034) |
| (29,351) | Work step sheltered placement scheme | (27,598) |
| 0 | Free swimming grant | (21,750) |
| (161,971) | Local Authority Business Growth Incentive | (13,635) |
| (7,515) | Discretionary Housing | (10,686) |
| 0 | Council tax leaflet efficiency grant | (9,581) |
| 0 | Coast protection grant | (8,047) |
| 0 | Tenants survey grant | (8,000) |
| 0 | Local Strategic Partnership support | (7,200) |
| 0 | Domestic violence grant | (4,650) |
| 0 | Empty property relief grant | (3,318) |
| 0 | Big lottery | (2,419) |
| 0 | Waste contamination grant | (989) |
| (73,863) | Contaminated land grant | (842) |
| (1,838,382) | Neighbourhood Renewal Fund | 0 |
| (537,702) | Housing Capital Grant | (922,564) |
| (282,056) | Disabled Facilities Grant | (351,000) |
| (101,606) | Local Housing Allowance implementation grant | 0 |
| (35,120) | Smoke free grant | 0 |
| (8,475) | Gypsy travellers research grant | 0 |
| (8,404,021) | | (3,013,165) |

50. Reconciliation to the net deficit on the Income and Expenditure Account

This reconciliation takes the deficit on the Income and Expenditure account and the Collection Fund, which are prepared on an accruals basis, to a net cash inflow or outflow from revenue activities. The non cash transactions are shown in detail for 2008-09 only.

| 2007-08 | | 2008-09 | |
|----------------|--|----------------|--------------|
| £ | | £ | £ |
| | (Surplus)/deficit for the year | | |
| 1,660,254 | - Income and Expenditure account | 13,781,888 | |
| 186,536 | - Collection Fund | 551,230 | |
| 1,846,790 | Net movement for the year | | 14,333,118 |
| (4,710,501) | Non cash transactions - capital charges, FRS 17 and provisions | | |
| | Depreciation | | (1,466,433) |
| | Impairment | | (17,042,270) |
| | Grants released to revenue | | 2,870,884 |
| | Loss on sale of fixed assets | | (406,155) |
| | Gain on sale of contingent assets | | 3,258 |
| | Bad debt provision | | (591,321) |
| | Early retirement provision | | 6,218 |
| | Council tax bad debt provision | | (322,381) |
| | NNDR bad debt provision | | (248,716) |
| | NNDR paid from Income and Expenditure account | | (594,525) |
| | Festival fund | | (24,846) |
| | Effect of FRS17 pension accounting | | (721,964) |
| | Interest payable – shown elsewhere | | (1,276,500) |
| | Interest receivable – shown elsewhere | | 462,405 |
| 4,440 | Accruals - (decrease)/increase in stocks | | 4,039 |
| 974,459 | Accruals - (decrease)/increase in debtors | | 1,181,843 |
| 1,259,997 | Accruals - decrease/(increase) in creditors | | (742,371) |
| 24,785 | Accruals – (decrease)/increase in interest receivable | | (31,339) |
| (3,506) | Accruals - decrease/(increase) in interest payable | | 0 |
| (300,059) | Other items | | (110,654) |
| (903,595) | Net cash (inflow)/outflow from revenue activities | | (4,717,710) |

51. Analysis of capital grants received

The capital grants received by the Council on a cash basis were:

| 2007-08 | | 2008-09 |
|----------------|------------------------------------|----------------|
| £ | | £ |
| (6,056,083) | West Lakes Renaissance | (5,062,439) |
| (2,573,298) | Housing Capital Grant | (1,374,436) |
| (768,950) | European Regional Development Fund | (1,080,709) |
| 0 | Cumbria County Council | (526,640) |
| (7,944) | Disabled Facilities Grant | 0 |
| 0 | Department of Health | (120,000) |
| (9,825) | Big Lottery | (104,081) |
| (1,957,199) | Urban Renewal Fund | (92,020) |
| 0 | Planning Delivery Grant | (27,018) |
| 0 | Marine Fisheries Agency | (20,000) |
| 0 | Sport England | (19,500) |
| (831,275) | Safer, Stronger Communities Fund | (15,511) |
| 0 | Coast Protection | (3,019) |
| (40,000) | Arts Council | 0 |
| (12,244,574) | | (8,445,373) |

52. Analysis of other capital cash receipts

The other capital cash received by the Council on a cash basis came from:

| 2007-08 | | 2008-09 |
|-----------|--|----------|
| £ | | £ |
| 0 | Emlyn Hughes House insurer | (18,601) |
| 0 | Furness Maritime Trust | (9,500) |
| (78,075) | Proceeds from the repayment of Right To Buy discount | (3,258) |
| (3,887) | Proceeds from the repayment of mortgage principal | (2,058) |
| (64,790) | Northern Housing Consortium Charitable Trust | 0 |
| (146,752) | | (33,417) |

53. Movement in cash reconciled to the movement in net debt

| 2007-08 | | 2008-09 | |
|--------------|--------------------------------------|--------------|--------------|
| £ | | £ | £ |
| | Balances brought forward | | |
| (215,049) | - Bank | 562,131 | |
| 1,524,469 | - Liquid resources | 4,901,987 | |
| (29,000,000) | - Borrowing | (29,000,000) | |
| (27,690,580) | Total brought forward | | (23,535,882) |
| | Balances carried forward | | |
| 562,131 | - Bank | 4,586,891 | |
| 4,928,534 | - Liquid resources | 2,091 | |
| (29,000,000) | - Borrowing | (29,000,000) | |
| (23,509,335) | Total carried forward | | (24,411,018) |
| 4,181,245 | Net (increase)/decrease for the year | | (875,136) |
| | | | |
| 777,180 | Net movement on bank | | 4,024,760 |
| 3,404,065 | Net movement on liquid resources | | (4,899,896) |
| 0 | Net movement on financing | | 0 |
| 4,181,245 | Net movement for the year | | (875,136) |

54. Reconciliation of liquid resources to the Balance Sheet

Liquid resources are cash in hand and short-term investments. From 2008-09 stocks do not fall within the definition of liquid resources. At the Balance Sheet date the Council held the following liquid resources:

| 31 March 2008 | | 31 March 2009 |
|---------------|---|---------------|
| £ | | £ |
| 26,547 | Stocks (excluded in 2008-09 net movement) | 0 |
| 1,987 | Cash | 2,091 |
| 4,900,000 | Investments – principal only (all short term) | 0 |
| 4,928,534 | | 2,091 |

55. Authorisation of accounts for issue

These accounts were originally authorised for issue by the Borough Treasurer on 22 June 2009 and are now authorised for issue on the 14 September 2009 after incorporating revisions from the audit.

56. Events after the Balance Sheet date

There have been no transactions between the Balance Sheet date and the date these accounts were authorised for issue by the Borough Treasurer that meets the definition of a post balance sheet event.

Supplementary Statements

HRA Income and Expenditure Account

| 2007-08 | | 2008-09 | |
|-------------|--|-------------|-------------|
| £ | | £ | £ |
| | Income | | |
| (7,793,980) | Dwelling rents | (8,098,913) | |
| (292,745) | Non-dwelling rents | (284,759) | |
| (397,155) | Charges for services and facilities | (394,829) | |
| (26,868) | Contribution from another Local Authority | (27,540) | |
| (8,510,748) | Total Income | | (8,806,041) |
| | Expenditure | | |
| 2,688,647 | Contribution to the housing repairs account Note 4 | 2,918,874 | |
| 2,676,258 | Supervision and management | 2,905,578 | |
| 331,371 | HRA subsidy payable Note 3 | (3,718) | |
| 1,821,582 | Depreciation and impairment of dwellings Note 5 and Note 9 | 10,036,430 | |
| 107,910 | Depreciation and impairment of other HRA assets Note 9 | 118,091 | |
| 17,160 | Debt Management Costs | 16,595 | |
| 66,654 | Increase in bad debt provision | 80,271 | |
| 7,709,582 | Total Expenditure | | 16,072,121 |
| (801,166) | Net Cost of HRA Services | | 7,266,080 |
| 0 | Gain or loss on sale of fixed assets | | (72,800) |
| | Gain on sale of contingent assets | | (3,258) |
| 517,744 | Interest payable | | 488,446 |
| 1,134,260 | Amortisation of premiums and discounts | | 0 |
| (738) | Interest income - mortgages | | (467) |
| 51,000 | Pensions interest cost and expected return on pensions assets | | 223,000 |
| 901,100 | (Surplus) or deficit for the year on HRA services | | 7,901,001 |

Statement of Movement on the HRA Balance

The Income and Expenditure Account shows the HRA's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the authority is required to raise rent on a different accounting basis, the main difference being:

- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The HRA Balance compares the council's spending against the rent that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the HRA Balance:

| 2007-08 | | 2008-09 |
|-------------|---|-------------|
| £ | | £ |
| 901,100 | (Surplus) or deficit for the year on the HRA Income and Expenditure Account | 7,901,001 |
| 950,036 | Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year Note 2 | (8,021,558) |
| 1,851,136 | (Increase)/decrease in the HRA Balance | (120,557) |
| (2,576,559) | HRA Balance brought forward | (725,423) |
| (725,423) | HRA Balance carried forward Note 8 | (845,980) |

Notes to the HRA

1. Explanation of the significance of the Statement of Movement on the HRA Balance

The HRA Income and Expenditure Account shows in more detail the income and expenditure on HRA services included in the whole authority Income and Expenditure Account. The surplus or deficit achieved on the HRA Income and Expenditure Account represents the amount by which income is greater or less than expenditure.

However, the items of income and expenditure that are required to be credited or charged to the HRA are defined in accordance with Part 6 of the Local Government and Housing Act 1989 (1989 Act) rather than in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

To arrive at the Movement on the HRA Balance it is necessary to include the following items:

- Amounts included in the HRA Income and Expenditure Account but required by statute to be excluded when determining the Movement on the HRA Balance for the year.
- Amounts not included in the HRA Income and Expenditure Account but required to be included by statute when determining the Movement on the HRA Balance for the year.
- Transfers to or from the HRA Balance that are required to be taken into account when determining the Movement on the HRA Balance for the year.

This net additional amount is applied to the surplus or deficit on the HRA Income and Expenditure Account to arrive at the Movement on the HRA Balance in accordance with Part 6 of the 1989 Act.

2. Breakdown of reconciling items in the Statement of Movement on the HRA Balance

The amounts in addition to the HRA Income and Expenditure Account surplus or deficit for the year that are required by Part 6 of the 1989 Act to be charged or credited to the HRA in determining the movement on the HRA Balance for the year are:

| 2007-08 | | 2008-09 | |
|-------------|--|-------------|-------------|
| £ | | £ | £ |
| (1,912) | Impairment of fixed assets | (8,118,999) | |
| 40,260 | Grants deferred amortisation | 41,570 | |
| | Gain on sale of HRA fixed assets | 72,800 | |
| | Gain on sale of contingent assets | 3,258 | |
| (905,791) | Differences between amounts charged to income and expenditure for premiums and discounts and the charge for the year determined in accordance with statute | 241,073 | |
| (208,919) | Net charges made for retirement benefits in accordance with FRS 17 Note 10 | (411,406) | |
| (1,076,362) | Total to be excluded from Income and Expenditure account | | (8,171,704) |
| (187,060) | Transfer to/(from) Major Repairs Reserve Note 13 | (125,882) | |
| 227,784 | Employer's contributions payable to the Superannuation Pension Fund and retirement benefits payable direct to pensioners Note 10 | 249,244 | |
| 1,985,674 | Capital expenditure funded by the HRA | 26,784 | |
| 2,026,398 | Total to be included in Income and Expenditure account | | 150,146 |
| 950,036 | Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year | | (8,021,558) |

3. HRA subsidy payable

The subsidy payable from the HRA to Government is composed of elements of subsidy payable and receivable for the financial year. The breakdown comes from the general formula in paragraph 3.1 of the General Determination of HRA Subsidy 2008-09, issued by the DCLG.

| 2007-08 | | 2008-09 |
|-------------|----------------------------------|-------------|
| £ | | £ |
| (1,752,002) | Allowance for management | (1,825,782) |
| (2,779,604) | Allowance for maintenance | (3,061,765) |
| (1,780,780) | Major Repairs Allowance | (1,951,210) |
| (1,076,677) | Charges for capital | (1,141,842) |
| (25,663) | Rental constraint allowance | 0 |
| (7,414,726) | Total allowance for expenditure | (7,980,599) |
| 7,745,261 | Rent receivable | 7,998,282 |
| 836 | Interest on receipts | 836 |
| 331,371 | Net subsidy payable for the year | 18,519 |
| 0 | Previous year adjustments | (22,237) |
| 331,371 | Total HRA subsidy in the year | (3,718) |

4. Housing Repairs Account

The Housing Repairs Account operates within the HRA ring-fence and is a separate record of income and expenditure on repairs and maintenance of all HRA properties. The Housing Repairs Account is funded by a contribution from the HRA and any balance at the end of the financial year is returned to the HRA. Any unused contribution is earmarked as funds committed for ongoing housing maintenance.

5. Depreciation and impairment of dwellings

The depreciation and impairment of dwellings is an aggregation of the following:

| 2007-08 | | 2008-09 |
|------------------|-------------------------------------|-------------------|
| £ | | £ |
| 1,859,930 | Depreciation of dwellings | 1,959,001 |
| (40,260) | Deferred grants releases to revenue | (41,570) |
| 1,912 | Impairment of dwelling values | 8,118,999 |
| 1,821,582 | | 10,036,430 |

6. HRA tangible fixed asset disposals

| 2007-08 | | 2008-09 |
|-------------|--|-----------------|
| £ | | £ |
| | Sale proceeds: | |
| (1,923,640) | Dwellings | (236,000) |
| | Carrying value: | |
| 1,923,640 | Dwellings | 163,200 |
| 0 | (Gains)/losses on the sale of fixed assets | (72,800) |

7. HRA Capital Financing Requirement (CFR)

| 2007-08 | | 2008-09 |
|------------------|---|------------------|
| £ | | £ |
| 9,010,011 | Opening CFR | 9,010,011 |
| | Capital investment: | |
| 3,781,625 | Council dwellings | 1,977,594 |
| 861 | Other operational buildings | 400 |
| 25,262 | Operational equipment | 25,991 |
| 54,429 | Non-operational buildings | 0 |
| | Sources of finance: | |
| (88,314) | Government grants and other contributions | (25,991) |
| (3,773,863) | Balances and reserves | (1,977,994) |
| 9,010,011 | Closing CFR | 9,010,011 |

8. HRA balance

The balance carried forward on the HRA contains an element of funds committed to ongoing housing maintenance. This occurs when the contribution to the Housing Repairs Account for the year is not fully spent; any under-spend remains as maintenance funding.

| 31 March 2008 | | 31 March 2009 |
|---------------|--|---------------|
| £ | | £ |
| (725,423) | Total HRA balance carried forward | (845,980) |
| (24,897) | Of which: committed to ongoing housing maintenance | (72,000) |

9. HRA tangible fixed assets

| | Council dwellings | Other operational buildings | Equipment | Commercial and other properties | Total |
|--|-------------------|-----------------------------|-----------------|---------------------------------|-------------------|
| | £ | £ | £ | £ | £ |
| Balance sheet value | | | | | |
| At 31 March 2008 | 97,853,957 | 1,283,861 | 70,508 | 725,119 | 99,933,445 |
| Eliminate prior year depreciation* | (32,880) | 0 | 0 | 0 | (32,880) |
| Transfer and merge of assets | 0 | 54,370 | 0 | 0 | 54,370 |
| Eliminate depreciation on revaluation | (3,786,051) | (148,944) | 0 | (38,474) | (3,973,469) |
| Revaluations 1/4/08 | (2,379,026) | 337,963 | 0 | 64,775 | (1,976,288) |
| Acquisitions in year | 0 | 0 | 21,790 | 0 | 21,790 |
| Enhancements in year | 1,977,594 | 400 | 4,201 | 0 | 1,982,195 |
| Disposals in year | (163,200) | 0 | 0 | (36,420) | (199,620) |
| Impairment review 31/3/09 | (13,099,482) | 0 | 0 | 0 | (13,099,482) |
| At 31 March 2009 | 80,370,912 | 1,527,650 | 96,499 | 715,000 | 82,710,061 |
| Depreciation | | | | | |
| At 31 March 2008 | (1,859,930) | (74,450) | (15,080) | (18,380) | (1,967,840) |
| Eliminate prior year depreciation | 32,880 | 0 | 0 | 0 | 32,880 |
| Current year charge | (1,959,001) | (74,493) | (23,504) | (20,094) | (2,077,092) |
| Eliminate depreciation on revaluation | 3,786,051 | 148,943 | 0 | 38,474 | 3,973,468 |
| At 31 March 2009 | 0 | 0 | (38,584) | 0 | (38,584) |
| Net Book Value at 31 March 2008 | 95,994,027 | 1,209,411 | 55,428 | 706,739 | 97,965,605 |
| Net Book Value at 31 March 2009 | 80,370,912 | 1,527,650 | 57,915 | 715,000 | 82,671,477 |
| Estimated useful economic life | 30 years | 10-20 years | 3 years | 30 years | |

*Accumulated depreciation on dwellings sold in 2007-08, not eliminated in the year.

Depreciation is calculated on a straight line basis and charged to the HRA.

10. Retirement benefits

As part of the terms and conditions of employment of its officers the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The authority participates in the Local Government Pension Scheme administered by Cumbria County Council – this is a funded scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

Transactions relating to retirement benefits

The cost of retirement benefits is recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge which is required to be made to the HRA is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement on the HRA Balance.

The following transactions have been made in the HRA Income and Expenditure Account and Statement of Movement on the HRA Balance during the year:

| | Local Government Pension Scheme | |
|--|--|----------------|
| | £ | |
| | 2007-08 As Revised | 2008-09 |
| HRA Income and Expenditure Account | | |
| Net Cost of Services: | | |
| current service cost | (157,919) | (39,181) |
| Net Operating Expenditure: | | |
| - interest cost | (667,000) | (832,000) |
| - expected return on assets in the scheme | 616,000 | 609,000 |
| Net Charge to the Income and Expenditure Account | (208,919) | (262,181) |
| | | |
| Statement of Movement on the HRA Balance | | |
| - reversal of net charges made for retirement benefits in accordance with FRS 17 | 208,919 | 262,181 |
| | 208,919 | 262,181 |
| | | |
| Actual amount charged against HRA Balance for pensions in the year: | | |
| - employers' contributions payable to scheme | (208,280) | (227,587) |
| - retirement benefits payable to pensioners | (19,504) | (21,658) |
| Total actual pensions paid in the year | (227,784) | (249,245) |

11. Rent arrears

Provision has been made for the potential bad and doubtful debts of rent collection. The arrears at the year-end together with the aggregate Balance Sheet provision and overall percentage provisions are:

| 2007-08 | | 2008-09 |
|----------------|--------------------------------------|----------------|
| £ | | £ |
| 456,769 | Arrears | 404,707 |
| 345,177 | Provision for bad and doubtful debts | 300,143 |
| 76% | Percentage of provision | 74% |

12. Dwelling stock

The Council was responsible for managing 2,735 dwellings in 2008-09. 4 properties were sold during 2008-09; 42 properties were sold in 2007-08.

| | 31 March 2008 | Movement in year | 31 March 2009 |
|-----------------------|---------------|------------------|---------------|
| Houses | | | |
| 1 bedroom | 143 | 0 | 143 |
| 2 bedroom | 392 | (3) | 389 |
| 3+ bedroom | 927 | (1) | 926 |
| Flats | | | |
| 1 bedroom | 962 | 0 | 962 |
| 2 bedroom | 307 | 0 | 307 |
| 3+ bedroom | 8 | 0 | 8 |
| Total | | | |
| Houses | 1,462 | (4) | 1,458 |
| Flats | 1,277 | 0 | 1,277 |
| Dwelling stock | 2,739 | (4) | 2,735 |

13. Major Repairs Reserve

An element of the HRA subsidy receivable is the Major Repairs Allowance (MRA). The MRA is intended to pay for major capital expenditure on Council houses. The subsidy system allows the creation of the Major Repairs Reserve (MRR) to hold the MRA until it is used for capital expenditure.

| 2007-08 | | 2008-09 | |
|-------------|---|-------------|-------------|
| £ | | £ | £ |
| | MRR transfers in the year: | | |
| (1,859,930) | From HRA for depreciation of dwellings | (1,959,000) | |
| (107,910) | From HRA for depreciation of other fixed assets | (118,091) | |
| 79,150 | Difference between MRA received and depreciation of dwellings | 7,790 | |
| 107,910 | To HRA for depreciation of other fixed assets | 118,091 | |
| (1,780,780) | MRA subsidy receivable for the year | | (1,951,210) |
| | Capital expenditure financed by MRR: | | |
| 706,336 | Heating and insulation | 812,411 | |
| 594,049 | Kitchens and bathrooms | 801,645 | |
| 308,942 | Rewires | 274,200 | |
| 178,862 | Roofs | 62,954 | |
| 1,788,189 | Total capital expenditure | | 1,951,210 |
| (7,409) | Balance brought forward | | 0 |
| 0 | Balance carried forward | | 0 |

14. Extraordinary and exceptional items

There were no extraordinary or exceptional items in the HRA for the year.

15. Vacant possession value of dwellings

Council dwellings are held in the Balance Sheet at a value that reflects the nature of occupancy in public sector housing; this is known as the Existing Use Value of Social Housing ('EUV-SH'). The EUV-SH shows the economic cost to the Government of providing Council housing at less than open market rents.

Lower public sector rent levels and the Right To Buy ('RTB') option for tenants are determining factors in establishing the social housing valuation.

The valuation in the Balance Sheet of the dwellings would be higher, if the Existing Use Value in Vacant Possession value ('EUV-VP') that reflects market conditions was used.

The Existing Use Value of Social Housing at the Balance Sheet date was:

| 31 March 2008 | | 31 March 2009 |
|----------------------|---|----------------------|
| £ | | £ |
| 95,994,027 | Balance Sheet value EUV-SH of dwellings | 80,370,912 |
| 103,993,529 | Difference of dwellings EUV-SH and EUV-VP: economic cost | 87,068,488 |
| <u>199,987,556</u> | Value of dwelling stock at EUV-VP | <u>167,439,400</u> |

Collection Fund

| 2007-08 | | 2008-09 | |
|--------------|---|--------------|--------------|
| £ | | £ | £ |
| | Income | | |
| (25,366,452) | Income from Council Tax | (26,448,363) | |
| | <i>Transfers from General Fund:</i> | | |
| (5,610,701) | - Council Tax benefits Note 1 | (5,733,613) | |
| (18,973,337) | Income collectable from business ratepayers Note 2 | (19,922,338) | |
| (49,950,490) | Total Income | | (52,104,314) |
| | Expenditure | | |
| | <i>Precepts and demands:</i> | | |
| 22,877,259 | - Cumbria County Council | 23,977,059 | |
| 4,147,973 | - Barrow Borough Council | 4,273,918 | |
| 3,656,977 | - Cumbria Police Authority | 3,869,405 | |
| | <i>Business rate:</i> | | |
| 18,869,870 | - Payment to national pool | 19,819,743 | |
| 103,467 | - Costs of collection | 102,595 | |
| | <i>Bad and doubtful debts: Note 3</i> | | |
| (156,344) | - Write offs | (227,638) | |
| 579,636 | - Provisions | 550,019 | |
| | <i>Contributions:</i> | | |
| 58,188 | - Towards previous year's estimated Collection Fund surplus | 290,443 | |
| 50,137,026 | Total Expenditure | | 52,655,544 |
| | | | |
| 186,536 | (Surplus) or deficit for the year | | 551,230 |
| (348,630) | Balance brought forward | | (162,094) |
| (162,094) | Balance carried forward Note 4 | | 389,136 |

Notes to the Collection Fund

1. Council Tax benefits

Government regulations provide for specific reductions to be made to the Council Tax payable by people that satisfy certain criteria, such as low income. These are Council Tax benefits and they are mostly subsidised by central government.

2. Income from business ratepayers

Under the arrangements for uniform business rates the Council collects business rates for its area that are based on local rateable values multiplied by a uniform rate. The total amount, less certain reliefs and other deductions, is paid to a central pool (the NNDR pool) managed by central government. The pool pays back to the Council their share of the pool based on a standard amount per head of the local adult population.

The total non-domestic rateable value at the 31 March 2009 was £48,770,384 (£48,118,720 at the 31 March 2008).

The national non-domestic rate multiplier for 2008-09 was 46.2 pence in the pound (44.4 pence in the pound for 2007-08).

A small business rate relief scheme was also introduced on the 1 April 2005 whereby, providing certain conditions are met, occupiers of properties with a rateable value of less than

£15,000 pay a reduced rate of 45.8 pence in the pound (44.1 pence in the pound for 2007-08) and can also qualify for rate relief.

3. Bad and doubtful debts

Provision has been made for the potential bad and doubtful debts of the Collection Fund.

The arrears at the year-end together with the aggregate Balance Sheet provision and overall percentage provisions are:

| 31 March 2008 | | 31 March 2009 |
|---------------|--------------------------------------|---------------|
| £ | | £ |
| | Council Tax | |
| 4,385,677 | Arrears | 4,534,984 |
| 2,938,189 | Provision for bad and doubtful debts | 3,032,932 |
| 67% | Percentage of provision | 67% |
| | Business ratepayer | |
| 1,246,540 | Arrears | 1,370,212 |
| 1,012,846 | Provision for bad and doubtful debts | 1,074,151 |
| 81% | Percentage of provision | 78% |

4. Collection Fund balance

The Collection Fund balance for each year belongs to the precepting authorities and is divided against the precept for the following year. Due to the timing of setting Council Tax each year there is two year gap between establishing the balance for the year and returning the surplus or deficit.

The collection fund balance for the financial year 2007-08 will be returned to the precepting authorities in 2009-10 and the balance for the financial year 2008-09 will be returned in 2010-11.

| | Cumbria County Council | Barrow Borough Council | Cumbria Police Authority | Total |
|-----------------------------------|------------------------------|------------------------------|--------------------------------|-----------|
| | £ | £ | £ | £ |
| Balance for: | | | | |
| 2006-07 to be returned 2008-09 | (216,560) | (39,265) | (34,618) | (290,443) |
| 2007-08 to be returned in 2009-10 | 95,809 | 17,078 | 15,462 | 128,349 |
| At 31 March 2008 | (120,751) | (22,187) | (19,156) | (162,094) |
| Balance returned in 2008-09 | 216,560 | 39,265 | 34,618 | 290,443 |
| 2008-09 to be returned in 2010-11 | 193,691 | 35,107 | 31,989 | 260,787 |
| At 31 March 2009 | 289,500 | 52,185 | 47,451 | 389,136 |

5. Council Tax base

The Council Tax base is the number of properties against which the Council Tax can be collected.

All properties on the valuation list are split into eight bands, A to H, and each band is given a standard factor to convert it to a band D equivalent.

The total of the band D equivalent, net of discounts and adjustments, is then multiplied by an assumed collection rate to give the tax base for the area.

The collection rate was assumed to be 98% for 2008-09 as it was in 2007-08.

The Council Tax base for the year was set as:

| 2007-08 Band D equivalent number of chargeable dwellings | Band | Standard factor | 2008-09 Band D equivalent number of chargeable dwellings |
|---|---|------------------------|---|
| 29 | Disabled reductions | | 27 |
| 10,752 | A | 6/9 | 10,853 |
| 3,815 | B | 7/9 | 3,832 |
| 3,677 | C | 8/9 | 3,710 |
| 2,038 | D | 9/9 | 2,075 |
| 1,071 | E | 11/9 | 1,085 |
| 317 | F | 13/9 | 312 |
| 109 | G | 15/9 | 106 |
| 3 | H | 18/9 | 1 |
| 21,811 | Equivalent chargeable dwellings | | 22,001 |
| 21,375 | 98% of which gives the Council Tax base | | 21,561 |

The total of the precepts and demands on the collection fund is divided by the tax base to arrive at the band D Council Tax, and by applying the standard factor to each band the tax figures are calculated.

| 2007-08 Council Tax | Band | Property value | 2008-09 Council Tax |
|----------------------------|-------------|---------------------------|----------------------------|
| £ | | | £ |
| 953.85 | A | Up to £39,999 | 989.79 |
| 1,112.84 | B | £40,000 to £51,999 | 1,154.76 |
| 1,271.81 | C | £52,000 to £67,999 | 1,319.72 |
| 1,430.79 | D | £68,000 to £87,999 | 1,484.69 |
| 1,748.73 | E | £88,000 to £119,999 | 1,814.62 |
| 2,066.69 | F | £120,000 to £159,999 | 2,144.55 |
| 2,384.64 | G | £160,000 to £319,999 | 2,474.48 |
| 2,861.57 | H | £320,000 and over | 2,969.38 |

Annual Governance Statement

Governance – How the Council ensures that the right things are done in the right way, for the right people at the right time, in an open, honest and accountable manner.

Annual Statement - The Accounts and Audit Regulations 2006, Regulation 4(2), requires the Council to carry out an annual review of its governance arrangements. The outcome of this review results in the production of the Annual Governance Statement (AGS).

Scope and responsibility

Barrow Borough Council is responsible for ensuring that its business is conducted in accordance with legal requirements and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Barrow Borough Council is also responsible for maintaining proper arrangements for the governance of its affairs, which facilitate the effective exercise of the Council's functions, including arrangements for the management of risk.

Barrow Borough Council has completed the Corporate Governance Compliance checklist which is consistent with the principles of the Delivering Good Governance in Local Government framework set out in the governance framework below.

The Council's statutory officers are:

The Chief Executive – Head of Paid Service;

The Borough Treasurer - Section 151 Officer under the Local Government Act 1972;

The Director of Corporate Services – Monitoring Officer.

The purpose of the governance framework

The governance framework comprises the culture and values, systems and processes used by the Council to direct and control its activities, enabling it to engage, lead and account to the community.

The framework allows the Council to monitor the achievement of its strategic objectives and to consider whether appropriate, cost effective services have been delivered.

A significant part of the framework is the Council's system of internal control which is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Barrow Borough Council for the year ended 31 March 2009, and up to the date of approval of the accounts.

The governance framework

The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) identified six principles of corporate governance that underpin the effective governance of all local authorities. Barrow Borough Council has used these principles when assessing the adequacy of its governance arrangements. The main elements that contribute to these arrangements are listed below each core principle:

Core Principle 1: focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area

- Love Barrow was initiated by the Regeneration Publicity Team, which represents business, tourism, the Urban Regeneration Company (West Lakes Renaissance), further and higher education and other regeneration organisations in the Borough
- The Council's policies, aims and objectives are well established and monitored at various levels, for example Corporate Business plan, annual service budget planning process and personal performance appraisals
- Regular consultation is undertaken on a range of issues
- The Local Strategic Partnership provides a partnership review forum
- Consultation informs our Sustainable Community Strategy which is available to the public
- The Sustainable Community Strategy and Annual Report articulate the Council's activities and achievements
- The Medium Term Financial plan underpins corporate aims
- The Council's budget shows financial plans at a detailed level for the financial year
- Effective Budget Monitoring takes place regularly
- Cashable and non-cashable savings under 'Gershon' have exceeded targets
- Performance management and reporting is embedded, including quarterly reporting to the Management Board and the Executive Committee and review by the Overview and Scrutiny Committees
- Scrutiny reviews have delivered tangible outcomes

Core Principle 2: members and officers working together to achieve a common purpose with clearly defined functions and roles

- Members attend meetings for several strategic working groups within the Council
- Official Member spokespersons for strategic objectives
- The Council's Constitution clearly states the roles and responsibilities of members and senior officers
- Terms of reference for Committees and the Council are clearly defined in the Constitution
- Clear delegations and accountabilities are laid down in the Constitution
- Joint Board meetings with Members and Management Team
- Executive Committee pre-agenda meetings with Members and Management Team
- Management Team and heads of service attend monthly Management Board
- Officers are appointed with clear job descriptions
- Adoption of statutory and professional standards
- Compliance with Financial Regulations and Contract Procedure Rules that are reviewed and approved by the Council
- Financial administration procedures are agreed by the Borough Treasurer
- Appropriate segregation of duties and management supervision

Core Principle 3: promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

- The Council's vision and aims statement exemplifies its priorities and values
- A Member / Officer protocol is set out within the Constitution
- There are codes of conduct in place for Members and Officers

- There is an established and effective Standards Committee
- Anti-fraud and corruption policy
- The Council has adopted the Payment Card Industry Data Security Standard with a statement of procedure to ensure that valuable cardholder account data is always secure
- The Council participates in the Audit Commissions National Fraud Initiative, an exercise that matches electronic data within and between audited bodies to prevent and detect fraud; including police authorities, local probation boards and fire and rescue authorities as well as local councils
- A whistle blowing policy is in place and available on the Council's web site
- Member and officer registers of declared interests, and hospitality and gift register

Core Principle 4: taking informed and transparent decisions which are subject to effective scrutiny and management of risk

- There are established and effective Overview and Scrutiny Committees, for corporate services and for regeneration
- There is an established and effective Audit Committee
- Decisions taken are formally minuted
- The Corporate Business plan is rolled forward and reviewed
- Active risk management, including
 - risk identification, registers and actions plans
 - Risk Management group
 - official Member spokesperson for risk management
 - guidance and training on risk management for members and staff
 - involvement of members in monitoring corporate risks
 - consideration of risk implications in committee reports and the decision making process.
- Active health and safety arrangements, including a robust policy, official Member spokesperson, consideration of issues at the quarterly Health and Safety Management Board; the membership includes Management Team, Members and other relevant officers.
- Continuous managerial review of services to ensure continuous improvement and the economic, effective and efficient use of resources
- Devolved financial management arrangements, where managers are responsible for managing their services within available resources and in accordance with agreed policies and procedures. Elements include:-
 - financial awareness training and working closely with service accountants in all aspects of financial management and administration
 - monthly review by officers and the appropriate service manager of budgetary control information, comparing expected and actual performance
 - formal quarterly budget monitoring reports to the Executive Committee
- Active performance management arrangements
- A robust complaints / compliments procedure is in place and is widely publicised
- Freedom of Information requests are dealt with in accordance with established protocols
- All committee reports include reference to the potential impact on the Council's key priorities or corporate aims, and address as appropriate any financial, risk, legal, health and safety and equal opportunities

Core Principle 5: developing the capacity and capability of members and officers to be effective

- An induction programme is in place for Officers and Members
- A Member training and development programme is in operation
- Deputy section 151 and Monitoring Officers are in place
- Officer's training requirements are considered at each personal performance appraisal
- Supervisor training is available
- European Computer Driving Licence training is available
- Members attend leadership residential training course run by Achieving Cumbria Excellence

Core Principle 6: engaging with local people and other stakeholders to ensure robust public accountability

- The Sustainable Community Strategy is positively used
- There is regular community engagement and participation both in general and for specific community groups and services provided, including Parish Councils
- The Council has a Consultation Policy to make sure that community consultation is effective, efficient and consistent
- Community Voice is the name for the Citizens' Panel for Cumbria; Citizen's Panels are made up of a representative sample of local residents who have agreed to take part in research over a given period of time
- Consultation for specific services, through bodies such as the Housing Forum, tenants and residents associations, landlord forum and trade unions are consulted on issues which affect Council staff
- Talking Point is Barrow Borough Council's new online service to help the people of Barrow Borough contact us about local issues
- Committee and Council meetings are open to the public, with papers available on the internet
- The Council Tax leaflet, issued annually, gives further information on the Council priorities and principal outcomes on delivering strategic objectives; these are sent to people's homes with the Council Tax bills
- Clear and colourful publications, including Annual Report, residents' magazine, tenants newsletter, A-Z of Council Services
- The Council engages by various means with hard to reach groups, such as the Citizens Advice Bureau, Furness Multicultural Forum, the Disability Association, Age Concern and the Blind Society
- Other harder to reach groups are served by the Cumbrian forums:
 - AWAZ (Cumbria), promotes the active participation of minority ethnic people and groups
 - Cumbria Disability Network
 - OutREACH Cumbria, is a new strategic partner working on equality issues
- The Council uses a computerised Customer Relationship Management system that includes a calls handling system and queuing and appointment systems
- Govmetrics is used online and at the main Council offices, this is a quick and easy way to collect customer satisfaction using expressions: 😊 😐 😞 to find out how customers rate information and services

Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. This responsibility is in practice carried out by Management Team and managers, with the Chief Executive informing the Executive Committee of any significant matters warranting their attention.

The Council's Overview and Scrutiny Committees exercise a general non-executive review role which in 2008-09 included specific work on:

- Corporate services: equalities performance, health and safety, and reviewing the Council's void commercial properties
- Regeneration and Community services: allotment management, off-street car parking, rent collection, and waste collection and recycling; this committee also receives Performance Information

The review of effectiveness of the system of internal control is informed by three main sources: the work of internal audit; by managers who have responsibility for the development and maintenance of the internal control environment and also by comments made by external auditors and other review agencies / inspectorates.

Internal audit

Barrow's responsibility for maintaining an effective Internal Audit function is set out in Regulation 6 of the Accounts and Audit Regulations 2003. This responsibility is delegated to the Borough Treasurer. The

Internal Audit function has no operational responsibilities; this ensures that its duties are performed impartially.

Internal Audit operates in accordance with best practice professional standards and guidelines. It independently and objectively reviews, on a continuous basis, the extent to which the internal control environment supports and promotes the achievement of the Council's objectives, and contributes to the proper, economic, efficient and effective use of resources. All audit reports go to the Audit Committee who review any recommendations and monitor their implementation. Members receive a quarterly and an annual report of internal audit activity and approve the annual risk-based audit plan for the forthcoming year.

During 2008-09 Internal Audit completed 450 days of review, which was spent undertaking 50 audits, 30 of which have had final reports issued. Of these 1 was assessed as being able to offer unqualified levels of assurance, 17 substantial assurance, and 12 were found to have restricted assurance. Internal Audit also performed agreed additional audit work commissioned by the Borough Treasurer, which did not require an assurance level.

In respect of the internal control arrangements, it should be noted that 9 of the completed audits are for contracted project works and all contain the same themes. Of these, 8 were assessed as being able to offer restricted assurance and only 1 was found to have substantial assurance. These audits relate to contracts let in previous financial years and although these have been helpful in shaping the proposed amendments to the Council's Contract Standing Orders. Assurance may be taken that these weaknesses are being addressed.

Taking the remaining system based audits, 81% of the reviews account for substantial or reasonable assurance, whilst only 19% of reviews placed a restricted assurance on the system of internal control in operation at the time of the review. The outcomes of these Internal Audit reviews are reported to the Audit Committee on a quarterly basis, giving Members an opportunity to understand the Council's compliance with key controls and to discuss any areas of concern with the Auditors.

Managers

Individual managers are responsible for establishing and maintaining an adequate system of internal control within their own sections and for contributing to the control environment on a corporate basis. There are a number of significant internal control areas which are subject to review by internal audit. All managers acknowledge their responsibilities and confirm annually that they have implemented and continuously monitored various significant controls. This is done on a checklist covering: management structures and reporting lines, strategy and planning, risk management, ethics, service delivery, performance management, policies and procedures, and financial controls. This checklist is reviewed by the Management Team.

External auditors and other review agencies / inspectorates

External auditors are appointed to the Council by the Audit Commission. They are required to conduct their audit work to the strictest standards as laid down by the Audit code of Practice, which ensures that they approach the work with the highest level of objectivity. The external auditors undertake a series of thorough and comprehensive audits that cover matters including financial reporting, financial stewardship and the Council's approach to its use of resources.

Each year the Council receives a report from its external auditor on the quality of its financial and management administrative arrangements. The most recent audit letter, which was presented for Members' consideration at the Audit Committee meeting on the 18 March 2009, indicated that the Council has arrangements in place for securing continuous improvement in corporate governance, with no significant weaknesses identified that would prevent improvement levels being sustained.

In March 2009 the Council was advised that it had achieved an overall level 2 in Use of Resources Assessment under the Comprehensive Performance Assessment which means that the Council is judged to be performing adequately. In terms of internal controls issues within the report, there were two areas where the auditors identified areas for improvement; these related to strengthening the arrangements for ensuring appropriate use of resources and ensuring that business planning could be measured against priorities.

During 2008 the benefits service, outsourced to Liberata UK Limited in 1998, was inspected by the Audit Commission. Following a formal appeal by the Council, the Audit Commission judgement remained that the service was poor with poor prospects for improvement. The Council has expanded its service improvement plan for benefits to incorporate the actions identified by the inspection and will continue to build a better service for the community in partnership with the contractor. The Barrow / Liberata Strategic Board continue to monitor the improvement plan.

A cross cutting review of health inequalities was completed during 2007-08 involving local government and health organisations. The report concluded that organisations in Cumbria have a strong commitment to tackling health inequalities and an increasing focus on collaborative action.

Other external reviews during the year included:

- ISO9001 accreditation for the building control services
- Investors in People accreditation
- Health and Safety Executive engagement programme
- North West Employers award for elected members development

Significant governance and internal control issues

The review of the governance arrangements has not identified any significant weaknesses. We believe that the existing governance arrangements are fit for purpose and are adequate to discharge the Council's legal responsibilities and to meet the Council's corporate aims.

The following governance issues were identified during 2008-09 as a result of the review of arrangements and by the work of external and internal audit:

- monitoring the performance of the housing benefit service and the implementation of the improvement plan
- monitoring the implementation of a new pay and grading system
- developing a workforce strategy
- monitoring of areas with restricted assurance Internal Audit by Audit Committee
- implementing the processes and systems for the transition to International Financial Reporting Standards in 2010-11
- establishing a corporate governance group

The issues identified above will be dealt with by the responsible officers and progress will be monitored by the Management Board and the Audit Committee when appropriate.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation an operation as part of our next annual review.

T O Campbell
Chief Executive
22 June 2009

Councillor J D Heath
Audit Committee Chairman
29 June 2009

| | | |
|---|--|--|
| AUDIT COMMITTEE | | Part One (D) Agenda Item 10 |
| Date of Meeting: 23rd September, 2009 | | |
| Reporting Officer: Borough Treasurer | | |
| Title: Benefit Inspection Improvements Plan – Progress Report | | |
| Summary and Conclusions: | | |
| <p>The Audit Commission carried out an inspection of the Council's benefits service in July 2008. As a result, the Council agreed to implement an action plan designed to deliver significant improvements to deliver a better benefit services in the Borough.</p> | | |
| <p>The Council in partnership with Liberata have been working towards implementing the improvements in the plan and significant progress has been made to date. This report provides the latest position on the progress made.</p> | | |
| Recommendations: | | |
| <p>Members are recommended to note the progress made to date.</p> | | |

Report

The improvement plan is attached at **Appendix 4**.

(i) Legal Implications

None.

(ii) Financial Implications

None.

(iii) Health and Safety Implications

None.

(iv) Key Priorities or Corporate Aims

None

(v) Risk Assessment

None.

(vi) Equal Opportunities

None

Background Papers

Nil

Inspectors Recommendations

| |
|--|
| <p>R1 Strengthen corporate performance management and the value for money of the service by:</p> <ul style="list-style-type: none">• Developing a clear vision for the Service reflecting the local context;• Developing the awareness and understanding of the Service by councillors and other stakeholders (eg staff delivering regeneration programmes); and• Implementing a Service Level Agreement with the Citizens Advice Bureau and other partnerships where appropriate. |
| <p>R2 Improve the performance management arrangements for the contract by:</p> <ul style="list-style-type: none">• Undertaking systematic benchmarking to include costs and performance;• Setting a range of challenging targets with the service provider in line with the contract specification;• Improving the information and reporting of overpayments; and• Reviewing the scope for better targeting the quality checks carried out. |
| <p>R3 Improve value for money in the Service by:</p> <ul style="list-style-type: none">• Increasing benefit take-up, targeting areas of under-claiming by vulnerable people in the area; ie increase work volume/caseload at no additional cost to the Council;• Improving the time taken to pay benefits by reducing core processing times, aiming to be in the best 25 per cent of councils in line with the service providers stated aims; and• Levering additional benefits from the contract wherever possible at no additional cost. |
| <p>R4 Improve access and the overall approach to equalities by:</p> <ul style="list-style-type: none">• Ensuring the Service addresses the needs of all the diverse parts of the community, such as private tenants, owner occupiers, people with physical and mental disabilities. Target support where appropriate;• Targeting and making full use of Discretionary Housing Payments (DHP);• Improving the clarity and quality of information, letters and forms;• Involving service users in service design and improvement; and• Implementing and publicising clear customer service standards including the availability of home visits for people who cannot easily get to the Town Hall. |
| <p>R5 For the Benefits Service to be re-inspected in the next 12-18 months.</p> |

Action Plan – Benefit Service – Last Updated 21st July 2009

| Item | Description | Responsibility | Target Date | Comments | Completed Date | Evidence Reference |
|------|---|-------------------|---------------|---|--------------------------|--------------------|
| 1 | To incorporate the Audit Commission recommendations with existing improvement actions into an overall action plan for the service | Borough Treasurer | November 2008 | Amalgamate the already existing improvement actions with those recommended by the inspectors | November 2008 | Section 1 |
| | | | | Plan reported to Audit Committee | March 2009 | Section 1 |
| | | | | P Thorne has now produced the 'Benefits Service – Service Delivery Plan 2009/10' | June 2009 | Section 1 |
| 2 | To carry out an immediate review of the contract and monitoring arrangements | Borough Treasurer | December 2009 | M Saleh and Phil Thorne met on 10/07/09 to further discuss contract. Progress to be reported to Executive Committee in October 2009 | On-going | Section 2 |
| | | | | M Saleh & P Thorne have had further meeting on 18/09/09 to discuss contract and have now agreed to hold a monthly meeting to discuss contractual issues | On-going | |
| 3 | To undertake a benefit take-up promotion campaign in the local press | Borough Treasurer | November 2008 | An Intensive advertising campaign has taken place during December in the Advertiser (the local free newspaper) the Focus Magazine, and the Evening Mail. Further advertising is planned for the future. | November & December 2008 | Section 3 |

| Item | Description | Responsibility | Target Date | Comments | Completed Date | Evidence Reference |
|------|---|-------------------|---------------|---|--------------------|--------------------|
| | | | | A campaign was run in the Evening Mail along side CAB re: Council Tax | Feb 2009 | Section 3 |
| | | | | Further advertising has taken place again in the Advertiser and Evening Mail prior to new Council Tax bills being sent. | Feb 2009 | Section 3 |
| | | | | A campaign was included in the Council's Housing Matters magazine in in respect of Housing Benefit entitlement | April 2009 | Section 3 |
| | | | | Full page campaign in Evening Mail Re: Council Tax | May 2009 | Section 3 |
| | | | November 2009 | E Hayes has included articles in the Autumn 09 issue of Housing Matters magazine highlighting the November changes for benefit for pensioners and people claiming child benefit | November 2009 | Section 3 |
| | | | December 2009 | Re-run of initial campaign planned for early 2010 prior to new CTax bills being issued | On-going | |
| 4 | Instruct Liberata to produce a comprehensive action plan based on the Audit Commission report | Borough Treasurer | November 2008 | To establish the contractor's response to the recommendations by the inspectors. | November 2008 | |
| | | | | Benefit Service – Service Delivery Plan 2009/10 provided by P Thorne Liberata following discussions with M Saleh | June 2009 | Section 1 |
| 5 | Opening Hours sign on entrance to first point – Cornwallis Street | Borough Treasurer | October 2008 | New opening hours in place & advertised. | Completed November | Section 5 |

| Item | Description | Responsibility | Target Date | Comments | Completed Date | Evidence Reference |
|------|---|--|-------------------------------|---|-------------------------|--------------------|
| | | | | | 2008 | |
| 6 | Change sign in first point to show service name not just Liberata | Client Manager, Liberata | October 2008 | New sign in place incorporating Barrow Borough Council & Liberata | Completed November 2008 | Section 6 |
| 7 | Agree a Vision Statement | Borough Treasurer | October 2008 | Vision statement prepared & adopted. | Completed October 2008 | Section 7 |
| | | | December 2009 | P Thorne has contacted Scott Wilson to arrange 'vision' to be on letters but due to the complexity of Northgate letters it likely this will not be possible however it should be possible on Anite letters. | On-going | |
| | | | | H Wilson to arrange vision on benefits web pages and poster at First Point | July 2009 | Section 7 |
| 8 | Organise awareness seminars for members and non-benefit staff | Client Manager, Liberata & Borough Treasurer | November 2008 to January 2009 | Awareness seminar for members and officers was held on the 16 th October 2008. | October 2008 | Section 8 |
| | | | December 2009 | A further session has been planned for December 2009, to present the Action Plan to Members and give them an overview of what Liberata do. Also to provide some general benefits knowledge. | On-going | |
| | | | October 2009 | A further seminar for non-benefit staff including CRM, Housing and EH to be organised for the new year. | On-going | |

| Item | Description | Responsibility | Target Date | Comments | Completed Date | Evidence Reference |
|------|--|---|---------------|--|-------------------------|------------------------|
| | | | | Benefit update awareness, 2 sessions for Housing staff held in Jan (one joint with Accent) further session arranged at Accent in February. | January & February 2009 | Section 8 |
| | | | | Also Fraud awareness training has taken place at the Housing Department in February 2009. | February 2009 | Section 8 |
| | | | December 2009 | Further sessions with Accent and other stakeholders has been arranged with E Hayes 23/09/09 | On-going | Section 18 |
| 9 | Benchmark the cost and performance of the service | Borough Treasurer | March 2009 | To undertake a benchmarking exercise initially with the family group and depending on the outcome, the exercise may be extended. | On-going | Section 9 |
| | | | December 2009 | H Wilson has contact the Cumbria Wide Accountancy Group and the Cipfa Family Group and some information has been received, with one other authority in family group outsourced to Liberata which should provide a good comparison. Information to date provided to J Penfold | On-going | Section 9 |
| 10 | Review the annual targets set for Liberata to reflect higher levels of performance | Borough Treasurer, Policy Review Officer & Client Manager, Liberata | January 2009 | Monitoring the agreed targets for 2008-2009 has been hampered by system problems. | | |
| | | | | For the year 2009-2010 a more rigorous set of targets has been set. | March 2009 | Section 2 & Section 10 |
| | | | | As per Item 2, performance will be linked to penalties and rewards. | On-going | |

| Item | Description | Responsibility | Target Date | Comments | Completed Date | Evidence Reference |
|------|--|---|---------------|--|--|--------------------|
| 11 | Improve the information and reporting of overpayments | Client Manager, Liberata | November 2008 | Overpayments data required by Client received from Jan 2009 and Overpayments data retrieved for missing period. | January 2009 | Section 11 |
| 12 | Introduce and maintain SLA's with CAB and other relevant partnerships | Client Manager, Contracts Leader Liberata & Customer Services Team Manager Liberata | December 2008 | To formalise a service level agreement with CAB and other relevant agencies. SLA with CAB in draft form meeting TBA. Sample copy of SLA with Accent received meeting TBA | April 2009 | Section 12 |
| | | | August 2009 | SLA's have been received. Accents Housings has been signed as has CAB's. | July 2009 | Section 12 |
| 13 | Organise promotion campaigns to increase take-up (quarterly or half yearly) and target various groups in the community | Client Manager, Client Manager Liberata & Service Team Manager Liberata | November 2008 | Monitoring the progress of project ASIA (Access to Services Information and Advice). Next meeting 13 th Feb 2009. | Abandoned – Project ASIA ceased but meeting in August to discuss funds | Section 13 |
| | | | | Take up event held 7 th Nov 2008 (Organised by Project Asia – attended by Liberata & BBC staff. | November 2008 | Section 13 |
| | | | August 2009 | Liberata attended Age Concern Event 21 November. and to attend Multi Cultural events during Feb & March | November 2008 | Section 13 |
| | | | | Take up campaign to take place at Annual Billing time & in Autumn with further adverts in the local press. | On-going | Section 3 |
| | | | | Annual Stakeholder conference held in May 09 and future ones planned. | May 09 & On-going | Section 13 |

| Item | Description | Responsibility | Target Date | Comments | Completed Date | Evidence Reference |
|------|--|--|---------------|--|---|--|
| | | | | Landlord Forum held on 22/07/09 Andrew Hyles, Liberata's Visiting Officer attended Streetsafe – Together we can Ormsgill event promoting changes to benefits from November 2009 Posters being displayed throughout Town Hall building and Doctors, Dentists reception areas and any other public place highlighting changes to benefit from November and also Liberata and benefits in general | On-going August 2009 September 2009 | Section 13 Section 13 Section 13 |
| 14 | Achieve Liberata's stated aim of being in the best 25% of councils in terms of core processing times | Client Manager Liberata | December 2009 | Liberata is committed to achieving these performance levels. Monthly meeting held to monitor performance. | On-going | Section 2 & 14 |
| 15 | Review the scope of quality checks | Client Manager & Service Team Manager Liberata | December 2008 | The Client will be using Liberata's Quality Tool from April 2009 so that data can be combined to identify errors & training needs. The Client will also introducing additional checks (targeting individual assessors). | April 2009 | Section 15 |
| 16 | Review the use of DHP | Borough Treasurer & Client Manager | March 2009 | DHP application and information on website. Leaflets supplied to the following organisations: Mind, Probation service, CAB, Age Concern, BDA, Multi-Cultural Forum and Accent Housing. 2 Benefits advisory sessions held for Housing & Accent during Jan further session planned with Accent during Feb. | June 2009 June 2009 November 2008 & February 2009 | Section 16 Section 16 Section 16 |

| Item | Description | Responsibility | Target Date | Comments | Completed Date | Evidence Reference |
|------|--|---|---|---|---|-------------------------------------|
| 17 | Review the clarity and quality of information on letters and forms | Service Team Manager Liberata & Client Manager | November 2008 | <p>Revised Benefits notification letter with Change of Circs form attached at Printers.</p> <p>'Evidence Capture Application' now in place whereby appointment letter now sent with checklist of what that individual claimant needs to bring which has improved clarity and quality of the letter.</p> <p>Reviewing all the letters has proved to be too large a project – P Thorne has made initial enquiries regarding outsourcing the project – currently under review but no plans to go-ahead until 2010.</p> | <p>March 2009</p> <p>July 2009</p> <p>Ongoing</p> | |
| 18 | Involve service users in service improvements | Client Manager, Liberata & Customer Services Team Manager Liberata | <p>November 2009</p> <p>November 2008</p> | <p>Organise customer feedback interviews – to explore possibility of employing 2 students to carry out survey at first point. P Thorne has template questionnaire we could use</p> <p>Establish an annual stakeholder conference. Initial meeting held 20/05/09. Since meeting Barrow Council & Liberata have received thanks from the Local Pensions Service. Information from our system was provided to them as a result of the stakeholder conference. To date this has highlighted 6 new pension credit claims, 1 DLA claim and 1 attendance allowance claim and they are anticipating a one third success rate from further visits generated from the report.</p> | <p>On-going</p> <p>May 2009</p> | <p>Section 18</p> <p>Section 18</p> |
| 19 | Introduce and publish customer service standards | IT Manager & Customer Relations Supervisor | <p>October 2008</p> <p>October</p> | <p>Cumbria customer service standards have been adopted.</p> <p>Measuring and publishing results will be done in</p> | <p>April 2009</p> <p>On-going</p> | <p>Section 19</p> <p>Section 19</p> |

| Item | Description | Responsibility | Target Date | Comments | Completed Date | Evidence Reference |
|------|---------------------------|---|---------------|--|----------------|--------------------|
| | | Liberata | 2009 | 2009. | | |
| 20 | General service awareness | Client Manager, Service Team Manager | December 2008 | Home Visiting Facility now advertised on web site | April 2009 | Section 20 & 13 |
| | | Liberata & Customer Services Team Manager, Liberata | | Minicom facility already available. at reception area | July 2009 | Section 20 & 13 |
| | | | August 2009 | Promote sign language availability. And provide notices in public venues | August 2009 | Section 20 & 13 |

Barrow Borough Council

Borough Treasurer – Mohamad Saleh
IT Manager – Mick McKinnell
Client Manager – Eileen Hayes
Policy Review Officer – John Penfold

Liberata

Client Manager, Liberata – Phil Thorne
Contracts Leader – Scott Wilson
Customer Relations Supervisor – Paula White
Service Team Manager – Karen Millard
Customer Services Team Manager – Debbie Reid
Andrew Hyles – Visiting Officer

| | | |
|---|--|--|
| AUDIT COMMITTEE | | Part One (D) Agenda Item 11 |
| Date of Meeting: 23rd September, 2009 | | |
| Reporting Officer: Borough Treasurer | | |
| Title: Internal Audit – Progress Report April to September 2009 | | |
| Summary and Conclusions: | | |
| <p>The Committee will receive regular progress reports on the programme of work carried out by the Internal Audit service. The attached report relates to the period April to September 2009.</p> | | |
| <p>The Council's Internal Audit Manager will attend the meeting to present the report to Members.</p> | | |
| Recommendations: | | |
| <p>Members are recommended to:</p> | | |
| <p>1. Receive and consider the report; and</p> | | |
| <p>2. Raise any questions or concerns with the Internal Audit Manager.</p> | | |

Report

The Internal Audit progress report is attached at **Appendix 5**.

(i) **Legal Implications**

Statutory requirements under section 151 and the Accounts and Audit Regulations 2006.

(ii) **Financial Implications**

None.

(iii) **Health and Safety Implications**

None

(iv) Key Priorities or Corporate Aims

None

(v) Risk Assessment

None.

(vi) Equal Opportunities

None

Background Papers

Nil

FURNESS AUDIT

BARROW BOROUGH COUNCIL

INTERNAL AUDIT PROGRESS REPORT

April to September

2009/10

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EXECUTIVE SUMMARY

Purpose

The purpose of the report is to update Members of the Council's Audit Committee on:

- Internal Audit work performed up to 11th September 2009, including final reports issued relating to a previous reporting period; and
- Significant issues that have arisen during this period as a result of our work.

Content

The information is presented in the following schedules:

1. *A Statistical Summary of Recommendations*

This schedule includes all audit recommendations to which Council management have responded between 1st April and 11th September 2009. The figures are analysed according to the 'priority' of the recommendations, and the extent to which each has been accepted by management for action.

2. *Accepted Priority 1 Recommendations*

This schedule provides details of all major recommendations which have been accepted by management.

3. *Rejected Recommendations*

This schedule provides details of major and significant (i.e. Priority 1 and Priority 2) recommendations, which have been rejected by Council Management.

4. *Audit Coverage*

Details of audit assignments carried out in the period, including any checks on external partner organisations.

5. *Classifications of Assurance and Recommendations*

An explanation of the classifications used for prioritising recommendations and assessing levels of assurance.

1. STATISTICAL SUMMARY OF RECOMMENDATIONS

The following table summarises the number of audit recommendations we made in our final reports issued up to 11th September 2009; analysed by their priority, including whether accepted by management.

| Recommendations | Total | Priority 1 | Priority 2 | Priority 3 |
|------------------------|--------------|-------------------|-------------------|-------------------|
| Made | 27 | 0 | 9 | 18 |
| Fully Accepted | 26 | 0 | 9 | 17 |
| Partly Accepted | 1 | 0 | 0 | 1 |
| Not Accepted | 0 | 0 | 0 | 0 |

2. ACCEPTED PRIORITY 1 RECOMMENDATIONS

There have been no priority one recommendations made during the reporting period.

3. REJECTED RECOMMENDATIONS

3.1 PRIORITY ONE RECOMMENDATIONS

There have been no rejected priority one recommendations during the reporting period.

3.2 PRIORITY TWO RECOMMENDATIONS

There have been no rejected priority two recommendations during the reporting period.

4. INTERNAL AUDIT COVERAGE: APR-SEPT 2009

| Audit Assignment | System Significance Band | Status | Assurance |
|---|--------------------------|--------------------|-------------|
| ANNUAL AUDITS | | | |
| Performance Management | 1 | Ongoing | |
| Risk Management | 1 | Fieldwork complete | |
| Income Collection | 1 | Commenced | |
| Financial Information System | 1 | | |
| Housing and Council Tax Benefits | 1 | Commenced | |
| Council Tax | 1 | | |
| Business Rates (NNDR) | 1 | | |
| Corporate Control/Governance | 2 | | |
| Procurement | 2 | Planning | |
| Standing Orders and Financial Regulations | 2 | Complete | - |
| Budgetary Control | 2 | Commenced | |
| Treasury Management | 2 | | |
| Payroll (including expenses/allowances) | 2 | | |
| Sundry Debtors | 2 | | |
| Periodic Checks (inc. VAT) plus Accounts working paper review | 2 | Q1 complete | - |
| Payables | 2 | | |
| Car Park Meter Charges | 2 | Final | Substantial |
| Housing Rents | 2 | | |
| Housing Maintenance (Day to day repairs) | 2 | | |
| | | | |

| Audit Assignment | System Significance Band | Status | Assurance |
|---|---------------------------------|------------------------------|------------------|
| VFM Reviews/Other Projects/Spot Checks | | | |
| Receipt Book Checks | - | Ongoing | - |
| Petty Cash Spot Checks | - | Complete | - |
| Maternity Policy Review | - | Complete | - |
| Landlords Grant Investigation | - | Complete | - |
| | | | |
| RISK ASSESSED SYSTEMS | | | |
| Capital Programme | 3 | Fieldwork commenced | |
| Housing Strategy | 3 | | |
| Concessionary Travel | 3 | | |
| Property Portfolio Including Sales | 3 | Combined with Asset Register | |
| Asset Register including Capital Account | 3 | Draft | Restricted |
| Licensing | 3 | | |
| Waste Management | 4 | | |
| Refuse Collection (including Recycling) | 4 | | |
| | | | |
| COMPUTER ENVIRONMENT AUDITS | 1 | | |
| IT General Controls | | Fieldwork complete | |
| | | | |
| CONTRACT AUDIT | 1 | | |
| Refurb Ground Floor Male and Female Toilets | | Initial Draft | |
| Holker Street Car Park | | Fieldwork commenced | |
| Units 1-7 James Freel Close | | Draft | Substantial |
| Alterations to the Park Leisure Centre | | Fieldwork commenced | |
| Emlyn Street Car Park | | Initial Draft | |

| Audit Assignment | System Significance Band | Status | Assurance |
|---|---|---------------------|------------------|
| External fabric repairs, 104 Abbey Rd | | Fieldwork commenced | |
| | | | |
| AGREED ADDITIONAL WORK | | | |
| Community Centre Accounts | | | |
| Hawcoat | - | Complete | - |
| Askam & Ireleth | - | Complete | - |
| Abbotsvale | - | Complete | - |
| Dalton Community Association | - | Complete | - |
| Roosegate | - | Complete | - |
| Barrow Playing Fields Users Association | - | Complete | - |
| Mayors Account | - | Complete | - |
| | | | |
| External Funding Checks | | | |
| Furness Enterprise | - | Fieldwork Complete | - |
| | | | |
| National Fraud Initiative | - | Ongoing | |
| | | | |
| Implementation Review | | | |
| Building Control | - | Complete | - |
| | | | |
| CONTINGENCY <i>(Previous year draft and final reports issued during period)</i> | | | |
| Barrow Park | * | Final | Restricted |
| FIS | 1 | Final | Substantial |
| Housing Rents | 2 | Final | Substantial |
| Receipt Book Checks | - | Final | Substantial |
| Housing and Council Tax Benefits | 1 | Draft | Substantial |
| Sundry Debtors | 2 | Final | Substantial |
| Payables | 2 | Final | Substantial |

| Audit Assignment | System Significance Band | Status | Assurance |
|--|---|---------------|------------------|
| Alterations and Refurbishment of 77-79 Duke St, Barrow | 1 | Draft | Restricted |
| IT Asset Management | 1 | Draft | Restricted |
| Barrow Public Park Heritage restoration project | 1 | Draft | Restricted |

5. CLASSIFICATIONS

5.1 Classification of Assurance Levels

At the conclusion of each audit, we give an overall opinion on the level of assurance, which we consider is provided by the controls in place within the system audited. The following classification of assurance levels has been adopted:

| Level | Definition |
|--------------------------|--|
| 1. Unqualified Assurance | The controls appear to be consistently applied. |
| 2. Substantial Assurance | Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk. |
| 3. Restricted Assurance | The level of non-compliance identified places the system objectives at risk. |
| 4. None | Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse. |

The conclusions and assurance levels specified for each audit are used to support the Council's governance review arrangements, as required by the Accounts and Audit (Amendment) (England) Regulations 2006, and the 2007 CIPFA/SOLACE Framework and Guidance notes.

5.2 Priority of Recommendations

Our audit recommendations are categorised by three priority levels: -

- Priority 1* Major issues that we consider need to be brought to the attention of senior management.
- Priority 2* Important issues which should be addressed by management in their area of responsibility.
- Priority 3* Detailed issues of a relatively minor nature.

APPENDIX 1 – DRAFT REPORTS ISSUED

| Ref | Audit | Date issued |
|-------|--|-------------------|
| CR47 | Barrow Public Park Heritage restoration project | 14 May 09 |
| CR 50 | Alterations and Refurbishment of 77-79 Duke St, Barrow | 5 June 2009 |
| IT 40 | IT Asset Management | 30 June 2009 |
| CR 54 | Units 1-7 James Freel Close | 19 August 2009 |
| 08-12 | Housing and Council Tax Benefits | 28 August 2009 |
| 09-24 | Asset Management | 11 September 2009 |

Appendix 2 – Restricted Assurance Audits

| | | Recommendations | | | Previous Recommendations | | | | |
|------------------------|--|-----------------|----|----|--------------------------|----|----|-------|-------------------|
| Ref | Audit | P1 | P2 | P3 | P1 | P2 | P3 | Total | Date Issued |
| Reports issued 2006/07 | | | | | | | | | |
| 06-09 | Refuse Collection | 0 | 8 | 3 | 0 | 7 | 0 | 18 | 30 January 2007 |
| IT 27 | Disaster Planning, Back up and Recovery | 1 | 11 | 1 | n/a | | | 13 | 1 August 2006 |
| IT 31 | IT Helpdesk and Service | 1 | 15 | 0 | n/a | | | 16 | 1 August 2006 |
| Reports issued 2007/08 | | | | | | | | | |
| 06-08 | Asset Register | 0 | 8 | 2 | 0 | 2 | 1 | 13 | 6 March 2008 |
| 07-28 | Contract Payment Procedures/ Contract Register | 2 | 8 | 0 | 0 | 0 | 0 | 10 | 11 September 2008 |
| 07-26 | Corporate Health & Safety Review | 1 | 10 | 5 | 0 | 1 | 0 | 17 | 11 September 2008 |
| Reports issued 2008/09 | | | | | | | | | |
| IT 38 | IT General Controls | | 36 | | 0 | 0 | 0 | 36 | 7 July 2008 |
| 08-05 | Barrow Park | | 8 | 7 | n/a | | | 15 | 18 July 2008 |
| 07-21 | Procurement | 1 | 12 | 2 | n/a | | | 15 | 28 October 2008 |

Appendix 2 – Restricted Assurance Audits

| | | Recommendations | | | Previous Recommendations | | | | |
|------------------------|---|-----------------|----|----|--------------------------|----|----|-------|-------------------|
| Reports issued 2008/09 | | | | | | | | | |
| Ref | Audit | P1 | P2 | P3 | P1 | P2 | P3 | Total | Date Issued |
| 08-28 | Client Monitoring (Revenues and Benefits) | 0 | 11 | 2 | 0 | 0 | 1 | 14 | 3 October 2008 |
| CR41 | Replacement of windows, overcladding and concrete repairs to North and West elevations Craven House | 1 | 7 | 0 | n/a | | | 8 | 30 September 2008 |
| CR42 | Barrow Gateway Office Development | 3 | 7 | 0 | n/a | | | 10 | 30 September 2008 |
| CR44 | Conversion of Accommodation and Refurbishment of Elevations – Market Hall | 1 | 8 | 0 | n/a | | | 9 | 19 December 2008 |
| CR45 | New Access Road for Future Developments Flass Lane | 0 | 9 | 0 | n/a | | | 9 | 27 November 2008 |
| IT 39 | Information Security Policy | 1 | 4 | 0 | n/a | | | 5 | 24 December 2008 |
| 08-34 | Streetcare (inc Grounds Maintenance) | 2 | 4 | 4 | n/a | | | 10 | 23 January 2009 |
| 08-27 | Housing Maintenance (Day to Day Repairs) | 2 | 2 | 3 | n/a | | | 7 | 4 December 2008 |
| CR48 | Waterside House | 1 | 9 | 0 | n/a | | | 10 | 6 January 2009 |
| | | | | | | | | | |

Appendix 2 – Restricted Assurance Audits

| Reports issued 2008/09 | | | | | | | | | | Recommendations | | | Previous Recommendations | | | Total | Date Issued |
|------------------------|--|--|--|--|----|----|----|-----|----|-----------------|----|-------------------|--------------------------|--|--|-------|-------------|
| Ref | Audit | | | | P1 | P2 | P3 | P1 | P2 | P3 | | | | | | | |
| Reports issued 2009/10 | | | | | | | | | | | | | | | | | |
| CR51 | Hindpool Urban Park | | | | 0 | 9 | 1 | N/a | | | 10 | 14 May 2009 | | | | | |
| CR49 | Painting and Pre-painting repairs 2007/08 | | | | 3 | 3 | 0 | N/a | | | 6 | 22 April 2009 | | | | | |
| CR47 | Barrow Public Park Heritage restoration project (awaiting management response) | | | | 3 | 2 | 0 | N/a | | | 5 | 14 May 2009 | | | | | |
| IT 40 | IT Asset Management | | | | 0 | 11 | 2 | N/a | | | 13 | 3 June 2009 | | | | | |
| CR50 | Alterations & Refurbishment of 77-79 Duke Street (awaiting management response) | | | | 0 | 8 | 1 | N/a | | | 9 | 5 June 2009 | | | | | |
| 09-24 | Asset Management (awaiting management response) | | | | 0 | 14 | 3 | 0 | 6 | 1 | 24 | 11 September 2009 | | | | | |

| | | |
|---|--|--|
| AUDIT COMMITTEE | | Part One (D) Agenda Item 12 |
| Date of Meeting: 23rd September, 2009 | | |
| Reporting Officer: Borough Treasurer | | |
| Title: Internal Audit – Final Reports | | |
| Summary and Conclusions: | | |
| Internal Audit have completed a number audits in accordance with the approved annual programme. On completion, final reports are presented to this Committee for consideration. | | |
| The Council's Internal Audit Manager will attend the meeting to present the reports to Members. | | |
| Recommendations: | | |
| Members are recommended to: | | |
| 1. Receive and consider the reports; and | | |
| 2. Raise any questions or concerns with the Internal Audit Manager | | |

Report

There are 13 final reports for consideration, attached to this report. The following table sets out the assurance level assigned to each report and the number of issues identified.

The assurance levels are:

None – control is weak, causing the system to be vulnerable to error and abuse.

Restricted – significant weaknesses have been identified in the system of control, which put the system objectives at risk.

Substantial – while there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.

Unqualified – there is an adequate system of control designed to achieve the system objectives.

The recommendation levels assigned to issues identified are:

Priority 1 – **major issues** that Internal Audit considers need to be brought to the attention of senior management.

Priority 2 – **important issues** which should be addressed by management in their areas of responsibility.

Priority 3 – **minor issues** which provide scope for operational improvement.

Previous issues – are issues identified in a previous audit report that have not been entirely implemented at the time of this latest audit.

| No. | Report | Assurance level | Major issues | Important issues | Minor issues | Previous issues |
|-----|-------------------------|-----------------|--------------|------------------|--------------|-----------------|
| 1 | Barrow Park | Restricted | - | 8 | 5 | - |
| 2 | Hindpool Urban Park | Restricted | - | 9 | 1 | - |
| 3 | Responsive Repairs | Restricted | 2 | 2 | 3 | - |
| 4 | Waterside House | Restricted | 1 | 9 | - | - |
| 5 | Painting Repairs | Restricted | 3 | 3 | - | - |
| 6 | Car Parks Meter Charges | Substantial | - | - | - | 2 |
| 7 | Housing Rents | Substantial | - | - | 6 | - |
| 8 | Financial Information | Substantial | - | - | 3 | - |
| 9 | Client Aware System | Substantial | - | - | 5 | - |
| 10 | Payables | Substantial | - | - | 2 | - |
| 11 | Receipt Book Checks | Substantial | - | 1 | - | 4 |
| 12 | Sundry Debtors | Substantial | - | - | 2 | 7 |
| 13 | Treasury Management | Unqualified | - | - | - | - |

(i) Legal Implications

Statutory requirements under section 151 and the Accounts and Audit Regulations 2006.

(ii) Financial Implications

None.

(iii) Health and Safety Implications

None.

(iv) Key Priorities or Corporate Aims

None

(v) Risk Assessment

None.

(vi) Equal Opportunities

None.

Background Papers

Nil

BARROW BOROUGH COUNCIL
INTERNAL AUDIT FINAL REPORT 08-05
BARROW PARK

Executive Summary

Introduction

Barrow Park is open 12 months of the year and provides recreational facilities throughout the summer period for members of the public, which include pitch & putt, crown green bowling, boating, a glasshouse and a café facility. Croquet and Orienteering have also been recently provided. In 2005, the park underwent a major refurbishment involving total expenditure of £2.3m, utilising funding from the Heritage Lottery Fund of £1.78m.

The provision of the Park Ranger function and café facility are provided by Continental Landscapes Limited, whilst the boat hire operation is carried out under a 5 year licence by an external provider.

Audit Objectives

An audit of this system forms part of the agreed 2008/09 programme. The audit objectives were to evaluate and test the internal controls over the Barrow Park function. The scope and objectives of the audit were discussed and agreed in advance with Bill Brown, Parks and Playgrounds Manager.

Audit work included a control evaluation of the system design, and testing of the operation of key controls. Details of the audit methodology are provided in Appendix 1.

Key Points

Restricted Assurance

Eight important issues.

Five minor issues.

Audit Conclusion – *Restricted Assurance*

As a result of the audit we have concluded that while there is a basically sound system, there are weaknesses, which put some of the system objectives at risk. We have made eight Priority 2 recommendations, which concern:

- ensuring that copies of the boat hire operator's annual income accounts are obtained and are subject to a formal review;
- ensuring that the transfer of the boat operator's licence is submitted to Members for approval;
- formalising the provision of the Ranger Service at the Park;
- formalising an agreement for the provision of the sale of refreshments, and management and maintenance of sports facilities within Barrow Park;
- introducing an inventory of all relevant assets held at the park;
- performing a tendering exercise for the grounds maintenance contract;
- ensuring that the cafe annual trading accounts are obtained and subject to formal review; and

- reviewing the provision of the current Ranger Service.

In addition, we have made five Priority 3 recommendations which relate to:

- receiving copies of the boat hire operator's weekly logs, which should be subject to formal review;
- reviewing the current procedure for recording income received for the pitch & putt and bowling facilities at the Park;
- ensuring that all monies received are removed from the till and stored securely overnight;
- ensuring that Ranger's timesheets are formally reviewed and the review is documented; and
- introducing a procedure for Rangers to formally acknowledge receipt of the till key taken and returned from the management office.

Management Response

We have received a constructive management response from Bill Brown, Parks and Playgrounds Manager and Keith Johnson, Community Services Manager accepting each of the recommendations.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

| | | |
|--|--|---------------------|
| Recommendation 1 | Responsibility: Parks and Playgrounds Manager | Priority: 2 |
| <p>The Council should ensure that copies of the boat hire operator's annual income accounts are obtained and are subject to a formal review.</p> | | |
| <p>Rationale</p> <p>Under the terms of the boat hire operator's boating licence, the operator is required to pay the Council 50% of any income in excess of £20,000 in any financial year. In addition, the licence states that "in accordance with this requirement the Licensee shall pass to the Manager, upon request, sufficient details of such income as shall enable the Manager to reasonably determine whether such payment has become due".</p> <p>However, Internal Audit were informed by park management that the former operator's accounts had never been obtained or subject to review.</p> <p>The provision of such information would assist in ensuring that the Council are fully aware of income received in relation to boat hire and are monitoring arrangements in accordance with the agreement.</p> | | |
| <p>Management Response</p> <p>A written request will be made to the boating operator for accounts for the financial year 2008/2009 and these will be forwarded to Audit for their inspection.</p> <p>This will be forwarded to Blyth's boats by the end of June 2009.</p> | | |
| Accepted | Implementation Deadline: | 30 June 2009 |

| | | |
|--|---|--------------------|
| Recommendation 2 | Responsibility: Community Services Manager | Priority: 2 |
| <p>The Council should ensure that the transfer of the boat operator's licence is submitted to Members for approval.</p> | | |
| <p>Rationale</p> <p>The Boating Licence for Barrow Park was renewed in March 2008, for a period of five years commencing 1st April 2008. Internal Audit were informed that the current boating licensee agreed to purchase the fleet of boats from the former operator for approximately £40,000.</p> <p>We were informed by the Parks and Playground Manager that the Council would not have been prepared to purchase this stock; and therefore the Council agreed to offer the transfer of the operator's licence to the new owner of the boat fleet.</p> <p>However, Internal Audit were unable to confirm if the granting of the licence to the new operator was approved by Members.</p> | | |
| <p>Management Response</p> <p>Parks Management acknowledges that this decision was not referred to Members for approval and understands that this would have been an appropriate course of action. If Audit Committee consider it appropriate, a retrospective report advising members of this situation can be produced. Audit Committee can be assured that at the end of this current contract, or should an early termination apply, a report will be taken to Executive Committee for Members to agree.</p> | | |
| Accepted | Implementation Deadline: | Tbc |

| | | |
|---|---|----------------------|
| Recommendation 3 | Responsibility: Community Services Manager | Priority: 2 |
| The Council should formalise the provision of the Ranger Service at the Park. | | |
| Rationale | | |
| <p>Internal Audit were informed by park management that the provision of the Ranger Service at the park was performed by Continental Landscapes Limited under the Council's General Grounds Maintenance contract. This was achieved by reducing the annual contract by £56,484.74, enabling the contractor to provide three Rangers, without loss to the original contract value.</p> <p>However, Internal Audit identified that a specification for the Ranger Service has not been completed. In addition, formal correspondence documenting and agreeing to the contract variation was not held by the Council's Legal Department.</p> | | |
| Management Response | | |
| The specification for the Park Ranger service is currently being written into the new specification which will go out to tender as part of the process of re-tendering the Grounds Maintenance contract in April 2010. | | |
| Accepted | Implementation Deadline: | 30 April 2010 |

| | | |
|--|---|----------------------|
| Recommendation 4 | Responsibility: Community Services Manager | Priority: 2 |
| <p>The Council should formalise an agreement for the provision of the sale of refreshments, and management and maintenance of sports facilities within Barrow Park.</p> | | |
| Rationale | | |
| <p>A proposal for the sale of refreshments, and management and maintenance of sports facilities at Barrow Park was submitted by Continental Landscapes Limited in April 2005.</p> <p>Internal Audit were informed by park management that the proposal was accepted under delegated authority by the former Director of Regeneration. However, formal acceptance of the proposal could not be located.</p> <p>In addition, the proposal for the café function held by Park management has not been signed by either Continental Landscapes Limited or the Council.</p> | | |
| Management Response | | |
| <p>The specification for the sale of refreshments, and management and maintenance of sports facilities is currently being written into the new specification which will go out to tender as part of the process of re-tendering the Grounds Maintenance contract in April 2010.</p> | | |
| Accepted | Implementation Deadline: | 30 April 2010 |

| | | |
|--|--|--------------------------|
| Recommendation 5 | Responsibility: Parks and Playgrounds Manager | Priority: 2 |
| The Council should introduce an inventory of all relevant assets held at the park. | | |
| Rationale | | |
| <p>Internal Audit were informed by the Parks and Playgrounds Manager that an up to date inventory of assets at the Park does not exist.</p> <p>The Council's Financial Regulations state, "Departmental Chief Officers shall be responsible for keeping, in a manner approved by the Borough Treasurer, current inventories of Council assets of their relevant departments and shall annually physically check the existence of all items and record the check, taking appropriate action in relation to surpluses and/or deficiencies'....'Where assets are disposed of, the Senior Officer of the relevant department shall be responsible for keeping a comprehensive record of disposed items in a manner approved by the Borough Treasurer".</p> <p>This weakness does not provide adequate assurance over the control and accuracy of the Council's assets and related records.</p> | | |
| Management Response | | |
| It is understood that a record should be retained of all relevant equipment, furniture etc. owned by the Council; this will be completed. | | |
| Accepted | Implementation Deadline: | 30 September 2009 |

| | | |
|--|---|----------------------|
| Recommendation 6 | Responsibility: Community Services Manager | Priority: 2 |
| <p>The Council should consider performing a tendering exercise for the grounds maintenance contract.</p> | | |
| Rationale | | |
| <p>The Council's Grounds Maintenance contract is due for renewal from 1st April 2009, following a 5-year extension to the original contract which commenced on 1st April 1999. The contract value is approximately £600,000 per annum, which is in excess of OJEU thresholds.</p> <p>Internal Audit were informed that this contract may be further extended, without the completion of a formal tendering procedure. This potential weakness may not demonstrate that the Council has obtained value for money for the grounds maintenance contract, and is not in compliance with current regulations.</p> | | |
| Management Response | | |
| <p>Preparations are in place to place the Grounds Maintenance contract out to tender in accordance with OJEU regulations. Executive Committee have approved this.</p> | | |
| Accepted | Implementation Deadline: | 30 April 2010 |

| | | |
|--|--|---------------------|
| Recommendation 7 | Responsibility: Parks and Playgrounds Manager | Priority: 2 |
| <p>The Council should ensure that the cafe annual trading accounts are obtained and subject to formal review.</p> | | |
| <p>Rationale</p> <p>In accordance with the proposal submitted for the sale of refreshments, and management and maintenance of sports facilities at Barrow Park, the Council is entitled to an equal share of any profits generated in excess of £7,500.</p> <p>The Council were provided with a copy of the café income report for 2005 and 2006. However, income figures have not been provided to park management for 2007. In addition, an independent check has not been performed on the income reports for 2005 and 2006 to formally ascertain whether the Council are entitled to a share of any profits in excess of the agreed £7,500. If the trading accounts are not reviewed, this may result in a loss of potential income to the Council.</p> | | |
| <p>Management Response</p> <p>A written request will be made to the Contract Manager of Continental Landscapes by the end of June 2009 for the accounts for the financial year 2008/2009 and these will be forwarded to Audit for their inspection on receipt.</p> | | |
| Accepted | Implementation Deadline: | 30 June 2009 |

| | | |
|---|---|----------------------|
| Recommendation 8 | Responsibility: Community Services Manager | Priority: 2 |
| <p>The Council should review the provision of the current Ranger Service, specifically to consider:</p> <ul style="list-style-type: none"> a) performing a tendering exercise for the café and Park Rangers' Service; or b) employing staff direct. | | |
| Rationale | | |
| <p>Internal Audit were informed that the provision of the café service was agreed following the submission of a proposal by Continental Landscapes Ltd (which was reviewed and approved by the former Director of Regeneration).</p> <p>The Park Ranger Service was provided following a review of the Council's overall grounds maintenance contract, where it was decided to revise and reduce the grounds maintenance contract specification by £56,484.74.</p> <p>Ranger staff are provided by Continental Landscapes Ltd, however park management are currently responsible for the main recruitment process of Rangers on behalf of Continental Landscapes Ltd.</p> <p>Continental Landscapes Ltd charge the Council a fee based on Continental Landscapes Ltd quoted rates of pay, plus an additional overhead/profit charge of approximately 33%.</p> <p>Continental Landscapes Ltd are also responsible for providing a 'gate closing' service at the park; the cost of which varies between £600 and £800 per month. In addition, the cemetery gate closing facility costs approximately £140 per month. Both gate closing services are charged in addition to the Ranger Service.</p> <p>Furthermore, the cost of providing temporary weekend cover during staff absences, is charged at daywork rates. The review identified one invoice for eight hours during a bank holiday totalled £138, yet the standard fortnightly fee is only £435.</p> <p>These potential weaknesses may not demonstrate that the Council has obtained value for money for the provision of the café, Ranger Service and add on services.</p> | | |
| Management Response | | |
| <p>The specification for the Park Ranger service and the sale of refreshments, and management and maintenance of sports facilities is currently being written into the new specification which will go out to tender as part of the process of re-tendering the Grounds Maintenance contract in April 2010.</p> | | |
| Accepted | Implementation Deadline: | 30 April 2010 |

| | | |
|---|--|--------------------|
| Recommendation 9 | Responsibility: Parks and Playgrounds Manager | Priority: 3 |
| <p>The Council should ensure that they consistently receive copies of the boat hire operator's weekly logs, which should be subject to formal review.</p> | | |
| Rationale | | |
| <p>In accordance with the boating licence, the boat hire operator provides park management with a weekly 'crew and events' log sheet, detailing staff attendance, activities and details of any incidents that have occurred. Completed 'crew and events' log sheets are retained by park management following review.</p> <p>The current boating licensee commenced the hire facility on 1st April 2008, following the retirement of the previous operator.</p> <p>Internal Audit reviewed the 'crew and events' log sheets completed by the current licensee. The review identified that only three out of a possible five week's logs for April 2008 were held. In addition, there was no evidence of an independent review recorded.</p> | | |
| Management Response | | |
| <p>This has always been done. If the Boating Operator is on holiday or does not operate, we would not expect to see the sheets until his return. The sheets are verified and signed before being placed on file.</p> | | |
| Accepted | Implementation Deadline: | Implemented |

| | | |
|---|--|--------------------|
| Recommendation 10 | Responsibility: Parks and Playgrounds Manager | Priority: 3 |
| <p>Park management should review the current procedure for recording income received for the pitch & putt and bowling facilities at the Park.</p> | | |
| <p>Rationale</p> <p>The main recording of leisure facilities income is performed by Ranger staff; and the till provides various reports which are used to record income collected. However, Internal Audit were informed that when the pitch & putt facility is not used, the till is not operated, instead the Rangers use an “unofficial” two-part stationery receipt book to record income collected for the bowls facility. The top copy of the receipt is handed to the payee and the second copy is retained in the book, which is used as part of the income collection and banking procedure.</p> <p>Details of income collected, recorded on both the till receipts and unofficial receipts, are transposed onto an income record maintained by the Rangers.</p> <p>Internal Audit performed a reconciliation of income collected in April 2008, comparing the till receipts, unofficial receipts, the Rangers income records, the cash sheets and bank paying in books. The following discrepancies were identified:</p> <ul style="list-style-type: none"> • Income totalling £72.50 was recorded on the till receipt for 30th March 2008, however this was not recorded as banked on a Cash Sheet or bank paying in slip. • Receipts are not provided for ‘casual bowls’ of which £29.50 (9 occasions) were recorded in the Ranger’s record. • No till receipt or “unofficial” receipts were provided for income totalling £66 in the Ranger’s record. • Two “unofficial” receipts issued were not dated. | | |
| <p>Management Response</p> <p>The process for taking pitch and putt and bowling money is undertaken using a procedure issued by the Accounts Department. A copy of this procedure was provided to Audit. New “official” duplicate books will be obtained for the rangers and café staff, which will see formalisation of the income procedure when the till is not attended and either ranger or café staff are not available. Banking is only undertaken when the income is very close to, or over £100 in any one day, as instructed by Accounts.</p> | | |
| Accepted | Implementation Deadline: | Immediate |

| | | |
|--|--|--------------------------|
| Recommendation 11 | Responsibility: Parks and Playgrounds Manager | Priority: 3 |
| <p>The Council should ensure that all monies received are removed from the till and stored securely overnight, which includes adequate insurance provision.</p> | | |
| <p>Rationale</p> <p>Income held at the venue is left in the till until the end of each day, when it is either transferred for banking or placed in a lockable cash box.</p> <p>The £10 till float remains in the till drawer and the petty cash float of £20 is held in a lockable cash box, which is placed in a lockable desk drawer in a first floor office at the Park Pavilion.</p> <p>However, Internal Audit were informed by the Council's Insurance Officer that cash left on the premises overnight is not covered on the Council's related insurance policy.</p> | | |
| <p>Management Response</p> <p>The risk of this loss of £30 is considered negligible when taking into account that the building is shuttered, alarmed, doors double locked and any costs incurred breaking into the building would be in excess of £30. The excess that would be required to claim on insurance is significantly higher than £30. The risk is therefore considered reasonable.</p> | | |
| Accepted | Implementation Deadline: | No Further Action |

| | | | |
|--|---|--|----------|
| Recommendation 12 | Responsibility: Parks and Playground Manager | Priority: | 3 |
| Park management should ensure that Ranger's timesheets are formally reviewed and the review is documented. | | | |
| Rationale | | | |
| <p>Weekly timesheets are provided by Rangers, in order for park management to review actual work performed; following review the timesheets are filed.</p> <p>Internal Audit viewed the last three month's timesheets, from which it was identified that only seven of the completed (thirty-nine) timesheets had evidence of a formal review; this review appeared to be performed when a Ranger took lieu leave during the week.</p> | | | |
| Management Response | | | |
| Ranger's hours are verified at the end of each month on a claim submitted as part of the Grounds Maintenance Invoice. This is considered sufficient. | | | |
| Accepted | Implementation Deadline: | Implemented as far as practical | |

| | | |
|---|--|---------------------|
| Recommendation 13 | Responsibility: Parks and Playgrounds Manager | Priority: 3 |
| <p>The Council should introduce a procedure for Rangers to formally acknowledge receipt of the till key taken and returned from the management office.</p> | | |
| Rationale | | |
| <p>Access to the Pitch & Putt till is by key, which is held in the park management office, in a lockable key cabinet when the till is not in use.</p> <p>All park wardens have access to the till and can collect the till key from park management when required. However, the key collection and return from the office is not recorded. A simple signing in and out facility would be sufficient for this purpose.</p> | | |
| Management Response | | |
| <p>A signing in and out facility will be introduced by the end of June 2009.</p> | | |
| Accepted | Implementation Deadline: | 30 June 2009 |

APPENDIX 1

AUDIT FRAMEWORK

Coverage

The review covered the following areas, which were agreed as part of the preliminary planning stage:

- boating licence;
- putting/bowling;
- Park Ranger/Warden service;
- café;
- petty cash and till floats;
- equipment and inventories;
- purchase of equipment; and
- Continental Landscape Contract.

Methodology

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review;
- identify the risk applicable to each area;
- evaluate controls against each of the key risks;
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

Performance

Auditors: Keith Jackson and Ian Hughes.

The fieldwork was performed: April to May 2008.

All final Internal Audit reports from April 2007 will be presented to the Council's Audit Committee.

APPENDIX 2**CLASSIFICATIONS****Assurance Level**

| | <i>Evaluation</i> | <i>Testing</i> |
|--------------------|---|--|
| <i>Unqualified</i> | There is an adequate system of controls designed to achieve the system objectives. | The controls appear to be consistently applied. |
| <i>Substantial</i> | While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk. | Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk. |
| <i>Restricted</i> | Significant weaknesses have been identified in the system of control, which put the system objectives at risk. | The level of non-compliance identified places the system objectives at risk. |
| <i>None</i> | Control is weak, causing the system to be vulnerable to error and abuse. | Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse. |

Audit Recommendations and Follow-up

| | <i>Recommendation</i> | <i>Follow Up</i> |
|-------------------|--|---|
| <i>Priority 1</i> | Major issues that we consider need to be brought to the attention of senior management. | Follow-up will be performed at specific dates agreed with senior management. |
| <i>Priority 2</i> | Important issues which should be addressed by management in their areas of responsibility. | Follow-up of the recommendations will be performed by the end of the next audit year. |
| <i>Priority 3</i> | Minor issues which provide scope for operational improvement. | Follow-up performed by the end of the next audit year. |

BARROW BOROUGH COUNCIL
INTERNAL AUDIT FINAL REPORT CR 51
HINDPOOL URBAN PARK

Executive Summary

Introduction

Internal Audit are required under the Council's Financial Regulations to consider for review all contracts issued prior to the Final Account being paid to the Contractor. The Borough Treasurer through the Head of Internal Audit will select a sample of contracts for higher scrutiny and reconciliation with the Final Account.

The contract for the Hindpool Urban Park Project was selected for audit due to the high value of the works and funding responsibilities through the European Regional Development Fund.

The pre-tender budget of £1.1m was reported to Executive Committee by the former Director of Regeneration through delegated powers for accepting tenders and awarding the contract in order to avoid any undue delay and the possibility of a loss of time related funding awards.

The contract sum of £1,033,868.32 was varied during the contract period resulting in a Draft Final Account total of £1,432,408.07; an increase of 38.55%.

It should be noted that Internal Audit were unable to verify the actual cost due to the final account being delayed.

Audit Objectives

The audit objectives were to perform an examination of the interim and final account and associated documentation. Details of the audit methodology are provided in Appendix 1.

Audit Conclusion – *Restricted Assurance*

As a result of the audit we have concluded that, significant weaknesses have been identified in the system of control, which put some of the system objectives at risk. We have made nine Priority 2 recommendations, which concern:

- consultants are aware and in compliance with Council Contract and Financial Procedures;
- retention of documentation relating to the appointment of consultants;
- staff and consultants only include contractors from the Approved List and are registered with Constructionline;
- members of the tender opening panel to sign the Forms of Tender;

| Key Points |
|------------------------------|
| Restricted Assurance |
| Nine important issues |
| One minor issue |

- confirming the Borough Treasurer's satisfaction with tenderers' financial standing;
- compliance with delegation terms regarding consultation with the Chairman and Vice Chairman of the Executive Committee;
- return of incomplete Contract Administrator's Instruction forms;
- retention money is not released to the contractor until a final version of the Final Account has been received and a full review has been carried out by Internal Audit; and
- ensuring Executive Committee are fully informed where the Final Account exceeds the Contract Sum by more than 10%.

In addition, we have made one minor recommendation relating to appropriately authorised payment certificates.

Management Response

We have received a constructive management response from Phil Huck, Director of Regeneration and Community Services, accepting each of our recommendations.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review

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| | | | |
|--|--|------------------|------------------|
| Recommendation 1 | Responsibility: Director of Regeneration & Community Services | Priority: | 2 |
| <p>The Council should ensure that consultants are made aware of and are in compliance with the Council's Contract Standing Orders and Financial Regulations; for each and every project award.</p> | | | |
| Rationale | | | |
| <p>The Council's Contract Standing Orders 19.3 states "All consultants appointed shall be aware of these Contract Standing Orders and the Financial Regulations of the Council and charged with applying them on behalf of the Council wherever applicable."</p> <p>We were informed by the project management consultant that they were unable to confirm if guidance or copies of the Council's Contract Standing Orders and Financial Regulations had been made available to them.</p> <p>Appointed consultants are required to maintain the same procedures and standards as Council Officers and unless they are made aware of such requirements and practice, there may be a risk of these standards not being achieved.</p> | | | |
| Management Response | | | |
| <p>This recommendation has emerged from a number of audits and actions have been taken to ensure external consultants are aware of Contract Standing Orders and Financial Regulations.</p> | | | |
| Accepted | Implementation Deadline: | | Immediate |

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| Recommendation 2 | Responsibility: Director of Regeneration & Community Services | Priority: | 2 |
| <p>The Council should ensure that all documentation relating to the appointment of consultants is retained; in order to substantiate decisions made and transparency of the process.</p> | | | |
| Rationale | | | |
| <p>Capita Symonds have been appointed to provide project management resources for Hindpool Urban Park on behalf of the Council.</p> <p>During the review Internal Audit were unable to obtain evidence of the methodology used or the decision taken to appoint Capita Symonds as consultants for project management. This action is potentially in breach of Contract Standing Order 19.1 which states "before the engagement of any architect, engineer, surveyor or other consultant for the purpose of any contract in respect of the supply of goods or materials or the carrying out of works the Chief Executive or appointed Director shall obtain quotations wherever possible in accordance with Financial Regulations."</p> <p>This weakness may not provide adequate assurance over the internal control arrangements or the achievement of value for money.</p> | | | |
| Management Response | | | |
| <p>Accepted.</p> | | | |
| Accepted | Implementation Deadline: | | Immediate |

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| Recommendation 3 | Responsibility: Director of Regeneration & Community Services | Priority: | 2 |
| <p>The Council should ensure staff are aware of and adhere to Contract Standing Orders; specifically relating to ensuring each contractor invited to tender is included on the Approved List of Contractors and registered with Constructionline.</p> | | | |
| Rationale | | | |
| <p>The Council have produced a Standing Approved list to ensure all contractors providing medium to large scale services attain certain standards of technical and financial attributes. Provision is also made for contractors to be added to the list, provided they meet these standards. Registration with Constructionline is used as a standard to be attained by such contractors. This registration assures the Council that the contractor is properly insured, is financially stable and has sufficient manpower to deliver contracts at varying values.</p> <p>Internal Audit compared the contractors invited to tender against the Council's Standing Approved List and identified that four contractors were not included. The Council's Contract Standing Order 8.1 states that "...selected from amongst those included in the approved list as appropriate for a contract of that amount, value or category".</p> | | | |
| Management Response | | | |
| <p>Accepted.</p> | | | |
| Accepted | Implementation Deadline: | Immediate | |

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| Recommendation 4 | Responsibility: Director of Regeneration & Community Services | Priority: | 2 |
| <p>The Council should ensure that each member of the tender opening panel sign both the Tender Opening Register and the Tender Documents, in order to confirm both completeness and their attendance.</p> | | | |
| <p>Rationale</p> <p>Invitations to tender include a date and time for their return and a pre-addressed envelope for the tender document. These procedures are in place to allow each tenderer an equal opportunity to win the work and to ensure tender sums cannot be influenced by a tender already received by the Council. Following the date of return, a tender opening panel is assembled; the received envelopes are collected from their place of secure storage and each envelope is opened in turn, with the submitted tender sum, recorded in the Tender Opening Register. The Panel should ensure that each tender received is entered in the register and it has been received prior to the closing time/date. Each Panel member should sign the register and also each Form of Tender document recorded in the register. Signing the tender document is a control to prevent alterations after the tenders have been opened.</p> <p>However, Internal Audit were only able to obtain the Form of Tender document submitted by the contractor formally appointed. An inspection of the Form of Tender document confirmed that it had not been signed by any member of the Opening Panel; however the Tender Opening Register had been signed and dated by all the Panel members.</p> <p>The Council's Contract Standing Orders section 11.3 states "all persons present shall immediately sign against the relevant particulars, the register and shall also sign the tender as evidence of such tenders having been opened by them or in their presence".</p> | | | |
| <p>Management Response</p> <p>This recommendation has emerged from a number of audits and actions have been taken to ensure the Register and Tender Document are signed.</p> | | | |
| Accepted | Implementation Deadline: | | Immediate |

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| Recommendation 5 | Responsibility: Director of Regeneration & Community Services | Priority: | 2 |
| <p>The Council should attempt to locate necessary documentation to confirm that the Borough Treasurer has confirmed his satisfaction in relation to the nominated contractor's financial standing.</p> | | | |
| Rationale | | | |
| <p>During the review Internal Audit were unable to obtain any evidence that the appointment of Cumbrian Industrials had been referred to the Borough Treasurer for an appraisal of the contractor's financial standing.</p> <p>Failure to complete the referral is a potential breach of Contract Standing Order 13.1 which states "Prior to the acceptance all potentially successful tenderers shall be subject to financial vetting and no tender shall be accepted unless the Borough Treasurer is satisfied as to the tenderer's financial status and suitability in relation to the proposed contract."</p> | | | |
| Management Response | | | |
| <p>Cumbrian Industrials were the appointed contractor. There is no evidence of a financial vet. As a well established company I assume the view was taken that they were financially sound. It is accepted that a record of the Borough Treasurer's satisfaction with the contractor or a financial vet should have been conducted, but as the works are largely completed attempting to locate documentation is not a good use of resources.</p> | | | |
| Accepted | Implementation Deadline: | No further action | |

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| Recommendation 6 | Responsibility: Director of Regeneration & Community Services | Priority: | 2 |
| <p>The Council should attempt to locate necessary documentation to confirm that the former Director of Regeneration, under the terms of his delegation, consulted with the Chairman and Vice Chairman of the Executive Committee prior to accepting the tender sum.</p> | | | |
| Rationale | | | |
| <p>During the review Internal Audit were unable to obtain evidence that the former Director of Regeneration had consulted, under the terms of his delegated powers, with the Chairman and Vice Chairman of the Executive Committee prior to recommending the appointment of Cumbrian Industrials.</p> <p>The Executive Committee at its meeting 10th July 2006 resolved that the former Director of Regeneration be given delegated authority to accept a tender and award the contract for the construction of Hindpool Urban Park following consultation with the Chairman and Vice Chairman of the Executive Committee.</p> <p>This weakness is a potential breach of the Executive Committee's decision which is supported by Contract Standing Order 2.3 which states "That the Chief Executive or appropriate Director, have delegated authority, in consultation with the relevant Chairman or Vice Chairman, to accept the lowest value tender only and enter into contracts in any other case the provisions of Contract Standing Order 13.2 apply." Contract Standing order 13.3 also states "The acceptance of tenders in excess of £1million in respect of construction or supply contracts or £500,000 in respect of service contracts requires approval of Council."</p> | | | |
| Management Response | | | |
| <p>I have looked through archived emails and correspondence and can find no formal record of the decision. I understand agreement was sustained verbally.</p> | | | |
| Accepted | Implementation Deadline: | | Implemented |

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| Recommendation 7 | Responsibility: Director of Regeneration & Community Services | Priority: | 2 |
| <p>The Council should ensure that Contract Administrator's Instruction forms are signed by the person responsible for completion.</p> | | | |
| <p>Rationale</p> <p>Under the terms of the contract document, the Contract Administrator is charged with the responsibility of varying the contract sum by issuing a Contract Administrator's Instruction form. Specific direction is given under Article 3 of the contract regarding the identity of the person responsible and circumstances relating to a replacement Contract Administrator. It is therefore important that all Contract Administrator's Instructions, issued by the Contract Administrator, are validated with a signature.</p> <p>During the review of Contract Administrator's Instructions, Internal Audit identified that of the 72 issued, 46 had not been signed by the Contract Administrator. In the event of dispute with the contractor regarding the costings relating to additional or omitted work, the acceptance of un-signed Instructions may weaken the Council's position.</p> | | | |
| <p>Management Response</p> <p>Accepted.</p> | | | |
| Accepted | Implementation Deadline: | Immediate | |

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|--|--|--------------------------|----------|
| Recommendation 8 | Responsibility: Director of Regeneration & Community Services | Priority: | 2 |
| <p>The Council should ensure that retention monies are not released until a copy of the Final Account has been received and a full review has been performed by Internal Audit where appropriate.</p> | | | |
| <p>Rationale</p> <p>Contracts drawn up between the Council and contractors are required under the Council's Financial Regulations to include a provision for payments due, to a contractor, to be subject to a retention of 5%; reduced to 2.5% following the issue of a Certificate of Practical Completion. The retention made will be released following the satisfactory completion of the defects period, and if no monies are due to the Council.</p> <p>The Council's Financial Procedures (5c) state that "The Head of Service will ensure that all formal contracts are referred to Internal Audit for the proper check to be performed, as soon as the Final Account is agreed and before any retention is paid".</p> <p>By making this payment, prior to a completed review by Internal Audit, the Head of Service may have been in breach of the Council's Financial Procedures and may also prevent the Council from making a claim for any over-payments identified during the audit review.</p> <p>Internal Audit were unable to obtain a copy of the finalised Final Account. Capita Symonds, who were responsible for the project management confirmed on the 29th September 2009 that the Final Account had not yet been completed; the release of the retention monies was 29th September 2008. The date of Practical completion has been recorded as 4th May 2007.</p> | | | |
| <p>Management Response</p> <p>A proportion of retention was released to meet the EC deadline for project expenditure. The Council is in a position of balancing the loss of the EC grant against its confidence in the contractors completing the works. The view was taken that a loss of EC funds would damage the financial viability of the project.</p> | | | |
| Accepted | Implementation Deadline: | No further action | |

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| Recommendation 9 | Responsibility: Director of Regeneration & Community Services | Priority: 2 |
| <p>The Project Manager should ensure that Executive Committee are fully informed where the Final Account exceeds the Contract Sum by more than 10%.</p> | | |
| <p>Rationale</p> <p>Internal Audit performed a reconciliation of the submitted Draft Final Account and Contract Sum and identified an increase of £398,539.75 (38.55%).</p> <p>The Council's Contract Standing Orders state that "Where the outcome of any contract varies from the original contract value by more than 10%, a full report of the reason for the variance shall be made to the Executive Committee".</p> <p>The Draft Final Account currently exceeds all seven tenders originally submitted for the work.</p> | | |
| <p>Management Response</p> <p>The Final Account has not yet been received. It will be reported by variance when finalised.</p> | | |
| Accepted | Implementation Deadline: | 31 December 2009 |

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|---|--|--------------------|--|
| Recommendation 10 | Responsibility: Director of Regeneration & Community Services | Priority: 3 | |
| <p>The Council should ensure that the relevant person named in the Contract Documents provides signed Interim Payment Certificates certifying the value of work completed on a consistent basis.</p> | | | |
| Rationale | | | |
| <p>The Contract Administrator is responsible for assessing and valuing the work completed and materials on site at intervals specified in the Contract Document. A request for payment is made by completing a Payment Certificate; this contains the dates of valuation and issue, gross valuation, retention to be made and the net amount for payment. To validate the document the Contract Administrator is required to sign the Payment Certificate.</p> <p>Interim Payment Certificates 1 to 9 were provided by the Council's consultant Contract Administrator Capita Symonds; the review identified that one payments certificate had not been signed. Unsigned Payment Certificate documents could prejudice disputes with the contractor in the future.</p> <p>Internal Audit re-performed the calculation of retention and net payments which were reconciled to the Council's ORACLE system; no discrepancies were identified.</p> | | | |
| Management Response | | | |
| <p>Accepted.</p> | | | |
| Accepted | Implementation Deadline: | Immediate | |

APPENDIX 1

AUDIT FRAMEWORK

Audit Coverage

The review covered the following areas:

- contract / tender process;
- bill of quantities;
- insurance and bond provision;
- additions & omissions, including architects instructions;
- contract meetings;
- extension and completion certification;
- payments, including interim and final certificates; and
- final account.

Methodology

The contract review covered the following key stages:

- evaluation of the contract summary details;
- confirmation of management objectives for contract review;
- examination of the tender and contract documentation;
- spot checks on arithmetical calculations;
- verify final account with the cumulative paid; and
- report findings, with relevant and practical recommendations for improvement.

Performance

Auditors: Keith Jackson and Ifor Jones.

The fieldwork was performed: December 2008 to April 2009

All final Internal Audit reports from April 2007 will be presented to the Council's Audit Committee.

APPENDIX 2

CONTRACT PARTICULARS

| | |
|---|---|
| Contract Title: | The Implementation of Hindpool Urban Park, Barrow in Furness. |
| Contract Form: | JCLI Agreement for Landscape Works February 2002 revision of 1998 Edition. Incorporating Amendments: 1: LW1, 2: LW2, 3: LW3, |
| Contractor: | Cumbrian Industrials Ltd |
| Landscape Architect: | Capita Symonds |
| Quantity Surveyor: | Capita Symonds |
| Planning Supervisor | Capita Symonds |
| Contract Sum: | £1,033,868.32 |
| Contract Sum Revision: | |
| Date for Possession: | 9 th October 2006 |
| Date for Completion: | 9 th April 2006 (should read 9 th April 2007) |
| Date of Practical Completion: | 4 th May 2007 |
| Delay in Completion: | 25 days |
| Extension of Time Granted: | 25 days |
| Liquidated and Ascertained Damages provision /paid/received: | £500.00 per week |
| Minimum Insurance Cover | Employer Liability: £5,000,000 |
| Minimum Bond | Barclays Bank - £107,526. in excess of 10% of Contract Sum |
| Retention Amount | 5% up to Practical Completion 2.5% to Final Account |
| Submitted Final Account Sum: | Draft only £1,432,408.07 (not verified) |
| Audited Final Account Sum: | Sum not Verified |
| Percentage increase / Submitted Draft Final Account against Contract Sum. | 38.55% Date Notified to Committee: Account Yet Not Completed |

APPENDIX 3

CLASSIFICATIONS

Assurance Level

| | <i>Evaluation</i> | <i>Testing</i> |
|--------------------|---|--|
| <i>Unqualified</i> | There is an adequate system of controls designed to achieve the system objectives. | The controls appear to be consistently applied. |
| <i>Substantial</i> | While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk. | Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk. |
| <i>Restricted</i> | Significant weaknesses have been identified in the system of control, which put the system objectives at risk. | The level of non-compliance identified places the system objectives at risk. |
| <i>None</i> | Control is weak, causing the system to be vulnerable to error and abuse. | Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse. |

Audit Recommendations and Follow-up

| | <i>Recommendation</i> | <i>Follow Up</i> |
|-------------------|--|---|
| <i>Priority 1</i> | Major issues that we consider need to be brought to the attention of senior management. | Follow-up will be performed at specific dates agreed with senior management. |
| <i>Priority 2</i> | Important issues which should be addressed by management in their areas of responsibility. | Follow-up of the recommendations will be performed by the end of the next audit year. |
| <i>Priority 3</i> | Minor issues which provide scope for operational improvement. | Follow-up performed by the end of the next audit year. |

BARROW BOROUGH COUNCIL

INTERNAL AUDIT FINAL REPORT 08-27

HOUSING MAINTENANCE – RESPONSIVE REPAIRS (Review of Job Costing)

Executive Summary

Introduction

A 'partnering' contract for performing responsive repairs to the Council's housing stock was awarded in November 2005 to Integral. The contract is for a period of 4 years. There have been approximately 13,000 responsive repairs since April 2008 with a value of approximately £650,000. The administration of the repairs process is performed by the Housing Department utilising the 'InHouse' and 'Repair Finder' software.

Audit Objectives

An audit of this system forms part of the agreed 2008/09 programme. The audit objectives were to review a sample of 50 job orders relating to the Housing Maintenance responsive repairs system. The scope and objectives of the audit were discussed and agreed in advance with Les Davies, Housing Maintenance Manager.

Details of the audit methodology are provided in Appendix 1.

Key Points

Restricted Assurance

Two major weaknesses

Two important weaknesses

Three minor weaknesses

Audit Conclusion – *Restricted Assurance*

As a result of the audit we have concluded that there are significant weaknesses, which may put the system objectives at risk. We have made two Priority 1 recommendations relating to:

- ensuring that Integral 'Report Sheets' are fully completed and 'signed off' by an Integral Supervisor as confirmation of accuracy and validity; and
- operatives consistently state their hourly rate on the Integral 'Report Sheet'.

In addition, we have made two Priority 2 recommendations, regarding ensuring that:

- operatives consistently record the job code and actual site time on the Integral 'Report Sheet'; and
- the Health and Safety risk assessment stamp is completed for each job.

In addition, we have made three Priority 3 recommendations, which concern:

- operatives signing the Integral 'Report Sheet' as a true and correct record;
- retaining the Integral 'Vixen job sheet'; and
- signing and dating the report 'Inhouse repairs to Vixen interface'.

Management Response

We have received a constructive management response from Colin Garnett, Housing Manager, accepting six recommendations and rejecting one recommendation relating to operatives consistently state their hourly rate on the Integral 'Report Sheet'.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

| | | |
|---|--|---------------------|
| Recommendation 1 | Responsibility: Housing Maintenance Manager | Priority: 1 |
| <p>The Council should ensure that Integral 'Report Sheets' are fully completed and 'signed off' by an Integral Supervisor as confirmation of accuracy and validity.</p> | | |
| Rationale | | |
| <p>Integral 'Report Sheets' include detail regarding the jobs performed, hours worked and the operative's hourly rate; the 'Report Sheet' should be signed off by the operative confirming responsibility. In addition, each 'Report Sheet', should be signed by a supervisor to confirm accuracy and validity of the details and work performed.</p> <p>Internal Audit selected a random sample of 50 jobs; the review identified that on 37 occasions the operatives 'Report Sheet' had not been checked by an Integral supervisor.</p> <p>These weaknesses may not provide the Council with adequate assurance over the performance of internal control procedures in place within a key contractors organisation. This is particularly important as the payment of completed jobs by the Council is based on the completed Report Sheets.</p> | | |
| Management Response | | |
| <p>Integral have confirmed that Supervisors need only sign "Report Sheets" when there is an amendment to the details stated.</p> <p>We note the comments made by the auditor and will request that the action be minuted and logged at the next supervisors/surveyors meeting to ensure that all repairs are signed and verified by the supervisor as a true record.</p> | | |
| Accepted | Implementation Deadline: | 30 June 2009 |

| | | |
|---|--|--------------------|
| Recommendation 2 | Responsibility: Housing Maintenance Manager | Priority: 1 |
| <p>The Contractor should ensure that operatives consistently state their hourly rate on the Integral 'Report Sheet'.</p> | | |
| <p>Rationale</p> <p>A 'Report Sheet' is used by Integral operatives to record work carried out, location and time worked; in addition there is a section for the individual to record the number of hours worked and their hourly rate.</p> <p>Internal Audit selected a sample of 50 jobs; the review identified that the operatives hourly rate was not stated on the 'Report Sheet' on 46 occasions.</p> <p>In addition, on one occasion (Job 428020), the hourly rate was stated, however this was different to the rate provided to Internal Audit by Integral administrative staff.</p> <p>The lack of complete and potentially inaccurate information relating to the costing of repair work, reduces the assurance the Council have in relation to contractor's internal control arrangements. As the contract is referred to as a 'partnering agreement', which contains an income share formula, this weakness may be of particular concern.</p> | | |
| <p>Management Response</p> <p>Integrals Barrow operation have confirmed that the "report sheet" is a standard form and as such is used throughout the UK. They do not provide the operatives or supervisors with information regarding operative charge rates.</p> <p>I am satisfied that Integral has provided the Council with the appropriate information regarding operative's rates and that the cost of labour and material is quantified on the front cover of each works order. This allows the Council to verify labour charges.</p> | | |
| Rejected | Implementation Deadline: | N/a |

| Recommendation 3 | Responsibility: Housing Maintenance Manager | Priority 2 |
|---|---|------------|
| <p>The Contractor should ensure all operatives consistently record the following on the Integral 'Report Sheet':</p> <ul style="list-style-type: none"> the codes for each job they have completed; and their actual site time, including travel time. | | |
| <p>Rationale</p> <p>A 'Report Sheet' is used by Integral operatives to record work performed, location and order number; in addition there is a section for the operatives to record the time taken to travel to site, their actual site time and the codes for each job completed. The codes are used to calculate the cost of each job.</p> <p>For the sample of 50 jobs Internal Audit identified:</p> <p><u>Gas Servicing – sample of 5</u></p> <p>On one occasion (427404) the difference between the labour cost calculated by Internal Audit and the labour cost on Vixen was £3.78. This was because no time was recorded for code BD18 for which we were informed 'site time' is used as standard.</p> <p><u>Voids- sample of 5</u></p> <p>Job 427324, the difference between the labour cost calculated by Internal Audit and the labour cost on Vixen was -£1.54. This was due to the operative incorrectly calculating the number of minutes set aside for the job.</p> <p><u>Emergency – sample of 10</u></p> <p>On six occasions (428980, 428706, 428793, 428799, 432061, 428940) the Integral operatives had claimed travel time twice: for both the job and emergency codes.</p> <p><u>Routine - sample of 25</u></p> <p>On one occasion (427392) the operative had claimed travel time twice: once in the job code and once in the half-hour response time. In addition on four occasions there were differences between the labour cost calculated by Internal Audit and the labour cost recorded on Vixen, these were as follows:</p> <ul style="list-style-type: none"> 428020, there was a difference of £38.59. Internal Audit were informed that this may be due to some hours (after the 37.5 hour working week) being paid at a lower overtime rate. 428645 there was a discrepancy of £4.47; the operative had recorded the incorrect time and although the supervisor had changed it, the incorrect time had been recorded on the system. | | |

- 428777, there is a difference of £2.41 for which an explanation could not be provided by Integral.
- 427093 there is a difference of £36.21, this was due to one of the operatives time being coded for the actual time spent on a job, not the target time.

In addition, it should be noted that on the majority of occasions the Integral Supervisor had signed the job sheet to confirm it had been checked for accuracy and completeness.

Management Response

There are systems in place that control costs against agreed rates that ensure inappropriate claims for costs of work are identified and not agreed.

The issues raised reflect the inability of operatives to log and record information correctly. Whilst not condoning this situation both as contract managers and in co-operation with the contractor, action is being taken to improve the quality of information provided by operatives when completing work. This includes a series of "toolbox talks" by the contractor's managers.

Accepted

Implementation Deadline: Ongoing

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|---|--|--------------------|
| Recommendation 4 | Responsibility: Housing Maintenance Manager | Priority: 2 |
| <p>Integral should ensure that the Health and Safety risk assessment stamp is completed for each job; and ensure that where a job is deemed as 'high risk', the required risk assessment is performed.</p> | | |
| Rationale | | |
| <p>Each Vixen job sheet is stamped with an Integral 'Risk Assessment Recommendation' Health and Safety stamp which is required to be completed by the operative. If the job is deemed 'high risk' then a separate risk assessment must be performed.</p> <p>For the sample of 50 jobs Internal Audit identified that on nine occasions the Health and Safety stamp had not been completed.</p> <p>In addition, using the sample selected there was one occasion where the health and safety risk was deemed 'high'. On this occasion (428020) Internal Audit requested a copy of the formal risk assessment. However, Integral were unable to provide a copy at the time of audit.</p> <p>This potential weakness does not provide adequate assurance over the performance of a key internal control.</p> | | |
| Management Response | | |
| <p>This procedure has been jointly agreed with Integral's and the Council's Safety advisors. It is agreed that the failure to identify the risks associated with repair work potentially puts operatives at risk from injury. Failure to undertake a formal risk assessment of work is a legal requirement under s3 of the Management of Health and Safety at Work Regulations 1999.</p> <p>I have formally written to Integral to clarify this point and requested they ensure the agreed systems are followed in all cases.</p> | | |
| Accepted | Implementation Deadline: | Implemented |

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| Recommendation 5 | Responsibility: Housing Maintenance Manager | Priority: 3 |
| Integral should ensure that operatives sign the Integral 'Report Sheet' as a true and correct record. | | |
| Rationale | | |
| <p>For each job performed, a 'Report Sheet' is used by Integral operatives to record work carried out, location and time worked; in addition there is a section for the operatives to record the number of hours worked and their hourly rate.</p> <p>The 'Report Sheet' should be signed by the Integral Operative as confirmation of accuracy and validity.</p> <p>For the sample of 50 jobs, Internal Audit identified that the 'Report Sheet' had not been signed by the Integral operative on four occasions.</p> | | |
| Management Response | | |
| <p>It is acknowledged that operatives should sign all of paperwork as outlined.</p> <p>Integral have responded to this issue by undertaking a series of "Toolbox talks" with staff.</p> | | |
| Accepted | Implementation Deadline: | Implemented |

| | | |
|--|--|--------------------|
| Recommendation 6 | Responsibility: Housing Maintenance Manager | Priority: 3 |
| <p>The Council should ensure that Integral retain the 'Vixen job sheet'.</p> | | |
| <p>Rationale</p> <p>Each request for work is downloaded from the Council's Inhouse system on to Integral's Vixen system. A 'vixen job sheet' is printed and issued to the operative; this contains details of the job number; location and job instructions. The vixen job sheet is filed with the corresponding paperwork when the work request has been completed.</p> <p>For the sample of 50 jobs, Internal Audit identified that a Vixen job sheet was not available on 8 occasions.</p> <p>Ensuring that all required and supporting documentation is retained, would assist, for example in the event of a job query or to support actions in relation to actual work requested.</p> | | |
| <p>Management Response</p> <p>It is acknowledged that the Vixen sheet should be attached to the paperwork.</p> <p>Integral have responded to this issue by undertaking a series of "Toolbox talks" with staff.</p> | | |
| Accepted | Implementation Deadline: | Implemented |

| | | |
|---|--|--------------------|
| Recommendation 7 | Responsibility: Housing Maintenance Manager | Priority: 3 |
| Integral should consider signing and dating the report 'Inhouse repairs to Vixen interface'. | | |
| Rationale | | |
| <p>Each request for work is downloaded from the Council's Inhouse system on to Integral's Vixen system. Integral run the 'Inhouse repairs to Vixen interface' report approximately every 15 minutes during the working day. This report states the number of jobs successfully processed. Where there are errors in the download, these are highlighted as 'incomplete jobs processed'.</p> <p>In these instances Integral liaise with the Council's Housing Department to rectify the problem; once resolved these jobs will be added to the next interface report.</p> <p>However, the report 'Inhouse repairs to Vixen interface' is not signed by Integral to confirm that all jobs have been correctly and completely interfaced to Vixen; specifically where incomplete jobs have not been processed.</p> | | |
| Management Response | | |
| Integral have confirmed that Tina Ireland signs all reports generated as outlined in this report. | | |
| Accepted | Implementation Deadline: | Implemented |

APPENDIX 1**AUDIT FRAMEWORK****Coverage**

The review covered the following areas, which were agreed as part of the preliminary planning stage:

- gas servicing;
- gas breakdowns;
- voids;
- emergency repairs; and
- routine repairs.

Methodology

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review; and
- report findings, with practical recommendations for improvement where appropriate.

Performance

Auditors: Claire Jackson and Sarah Cullen

The fieldwork was performed in October to November 2008

All final Internal Audit reports from April 2007 will be presented to the Council's Audit Committee.

APPENDIX 2**CLASSIFICATIONS****Assurance Level**

| | <i>Evaluation</i> | <i>Testing</i> |
|--------------------|---|--|
| <i>Unqualified</i> | There is an adequate system of controls designed to achieve the system objectives. | The controls appear to be consistently applied. |
| <i>Substantial</i> | While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk. | Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk. |
| <i>Restricted</i> | Significant weaknesses have been identified in the system of control, which put the system objectives at risk. | The level of non-compliance identified places the system objectives at risk. |
| <i>None</i> | Control is weak, causing the system to be vulnerable to error and abuse. | Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse. |

Audit Recommendations and Follow-up

| | <i>Recommendation</i> | <i>Follow Up</i> |
|-------------------|---|--|
| <i>Priority 1</i> | Major issues that we consider need to be brought to the attention of senior management | Follow-up will be performed at specific dates agreed with senior management. |
| <i>Priority 2</i> | Important issues which should be addressed by management in their areas of responsibility | Follow-up of the recommendations will be performed by the end of the next audit year |
| <i>Priority 3</i> | Minor issues which provide scope for operational improvement | Follow-up performed by the end of the next audit year. |

BARROW BOROUGH COUNCIL

INTERNAL AUDIT FINAL REPORT CR 48

REFURBISHMENT AND EXTENSION TO WATERSIDE HOUSE

Executive Summary

Introduction

Internal Audit are required, under the Council's Financial Regulations, to consider for review all contracts issued prior to the Final Account being paid to the Contractor. The Borough Treasurer through the Head of Internal Audit will select a sample of contracts for higher scrutiny and reconciliation with the Final Account.

The contract for the extension and alteration works to Waterside House was budgeted to cost £409,000 and five contractors were invited to submit tenders for the work. A total of three amendments to the tender specification, issued prior to the return of tenders date, resulted in the lowest tender of £587,415.00; submitted by Leck Construction Ltd. An appraisal of the tender was completed by Johnstons Chartered Quantity Surveyors who reported that the lowest tender included nine qualified items which contravened both the general principals of JCT Practice Note 6 and the Council's own Contract Standing Orders. Johnstons Chartered Quantity Surveyors dismissed seven of the qualification points as statement of facts and one was ruled legitimate, due to the unavailability of the type of facing brick indicated in the tender specification. The appraiser's initial consideration was to recommend that the tender should be rejected or the qualification regarding the roof removed. Two recommendations were made by the Quantity Surveyor in an attempt to move the matter forward. The preferred recommendation was dismissed by the Council's Project Manager in favour of a procedure to retain the original tender sum and to accommodate the increase in cost by reducing the Provision Sum and Contingencies Provision, following the commencement of the works. Internal Audit were unable to obtain any evidence of this course of action being reported to Members.

The Final Account valued at £602,342.65 could not be reconciled to the Architects Final Certificate or to variation orders/supporting documentation, due to incomplete information provided and the unavailability of any form of Project File maintained at the Town Hall. Internal Audit have relied heavily on electronic records held by the Council's consultant Architect to progress the audit; however these had not always been updated following the receipt of actual costs.

Key Points

Restricted Assurance

One major issue

Nine important issues identified.

The retention of £15,096.06 has been released to the contractor prior to the contract being referred to Internal Audit for review. The estimated increase in cost above the tender sum is 2.8%. Additionally, the estimated increase in costs from budget estimate to final sum is 47.27%.

It should be noted that Internal Audit were unable to fully complete the review of the contract final account due to the unavailability of prime records; despite several requests.

Audit Objectives

The audit objectives were to perform an examination of the interim and final account and associated documentation. Details of the audit methodology are provided in appendix 1.

Audit Conclusion – *Restricted Assurance*

As a result of the audit we have concluded that significant weaknesses have been identified in the system of control, which put the system objectives at risk. We have made one Priority 1 recommendation which concerns ensuring the Council comply with the Instructions to Tenderers, or receive written authority to deviate from the Instructions.

We have also made nine Priority 2 recommendations which relate to:

- returning the Final Account to the Quantity Surveyor for correction and ensuring supporting documentation is located and enclosed with the resubmission;
- providing evidence of a bond, for work valued in excess of £150,000, in accordance with Contract Standing Orders;
- ensuring that each contractor invited to tender is included on the Approved List of Contractors and registered with Constructionline;
- ensuring that each member of the tender opening panel signs both the Tender Opening Register and the Tender Documents;
- ensuring consultants appointed by the Council retain all documentation relating to tenders;
- the officer nominated within the Contract Documents maintaining priced Architect Instructions and Daywork Sheets;
- retaining signed copies of Interim Certificates and Direction forms for inspection;
- obtaining and retaining contractor's insurance details within the Legal Department; and
- ensuring retention monies are not released until a full check of the final account has been performed by Internal Audit.

Management Response

We have received a constructive management response from Phil Huck, Director of Regeneration and Community Services, accepting each of our recommendations.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

| | | |
|--|--|--------------------|
| Recommendation 1 | Responsibility: Director of Regeneration and Community Services | Priority: 1 |
| <p>The Council should ensure compliance with the Instructions to Tenderers, issued to all contractors invited to tender, or receive written authority from the Council to deviate from such Instructions.</p> | | |
| <p>Rationale</p> <p>The Council entered into a tendering exercise to appoint a suitable contractor for the refurbishment and extension of Waterside House, Barrow-in-Furness. Following the receipt and opening of tenders, Johnstons Chartered Quantity Surveyors, acting on behalf of the Council, completed a Tender Report. This report identified that Leck Construction Ltd, who had submitted the lowest tender had in fact qualified the tender sum requesting the Council to consider alternative finishes to the roof of the building.</p> <p>The Council's Quantity Surveyors included in their report that the contractor was in breach of JCT Practice Note 6 (Series 2) "Main Contract Tendering" (2002) which is repeated in the Council's Instructions to Tenderers. The Quantity Surveyors identified three possibilities:</p> <ul style="list-style-type: none"> ▪ to reject the tender and accept the next lowest received; ▪ to accept the submitted tender sum of £587,415.00 and add the increased costs by Architect Instructions; or preferably ▪ to accept the adjusted figure of £597,489.74 incorporating a Schedule of Pre – Contract Cost. <p>The Council's responsible Officers elected to absorb the additional costs together with an up lift of 2% claimed by the Contractor, due to the delay in obtaining possession of the site. In order to retain the submitted Tender Sum and satisfy the contractor an agreement was made to reduce Provisional Sum for contingencies by £9,197.03 and Provisional Sum for external works by £10,000.00; this would reduce the amount to be omitted from the Final Account. Such action removes the overall transparency of the tender process; and potentially leaves the Council open to challenge.</p> <p>Unless the contract sum accurately reflects the tender sum the Council may be at risk of making decisions based on incomplete financial data, and acting beyond their powers.</p> | | |
| <p>Management Response</p> | | |
| | | |
| Accepted | Implementation Deadline: | Immediate |

| | | | |
|--|--|------------------|----------|
| Recommendation 2 | Responsibility: Director of Regeneration and Community Services | Priority: | 2 |
| <p>The Final Account submitted by Johnstons Chartered Quantity Surveyors, relating to works carried out by LECK Construction Ltd for £602,342.65, should be returned to the Quantity Surveyor for correction and to enable complete and priced supporting documentation to be located and enclosed with a re-submission.</p> | | | |
| Rationale | | | |
| <p>Internal Audit examined the Final Account completed by Johnstons Chartered Surveyors at £602,342.65. An examination of the summary detected:</p> <ul style="list-style-type: none"> • Final Account Sum £602,342.65 • Final Certificate Sum £603,842.65 <p>The difference of £1,500.00 had occurred due to the Final Account's tender sum being inflated by £1,000.00 and an additional unsupported £500.00.</p> <p>Furthermore, Internal Audit are unable to provide a reconciliation and detailed calculation of over/under charges, due to the unavailability of project prime documents.</p> <p>Unless complete and priced documentation is retained to enable a reconciliation of costs claimed, the Council may be at risk of paying for work above the agreed sum. This appraisal/reconciliation should be completed before retention monies are released.</p> | | | |
| Management Response | | | |
| | | | |
| Accepted | Implementation Deadline: | Immediate | |

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|---|--|------------------|----------|
| Recommendation 3 | Responsibility: Director of Regeneration and Community Services | Priority: | 2 |
| <p>The Council should ensure staff are both aware of and adhere to its Contract Standing Orders, specifically relating to ensuring each contractor appointed to complete work valued in excess of £150,000 has provided evidence of the existence of a Bond, to the value of 10% of the Contract Sum.</p> | | | |
| Rationale | | | |
| <p>The Council's applicable Contract Standing Orders (15.2) state that sufficient security for the due performance of every contract estimated to exceed £150,000. The security shall be in the form a Bond provided by a duly recognised Bank or Guarantee Company.</p> <p>Internal Audit confirmed that each contractor, invited to tender for the work under review, were required to confirm that they would undertake to provide Securities or a Performance Bond as specified in the tender Preliminaries.</p> <p>Further testing of the Contract Document between the Council and Leck Construction noted that item 30.3.1 relating to bonds had been marked "not applicable".</p> <p>Internal Audit could not obtain any authorisation to vary this Order made by Members.</p> <p>Contract Standing Orders have been put in place to support internal control arrangements and reduce any risk to the Council; unauthorised deviation may reduce the achievement of this aim.</p> | | | |
| Management Response | | | |
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| Accepted | Implementation Deadline: | Immediate | |

| | | | |
|--|--|------------------|----------|
| Recommendation 4 | Responsibility: Director of Regeneration and Community Services | Priority: | 2 |
| <p>The Council should ensure staff are both aware of and adhere to Contract Standing Orders, specifically relating to ensuring each contractor invited to tender is included on the Approved List of Contractors and registered with Constructionline.</p> | | | |
| Rationale | | | |
| <p>The Council have produced a Standing Approved list to ensure all contractors providing medium to large services attain certain standards of technical and financial attributes. Provision is also made for contractors to be added to the list provided they meet these standards. Registration with Constructionline is used as a standard to be attained by applying contractors. This registration assures the Council that the contractor is properly insured, is financially stable and has sufficient manpower to deliver contracts at varying values.</p> <p>Internal Audit compared the contractors invited to tender against the Council's Standing Approved List and detected that one contractor was not included. The Council's Contract Standing Order 8.1 states that "...selected from amongst those included in the approved list as appropriate for a contract of that amount, value or category". Unless selection is only made from the Standing Approved List there is risk that a contractor who is not registered with Constructionline may be appointed.</p> | | | |
| Management Response | | | |
| | | | |
| Accepted | Implementation Deadline: | Immediate | |

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|--|--|--------------------|----------|
| Recommendation 5 | Responsibility: Director of Regeneration and Community Services | Priority: | 2 |
| <p>The Council should ensure that each member of the tender opening panel signs both the Tender Opening Register and the Tender Documents to confirm both completeness and their attendance.</p> | | | |
| <p>Rationale</p> <p>Invitations to tender include a date and time for their return and a pre-addressed envelope for the tender document. These procedures are in place to allow each tenderer an equal opportunity to win the work and ensure tender sums cannot be influenced by a tender already received by the Council. Following the date of return, a tender opening panel is assembled; the received envelopes are collected from their place of secure storage and each envelope is opened in turn, with the submitted tender sum, recorded in the Tender Opening Register. The Panel should ensure that each tender received is entered in the register and that it has been received prior to the closing time/date. Each Panel member should sign the register and also each Form of Tender document recorded in the register. Signing the tender document is a control to prevent alterations after the tenders have been opened.</p> <p>Internal Audit were only able to obtain the Form of Tender document submitted by the contractor formally appointed. An inspection of the Form of Tender document confirmed that it had not been signed by any member of the Opening Panel; however a review of the Tender Opening Register confirmed that it had been signed and dated by all the Panel members.</p> <p>The Council's Contract Standing Orders section 11.3 states "all persons present shall immediately sign against the relevant particulars, the register and shall also sign the tender as evidence of such tenders having been opened by them or in their presence".</p> | | | |
| <p>Management Response</p> <p>This point has been raised in a number of contract audits. Members are being reminded of the requirement to sign the Tender Register and Documents.</p> | | | |
| Accepted | Implementation Deadline: | Implemented | |

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|--|--|------------------|----------|
| Recommendation 6 | Responsibility: Director of Regeneration and Community Services | Priority: | 2 |
| <p>The Council should ensure that consultants appointed to manage projects on its behalf retain all documentation relating to tender exercises.</p> | | | |
| Rationale | | | |
| <p>Following the opening and recording of tenders by the Opening Panel the tender documents are handed to the representative of the department responsible for the works to be completed. As evidence of taking ownership of these documents the Tender Opening Register is signed by that representative.</p> <p>The Tender Opening Register had been appropriately signed for this contract, to confirm five completed tender documents were being accepted for appraisal.</p> <p>However, Internal Audit have been unable to obtain copies of a number of the documents, including Form of Tender and Collusive Tendering Declaration submitted by the four unsuccessful contractors; despite requests being made. Without these documents Internal Audit cannot confirm the tender sums submitted or whether they had been appropriately signed by the contractor or members of the Opening Panel.</p> | | | |
| Management Response | | | |
| | | | |
| Accepted | Implementation Deadline: | Immediate | |

| | | |
|--|--|--------------------|
| Recommendation 7 | Responsibility: Director of Regeneration and Community Services | Priority: 2 |
| <p>The Council should ensure that the person named within the Contract Documents maintains priced Architect Instructions and Daywork sheets.</p> | | |
| <p>Rationale</p> <p>The Council will expect contractors to deliver prescribed work at the agreed contract sum. However, in the majority of cases any Provisional Sums and Contingencies will be omitted and replaced with the actual cost of specific items. Additionally, as work progresses adjustments are necessary due to changes in the original specification or problems encountered during the progress of the work. Any variation to the Contract Sum requires the consent of the Architect or other professional named in the Contract Document. These variations are contained in Architect/Engineer Instructions which document the work to be replaced and the required or additional work to be completed. Prior to the issue of the Final Account these Instructions should be priced, checked for completeness and signed by the Architect/Engineer; and finally verified to entries in the Final Account.</p> <p>The Architect Instructions and supporting Daywork sheets provided by the Council's consultant Architect, namely Craig & Green Architects LLP, had not been priced; which has restricted Internal Audit's verification of the Final Account omissions and additions. Internal Audit also noted that the Daywork sheets supplied were not complete and, in some cases, inaccurate. Internal Audit recalculated additions supported by Daywork sheets provided and detected errors totalling £214.69.</p> <p>Unless the above documentation is complete, properly retained on a Council project file and available for review, it is not possible to confirm the accuracy of the Final Account.</p> | | |
| <p>Management Response</p> | | |
| | | |
| Accepted | Implementation Deadline: | Immediate |

| | | | |
|--|--|------------------|------------------|
| Recommendation 8 | Responsibility: Director of Regeneration and Community Services | Priority: | 2 |
| <p>The Council should ensure that the person named in the Contract Documents provides signed Interim Certificates and Direction forms certifying the value of work completed.</p> | | | |
| <p>Rationale</p> <p>The Architect is responsible for assessing and valuing the work completed and materials on site at intervals specified in the Contract Document. The Interim Certificates and Direction documents are sequentially numbered and contain the dates of valuation and issue, gross valuation, retention to be made and the net amount for payment. To validate the document the person issuing the certificate is required to add their signature.</p> <p>The Interim Certificate and Direction for intervals 1 to 6 and the Final Certificate were provided to Internal Audit by the Council's consultant Architect; namely Craig & Green Architects LLP. However, only five of the seven certificates provided had been signed by the Architect.</p> <p>Internal Audit re-performed the calculation of retention and net payments which were reconciled to the Council's ORACLE system with no discrepancies detected.</p> <p>However, Interim Certificate and Direction documents are invalid without being signed by the person responsible and as such could prejudice disputes with the contractor. Only copies of forms which have been signed should be retained, and preferably on a relevant Council project file.</p> | | | |
| <p>Management Response</p> | | | |
| | | | |
| Accepted | Implementation Deadline: | | Immediate |

| | | | |
|---|--|------------------|----------|
| Recommendation 9 | Responsibility: Director of Regeneration and Community Services | Priority: | 2 |
| <p>The Council should ensure that the contractor's insurance details are provided and forwarded to the Legal Department for safe keeping; and monitoring within the contract period.</p> | | | |
| Rationale | | | |
| <p>The Instructions to Tenderers requires the contractor to provide the Council with details of their insurance cover.</p> <p>However, Internal Audit were unable to confirm the receipt and the current location of the required documents.</p> <p>Unless the Council can confirm that contractors have appropriate insurance cover throughout the term of the contract, there is an increased risk of financial loss in the event of an incident or accident. Additionally, such action is in breach of "Instructions" documentation.</p> | | | |
| Management Response | | | |
| | | | |
| Accepted | Implementation Deadline: | Immediate | |

| | | | |
|--|--|------------------|----------|
| Recommendation 10 | Responsibility: Director of Regeneration and Community Services | Priority: | 2 |
| <p>The Council should ensure that retention monies are not released until a full check has been performed by Internal Audit.</p> | | | |
| Rationale | | | |
| <p>Contracts drawn up between the Council and contractors are required, under the Council's Contract Procedure Rules, to include a provision for payments due to a contractor to be subjected to a retention of 2.5% following the issue of a Certificate of Practical Completion. The retention made will be released following the satisfactory completion of defects period and if no monies are due to the Council.</p> <p>In addition, the Council's Financial Procedures Section 8 (5c) state that The Head of Service will ensure that all formal contracts are referred to Internal Audit for the proper check to be performed, as soon as the Final Account is agreed and before any retention is paid.</p> <p>By making this payment, prior to a completed review by Internal Audit, the Head of Service may have been in breach of the Council's Financial Procedures and may also prevent the Council from making a claim for any over-payments identified during the audit.</p> | | | |
| Management Response | | | |
| | | | |
| Accepted | Implementation Deadline: | Immediate | |

APPENDIX 1

AUDIT FRAMEWORK

Audit Coverage

The review covered the following areas:

- contract / tender process;
- bill of quantities;
- insurance and bond provision;
- additions & omissions, including architects instructions;
- contract meetings;
- extension and completion certification;
- payments, including interim and final certificates; and
- final account.

Methodology

The contract review covered the following key stages:

- evaluation of the contract summary details;
- confirmation of management objectives for contract review;
- examination of the tender and contract documentation;
- spot checks on arithmetical calculations;
- verify final account with the cumulative paid; and
- report findings, with relevant and practical recommendations for improvement.

Performance

Auditors: Keith Jackson and Ifor Jones.

The fieldwork was performed: October / November 2008

All final Internal Audit reports from April 2007 will be presented to the Council's Audit Committee.

APPENDIX 2

CONTRACT PARTICULARS

| | |
|---|--|
| Contract Title: | The Refurbishment and Extension of Waterside House, Barrow in Furness. |
| Contract Form: | JCT Standard Form of Building Contract 1998 Edition. Local Authorities Without Quantities. Incorporating Amendments: 1: 1999, 2: 2000, 3: 2001, 4: 2002, 5: 2003 |
| Contractor: | Leck Construction Ltd |
| Architect: | Craig and Green Architects llp |
| Quantity Surveyor: | Johnsons Chartered Quantity Surveyors |
| Contract Sum: Contract Sum Revision: | £587,415 Contract Sum –Tender and Contract. £588,415 Contract Sum – Final Account |
| Date for Possession: | 31 st October 2005 |
| Date for Completion: | 26th May 2006 |
| Date of Practical Completion: | 9 th June 2006 |
| Delay in Completion: | 0 |
| Extension of Time Granted: | 9 th June 2006 |
| Liquidated and Ascertained Damages provision/paid/received: | £1,250.00 per week |
| Minimum Insurance Cover | Employer Liability: £2,000,000 |
| Minimum Bond | Bond Requirement Deleted |
| Retention Amount | 5% up to Practical Completion 2.5% to Final Account |
| Submitted Final Account Sum: | £603,842.65 |
| Audited Final Account Sum: | Differences identified by Internal Audit which require review by the Council's Representative. |
| Percentage increase / Submitted Final Account against Contract Sum. | 2.8% (subject to review) Date Notified to Committee: |

APPENDIX 3

CLASSIFICATIONS

Assurance Level

| | <i>Evaluation</i> | <i>Testing</i> |
|--------------------|---|--|
| <i>Unqualified</i> | There is an adequate system of controls designed to achieve the system objectives. | The controls appear to be consistently applied. |
| <i>Substantial</i> | While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk. | Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk. |
| <i>Restricted</i> | Significant weaknesses have been identified in the system of control, which put the system objectives at risk. | The level of non-compliance identified places the system objectives at risk. |
| <i>None</i> | Control is weak, causing the system to be vulnerable to error and abuse. | Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse. |

Audit Recommendations and Follow-up

| | <i>Recommendation</i> | <i>Follow Up</i> |
|-------------------|--|---|
| <i>Priority 1</i> | Major issues that we consider need to be brought to the attention of senior management. | Follow-up will be performed at specific dates agreed with senior management. |
| <i>Priority 2</i> | Important issues which should be addressed by management in their areas of responsibility. | Follow-up of the recommendations will be performed by the end of the next audit year. |
| <i>Priority 3</i> | Minor issues which provide scope for operational improvement. | Follow-up performed by the end of the next audit year. |

BARROW BOROUGH COUNCIL
INTERNAL AUDIT FINAL REPORT CR 49
PAINTING AND PREPAINTING REPAIRS 2007/08
(INCLUDING HIGH LEVEL REVIEW OF PREVIOUS CONTRACTS)

Executive Summary

Introduction

Internal Audit are required under the Council's Financial Regulations to consider for review all contracts issued prior to the Final Account being paid to the Contractor. The Borough Treasurer through the Head of Internal Audit will select a sample of contracts for higher scrutiny and reconciliation with the Final Account.

The contract for the re-painting and pre-painting repairs at Ormsgill, Askam and Lindal Housing areas were selected to facilitate the release of retention monies to the contractor.

The contractor's final account for the 2007/08 contracted work totalled £281,567.86 which amounted to an overspend of £84,409.18 equating to 42.8% above the contract sum.

The works were part of the Council's planned maintenance programme for 2007/08 for the refurbishment of its housing stock. The Housing Maintenance Manger, when considering the delivery of the contract, was minded to continue with the practice to negotiate the continuation of contract arrangements with particular contractors. A Form of Negotiated Tender was received from Bryan Moncur, who is included on the Council's Approved Supplier list and registered with Constructionline. The contractor's tender sum was accepted and a Contract was formed with a value of £197,158.68. Approval of the appointment was obtained from Executive Committee in March 2007.

Internal Audit were also requested to conduct a high level review of painting contracts awarded in the previous six years. This review was specifically concentrated on identifying differentials between contract and final account totals.

The review identified that for the programmes 2001/02 and 2002/03 the contractor was appointed following competitive tendering exercises in compliance with the Council's Contract Standing Orders. For subsequent programmes for 2003/04, 2005/06, 2006/07 and 2007/08, the recommendations of the Housing Management Forum to suspend Standing Orders had been approved by the Council in April 2003 and for the subsequent years by the Executive Committee under delegated powers.

Furthermore, the review identified that for the previous six contracts the excess over the contract sum had varied between 12.4% and 140.71% and that the work had not been competitively tendered since June 2002.

Key Points

Restricted Assurance

Three Major issues

Three Important Issue

Audit Objectives

The audit objectives were to perform an examination of the interim and final account and associated documentation together with a higher level compliance review. Details of the audit methodology are provided in Appendix 1.

Audit Conclusion – *Restricted Assurance*

As a result of the audit we have concluded that there are significant weaknesses, particularly regarding management reporting of the project, which place some of the system objectives at risk. We have made three Priority 1 recommendations, which concern ensuring:

- painting contractors are periodically market tested;
- sufficient pre-tender inspections for painting works are undertaken; and
- all properties within painting schemes are identified and included.

We have also made three Priority 2 recommendations, which concern:

- maintaining, where appropriate contract variation instructions;
- the level and suitability of resources available; and
- consistent reporting to Members of final accounts exceeding 10% of the contract sums.

Management Response

We have received a constructive management response from Colin Garnett, Housing Manager, accepting five recommendations and rejecting one recommendation relating to ensuring all properties within painting schemes are identified and included to ensure that the estimated cost is realistic.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

| | | |
|--|--|--------------------|
| Recommendation 1 | Responsibility: Housing Maintenance Manager | Priority: 1 |
| <p>The Council should ensure that painting contractors are periodically market tested, or other suitable and compliant methodology is used for establishing value for money.</p> | | |
| <p>Rationale</p> <p>Internal Audit reviewed the provision of pre-painting and painting work for the years 2001/02 to 2007/08 totalling six individual contracts. The review identified that two contracts were awarded following tendering exercises and four contracts were awarded following negotiations with the contractor appointed following the second tender exercise. The decision not to undertake tendering exercises was due to the contractor maintaining his labour rates at the rates, included in his last tender submission; together with perceived reputation of consistently good performance. Council Members had given approval to suspend Standing Orders relating to competitive tendering for the programmes 2003-2008 through Housing Management Forum.</p> <p>However, there is a risk that unless the Council periodically tests the market for painting services it may be paying a higher market cost.</p> | | |
| <p>Management Response</p> <p>It is accepted that testing the markets periodically offers the opportunity to benchmark costs. I can confirm that a benchmarking exercise is presently ongoing for the 2009/10 programme via the Cumbria Housing Partners framework. It should also be noted that the Chartered Quantity Surveyor appointed to manage the work periodically checks painting rates with other service providers prior to negotiation and agreement to suspend standing orders by the Housing Management Forum.</p> | | |
| Accepted | Implementation Deadline: | 31 May 2009 |

| | | |
|--|--|--------------------|
| Recommendation 2 | Responsibility: Housing Maintenance Manager | Priority: 1 |
| <p>The Council should ensure sufficient pre-tender inspections, for painting works, are undertaken in order to accurately reflect the condition of the housing stock and potential associated costs for contract sum purposes.</p> | | |
| <p>Rationale</p> <p>The Council, under the auspices of the Planned Maintenance Programme expect to carry out pre paint fabric repairs and paint all housing stock on a five year cyclical basis.</p> <p>Prior to commencing a tendering exercise or negotiating a rate with a contractor the properties due to be painted are inspected to establish the amount of work required. Contractors are invited to provide their rates against the identified work.</p> <p>However, for the six contracts reviewed very little information was available to support the performance of sufficiently adequate post inspection programmes.</p> <p>Unless sufficient resources are available to complete inspections there is a risk that the final cost of the work may exceed that of the budget provision; additionally there are risks to the overall management and control of such schemes through a general lack of relevant information.</p> | | |
| <p>Management Response</p> <p>The Housing Management Forum agreed at their meeting held on 26.2.2003 that <i>“No approved measure of work would be completed by Design Services Group. However, a post measure would be completed by the group on a monthly basis to agree payment”</i>.</p> <p>It is acknowledged, that cost certainty and budget outturn figures would be improved if the Council were to make additional resources available to pre inspect work. The 2009/10 painting programme via the Cumbria Housing Partners framework will improve cost certainty as “Property Archetypes” are identified and quantified to form the basis of the projects “Target Cost”. This is verified independently by the CHP Contract Management Team within “value works”.</p> | | |
| Accepted | Implementation Deadline: | 31 May 2009 |

| | | |
|---|--|--------------------|
| Recommendation 3 | Responsibility: Housing Maintenance Manager | Priority: 1 |
| <p>The Council should ensure that all properties within painting schemes are identified and taken account of when preparing an estimated schedule of rates and to ensure that the estimated cost is realistic, to enable compliance with the Council's Contract Standing Orders regarding the provision of adequate security for the due performance of contracts.</p> | | |
| Rationale | | |
| <p>The Council's Contract Standing Orders, with regard to the requirement for adequate security, state "The Council shall where considered appropriate by the Chief Executive or appropriate Director require and take sufficient security for the due performance of every contract estimated to exceed £150,000".</p> <p>During the review of the six painting contracts since 2001/02 it was identified that a majority of contracts had not established a definitive number and type of property, for costing purposes against the agreed schedule of rates. (It is acknowledged minor additions and deletions will occur.)</p> <p>It appears that the volume of agreed works in each case was below the value where adequate security requirements come into force. However, the final value of contract payment exceeded this stipulated level.</p> | | |
| Management Response | | |
| <p>The Council's Standing Orders were agreed to be suspended by the Housing Management Forum and hence this recommendation is not applicable.</p> <p>It is recognised however, that during any financial year surplus budget amounts are reallocated to other areas of expenditure and hence may lead to increases in the overall spend against each budget heading. The Housing Manager has delegated authority to make these decisions and does so in consultation with the Housing Maintenance Manager and Housing Accountant.</p> <p>Where additional funding is allocated as "newly arising work" it should be recorded and documented on the contract file and where necessary a performance bond should be requested from the contractor.</p> | | |
| Rejected | Implementation Deadline: | N/a |

| | | |
|---|--|--------------------|
| Recommendation 4 | Responsibility: Housing Maintenance Manager | Priority: 2 |
| <p>The Council should ensure that, where appropriate complete records are maintained of all variations to the contract schedule of works.</p> | | |
| <p>Rationale</p> <p>Internal Audit identified that Architect Instructions are not being issued for additional painting works to the contract specification. The Chartered Quantity Surveyor currently omits the contract sum and values the work following his re-measures as the contract progresses. This has the advantage of reducing the risk of making payment for work not completed. However, there is a disadvantage whereby additional work, particularly where the decision to complete such work was taken after the commencement of the contract, is not recorded and therefore not easily identified in the final account. Without the detailed Architect Instructions it is difficult to reconcile the high variance between the contract and final account totals, in order to identify whether it is due to the original estimate of work required or additional work being added to the contract.</p> <p>These potential weaknesses increase the risk to the overall financial control of the projects and do not assist in the accurate reporting of progress to Members.</p> | | |
| <p>Management Response</p> <p>The Council's Chartered Quantity Surveyor and project managers will be instructed and reminded that all variations are to be issued and recorded on the contract file and where appropriate updated budget and progress reports will be taken to the Housing Management Forum for information and approval.</p> | | |
| Accepted | Implementation Deadline: | 31 May 2009 |

| | | |
|--|--|--------------------|
| Recommendation 5 | Responsibility: Housing Maintenance Manager | Priority: 2 |
| <p>The Council should consider the level and suitability of resources available to monitor and manage large housing maintenance contracts.</p> | | |
| <p>Rationale</p> <p>Following the re-organisation of Council services the provision of planned and reactive maintenance of its dwellings now appears to rely on a reduced number of staff and skill base. Whilst the projects are being regularly commissioned, there would appear to be a shortage of resources available for site supervision and inspection, together with maintaining the expected level of documentation.</p> <p>Currently re-measures of completed work is being completed by one qualified Chartered Quantity Surveyor employed on a limited basis. Internal Audit do not question the accuracy and completeness of the valuations of work measured; however there could be a serious risk to the Council if, due to diminishing resources, contractors were potentially being relied upon to complete their own re-measure of completed work.</p> | | |
| <p>Management Response</p> <p>The 2009/10 painting programme will be delivered via the Cumbria Housing Partners framework with payments made through the "value works" web portal.</p> <p>Our experience of delivering works through CHP has lead to a decrease in time spent measuring and quantifying works and as such I expect the resources required to deliver the 2009/10 Painting Programme to reflect this understanding.</p> | | |
| Accepted | Implementation Deadline: | 31 May 2009 |

| | | |
|--|--|--------------------|
| Recommendation 6 | Responsibility: Housing Maintenance Manager | Priority: 2 |
| <p>Final Account totals which exceed contract sums by more than 10% should be consistently and formally reported to Members.</p> | | |
| <p>Rationale</p> <p>The Council's Executive Committee had recommended a continuation of contractual arrangements for awarding this contract to the same contractor, namely Bryan Moncur who had previously completed similar works and demonstrated consistently good performance. Following agreement by the Council the contractor was requested to submit a tender based on the rates used in previous contracts. The works were let under a JCT Standard Building Contract with Approximate Quantities without contractor's design including Firm Price Tender Sum of £197,158.</p> <p>Planned maintenance costs will inevitably vary when work commences and the fabric of the dwellings comes under closer inspection. Internal Audit's review identified revisions in the number of dwellings to be painted and varying amount of pre-painting repair costs. However, the final cost for completing the work had increased by 42.8%.</p> <p>Council's Contract Standing Order (20.1) states that "where the cost outcome of any contract varies from the original contract value by more than 10%, a full report of the reason for the variance shall be made to the Executive Committee".</p> <p>There is a possible risk that agreed budgets may become overspent where contract sums are exceeded by such amounts; and additionally there may be queries regarding the initial arrangement of works, where such significant overspends occur.</p> | | |
| <p>Management Response</p> <p>Arrangements will be put in place to ensure comparisons are made between the tender value and final account figures and where necessary reports will be drafted to the Housing Management Forum for information and action.</p> | | |
| Accepted | Implementation Deadline: | 31 May 2009 |

APPENDIX 1

AUDIT FRAMEWORK

Audit Coverage

The review covered the following areas:

- contract / tender process;
- bill of quantities;
- insurance and bond provision;
- additions & omissions, including architects instructions;
- contract meetings;
- extension and completion certification;
- payments, including interim and final certificates;
- final account; and
- review of painting contracts negotiated since 2002.

Methodology

The contract review covered the following key stages:

- evaluation of the contract summary details;
- confirmation of management objectives for contract review;
- examination of the tender and contract documentation;
- spot checks on arithmetical calculations;
- verify final account with the cumulative paid; and
- report findings, with relevant and practical recommendations for improvement.

Performance

Auditors: Keith Jackson and Ifor Jones.

The fieldwork was performed: November 2008 to February 2009

All final Internal Audit reports from April 2007 will be presented to the Council's Audit Committee.

APPENDIX 2**CONTRACT PARTICULARS**

| | |
|---|---|
| Contract Title: | Re-painting and pre-painting repair works at Ormsgill, Askam and Lindal Housing Areas. |
| Contract Form: | JCT Standard Building Contract with Approximate Quantities without Contractor's Design. Revision 1 2007 |
| Contractor: | Bryan Moncur Ltd |
| Architect: | Barrow Borough Council Housing Maintenance Section, Housing Department – L Davies |
| Quantity Surveyor: | Barrow Borough Council Housing Maintenance Section, Housing Department – R Coates |
| Contract Sum: | £197,158.68 |
| Contract Sum Revision: | £nil |
| Date for Possession: | 16 th April 2007 |
| Date for Completion: | 29 th March 2008 |
| Date of Practical Completion: | 18 th April 2008 |
| Delay in Completion: | Two Weeks |
| Extension of Time Granted: | Two Weeks |
| Liquidated and Ascertained Damages provision/paid/received: | £nil |
| Minimum Insurance Cover | £5,000,000 |
| Minimum Bond | 10% of Contract Sum |
| Retention Amount | 3% |
| Submitted Final Account Sum: | £281,567.86 |
| Audited Final Account Sum: | £281,567.86 |
| Percentage increase / Submitted Final Account against Contract Sum. | 42.8% |

APPENDIX 3**CLASSIFICATIONS****Assurance Level**

| | <i>Evaluation</i> | <i>Testing</i> |
|--------------------|---|--|
| <i>Unqualified</i> | There is an adequate system of controls designed to achieve the system objectives. | The controls appear to be consistently applied. |
| <i>Substantial</i> | While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk. | Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk. |
| <i>Restricted</i> | Significant weaknesses have been identified in the system of control, which put the system objectives at risk. | The level of non-compliance identified places the system objectives at risk. |
| <i>None</i> | Control is weak, causing the system to be vulnerable to error and abuse. | Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse. |

Audit Recommendations and Follow-up

| | <i>Recommendation</i> | <i>Follow Up</i> |
|-------------------|--|---|
| <i>Priority 1</i> | Major issues that we consider need to be brought to the attention of senior management. | Follow-up will be performed at specific dates agreed with senior management. |
| <i>Priority 2</i> | Important issues which should be addressed by management in their areas of responsibility. | Follow-up of the recommendations will be performed by the end of the next audit year. |
| <i>Priority 3</i> | Minor issues which provide scope for operational improvement. | Follow-up performed by the end of the next audit year. |

BARROW BOROUGH COUNCIL
INTERNAL AUDIT FINAL REPORT 09-17
CAR PARK METER CHARGES

Executive Summary

Introduction

The Council's Parking Services Department are responsible for the collection of income from car park pay and display machines within the Borough. There are currently 24 pay and display machines, from which total income received during 2008/09 was in excess of £847,000.

Audit Objectives

An audit of this system forms part of the agreed 2009/10 programme. The audit objectives were to evaluate and test the internal controls over the Car Park Meter Charges process. The scope and objectives of the audit were discussed and agreed in advance with Caren Hindle, Parking Services Manager.

Key Points

Substantial Assurance

Two previous recommendations.

Audit work included a control evaluation of the system design, and testing of the operation of key controls. Details of the audit methodology are provided in Appendix 1.

Audit Conclusion – *Substantial Assurance*

As a result of the audit we have concluded that while there is a basically sound system, there are weaknesses, which put some of the system objectives at risk. We have not made any new recommendations; however, two of the three Priority 3 recommendations made in our previous audit report 08-25, dated July 2008, remain outstanding, which concern:

- updating the Parking Services procedures to reflect the recent change in legislation from the Road Traffic Act 1991 to the Traffic Management Act 2004; and
- considering reviewing the current procedure for cash collection, to provide greater assurance over compliance with insurance limits.

Management Response

We have received a constructive management response from Caren Hindle, Parking Services Manager providing a revised implementation deadline for the recommendations.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

| Previous Recommendations | Responsibility: Parking Services Manager | | |
|--|--|--|------------------|
| The Council should implement the outstanding agreed recommendations from Audit report 08-25, dated July 2008, namely: | | | |
| <div><div>1. The Council should ensure that Parking Services procedures are updated to reflect the recent change in legislation from the Road Traffic Act 1991 to the Traffic Management Act 2004. (Priority 3)</div><div>2. The Council should consider reviewing the current procedure for car park cash collection in order to provide greater assurance over compliance with insurance requirements for cash collection. (Priority 3)</div></div> | | | |
| Rationale | | | |
| <div><div>1. All Civil Enforcement Officers (parking) are issued with a copy of the Parking Services Procedures when they commence employment. Internal Audit reviewed a copy of the procedures which include the following areas: Operational Requirements, Conduct, On Street Parking, Off Street Parking, Radio Procedure, Hand Held Huskies and Cash Collection.</div><div>A number of procedures within the manual have been updated to reflect the change in legislation to the Traffic Management Act 2004; we were informed the remaining procedural updates are in progress.</div><div>2. The insurance requirements for cash collected by Council officers are - up to £3,000 collected by one officer and £3,000 to £6,000 collected by two officers. Internal Audit confirmed that the current procedure is for Civil Enforcement Officers to maintain a running total of the cash collected and once a total of £3,000 is reached, (by one officer) the boxes are returned to the Town Hall. The Parking Services Manager intends to introduce a proforma signed by Civil Enforcement Officers, to acknowledge an understanding of the insurance limits; however this has not yet occurred.</div></div> | | | |
| Management Response | | | |
| <div><div>1. The procedures are a ‘work in progress’ and should be completed by the end of the year.</div><div>2. The £3,000 limit is being discussed at a meeting with the Parking Services Manager, the Insurance Officer and the Insurance Company in August. Whatever the outcome, the proforma will reflect that information.</div></div> | | | |
| Revised Implementation Deadline: | | | 31 December 2009 |

APPENDIX 1

AUDIT FRAMEWORK

Coverage

The review covered the following areas which were agreed as part of the preliminary planning stage:

- collection of income;
- banking & reconciliation of income;
- monitoring of car park income;
- car parking charges; and
- procedures.

Methodology

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review;
- identify the risk applicable to each area;
- evaluate controls against each of the key risks;
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

In addition, Internal Audit reviewed management's progress in implementing the agreed recommendations from our previous audit report.

Performance

Auditors: Sarah Williams and Sarah Cullen

The fieldwork was performed: May-June 2009

All final Internal Audit reports from April 2007 will be presented to the Council's Audit Committee.

APPENDIX 2**CLASSIFICATIONS****Assurance Level**

| | <i>Evaluation</i> | <i>Testing</i> |
|--------------------|---|--|
| <i>Unqualified</i> | There is an adequate system of controls designed to achieve the system objectives. | The controls appear to be consistently applied. |
| <i>Substantial</i> | While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk. | Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk. |
| <i>Restricted</i> | Significant weaknesses have been identified in the system of control, which put the system objectives at risk. | The level of non-compliance identified places the system objectives at risk. |
| <i>None</i> | Control is weak, causing the system to be vulnerable to error and abuse. | Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse. |

Audit Recommendations and Follow-up

| | <i>Recommendation</i> | <i>Follow Up</i> |
|-------------------|--|--|
| <i>Priority 1</i> | Major issues that we consider need to be brought to the attention of senior management. | Follow-up will be performed at specific dates agreed with senior management. |
| <i>Priority 2</i> | Important issues which should be addressed by management in their areas of responsibility. | Follow-up of the recommendations will be performed by the end of the next audit year |
| <i>Priority 3</i> | Minor issues which provide scope for operational improvement. | Follow-up performed by the end of the next audit year. |

BARROW BOROUGH COUNCIL
INTERNAL AUDIT FINAL REPORT 08-26
HOUSING RENTS

Executive Summary

Introduction

The Housing Department is responsible for the monitoring and maintenance of the Council's Housing Rent Account. The Council is responsible for 2,723 dwellings and 484 garages.

The annual rent debit is approximately £8.8m. As at the 31 March 2009, Current Tenant arrears including garages were £238,858 or 2.7% of the Gross Debit, and Former Tenant arrears of £131,452 which equates to 1.5% of the Gross Debit.

Audit Objectives

An audit of this system forms part of the agreed 2008/09 programme. The audit objectives were to evaluate and test the internal controls over the Housing Rents system. The scope and objectives of the audit were discussed and agreed in advance with Janet Gellatly, Housing Accounts Manager.

Audit work included a control evaluation of the system design, and testing of the operation of key controls. Details of the audit methodology are provided in Appendix 1.

Key Points

Substantial Assurance

Six minor issues

Audit Conclusion – *Substantial Assurance*

As a result of the audit we have concluded that while there is a basically sound system of control, there are weaknesses which put some of the system objectives at risk. We have made six Priority 3 recommendations relating to:

- reconciling and recording the number of annual rent increase letters posted to tenants;
- introducing arrangements for the reconciliation of the weekly rent debit to cover staff absences;
- despatching standard recovery letters to Former Tenants within agreed timescales;
- transferring postal remittances promptly to the Treasurer's Department for banking;
- retaining full supporting information for each direct debit payment run; and
- reporting the total amount of write-offs to the Housing Management Forum.

Internal Audit reviewed the one outstanding recommendation made in Audit Report 03-36, dated October 2004, this recommendation has been implemented as far as practical.

In addition, Internal Audit reviewed the outstanding recommendation made in Audit Report 06-19, dated January 2007, this recommendation has now been implemented.

Management Response

We have received a constructive management response from Janet Gellatly, Housing Accounts Manager, accepting five of our recommendations and partially accepting one recommendation.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

| | | | |
|--|---|-------------------------|----------|
| Recommendation 1 | Responsibility: Housing Accounts Manager | Priority: | 3 |
| <p>The Council should reconcile the number of annual rent increase letters due to be sent to tenants and the number of actual letters posted.</p> | | | |
| Rationale | | | |
| <p>Internal Audit reviewed a manual record maintained by the Housing Accounts Manager; which states that letters notifying tenants of the April 2008 rent increase were produced for 2,716 houses and 474 garages, a total of 3,190.</p> <p>Through discussion with the Council's IT section it was confirmed that 3,094 items of post had been sent on 5 March 2008. However, records documenting the difference between the two totals do not exist.</p> <p>A reconciliation starting with the number of properties, adjusting for voids etc, and balanced to the posting records would ensure that the Council could verify that it had notified all tenants within the prescribed timescale.</p> | | | |
| Management Response | | | |
| <p>A reconciliation between letters created and letters posted will be introduced for 2010/2011. The number of tenants to the number of letters will also be reconciled.</p> | | | |
| Accepted | Implementation Deadline: | 28 February 2010 | |

| | | | |
|---|---|---------------------|----------|
| Recommendation 2 | Responsibility: Housing Accounts Manager | Priority: | 3 |
| <p>The Council should ensure that the weekly reconciliation of Housing Benefit payments posted to the Rent Accounts are reviewed promptly; with cover being provided for staff absences.</p> | | | |
| Rationale | | | |
| <p>A weekly reconciliation is performed of Housing Benefit payments and entries credited to the Council's Rent Accounting system. This reconciliation should be subject to independent and timely review.</p> <p>Internal Audit selected a sample of 10 weeks throughout the 2008/09 financial year from the reconciliations performed. The reconciliations had been performed promptly in all cases. For six weeks the reconciliation had also been reviewed promptly, however the review identified a delay in reviewing the remaining four weeks of between 10 and 18 days; this was explained as being due to staff leave.</p> <p>This weakness may potentially reduce the reliance which can be placed on this internal financial control.</p> | | | |
| Management Response | | | |
| <p>Officer cover has been arranged so that if the relevant Accounts Officer is not in on the Monday morning, the review will be carried out by another Officer.</p> | | | |
| Accepted | Implementation Deadline: | 31 July 2009 | |

| | | | |
|--|---|--------------------------|----------|
| Recommendation 3 | Responsibility: Housing Accounts Manager | Priority: | 3 |
| <p>The Council should ensure that procedural timescales for the despatch of standard letters to former tenants in arrears are adhered to, in order that recovery can be progressed promptly.</p> | | | |
| Rationale | | | |
| <p>Recovery procedures stipulate that where a forwarding address is known for a former tenant, initial recovery letters should be sent out within two weeks of their termination; followed if required by a second letter being sent out 3 to 4 weeks after the first.</p> <p>Internal Audit obtained a sample of 10 former tenant arrears cases from the former tenant arrears report dated 20 March 2009, and reviewed the recovery action taken during 2008/09. For these cases, six initial letters were due to be issued, however Internal Audit identified delays in issuing these letters ranging from 16 to 30 days. Three second letters were required, but one of these was issued 11 weeks after the initial letter.</p> <p>Prompt action following the vacation of a property will increase the Council's prospect of the recovery of former tenant arrears.</p> | | | |
| Management Response | | | |
| <p>Initial recovery letter – when looking into the Auditor's comments, it has become apparent that the 2 weeks from tenancy termination target is not possible for the majority of cases. An initial letter can only be sent when the forwarding addresses have been entered and this will be at least a week later due to the tenancy end process. The account may also be waiting for belated HB or SP payments. Time taken from when the information was available was a maximum of 11 days for those cases.</p> <p>The second letter was delayed because of officer holidays and year end. We do not have enough resources to cover all duties and so FTA letters are of a lower priority and are sent when time is available.</p> | | | |
| Partially Accepted | Implementation Deadline: | No further action | |

| | | | |
|---|---|---------------------|----------|
| Recommendation 4 | Responsibility: Housing Accounts Manager | Priority: | 3 |
| <p>The Council should ensure that postal remittances received within the Housing Department are transferred promptly to the Borough Treasurer's staff for banking.</p> | | | |
| Rationale | | | |
| <p>Postal remittances received within the Council's Housing Department are transferred to the Borough Treasurer's staff for banking.</p> <p>Internal Audit selected a random sample of 10 days' postal income. In three cases the transfer was made four working days after the receipt of the income, the values being £104.04, £150.67 and £1,190.54.</p> <p>A delay in banking postal remittances could result in recovery action being commenced against tenants who have paid the amounts due.</p> | | | |
| Management Response | | | |
| <p>Delays occurred because of officer absence but all admin section officers have been reminded of the need to ensure prompt action.</p> | | | |
| Accepted | Implementation Deadline: | 31 July 2009 | |

| | | | |
|---|---|--------------------|----------|
| Recommendation 5 | Responsibility: Housing Accounts Manager | Priority: | 3 |
| <p>The Council should ensure that it consistently retains all supporting documentation for each direct debit payment run.</p> | | | |
| Rationale | | | |
| <p>During 2008/09, the facility to pay garage rents by direct debit was extended to Council house rents. Direct debits are collected monthly, on either the 1st or 15th of each month. A printed record is maintained of supporting information, for each run of payments requested, from tenants' bank accounts via the BACS system.</p> <p>A review of a sample of 10 direct debit transmissions identified that several records had not been retained:</p> <ul style="list-style-type: none"> - three BACS submissions reports. - two e-mails confirming that the cash had been received in the Council's system. - one rent account posting report. <p>Full documentation would enable all payments to be traced from source to the tenants' accounts, thereby assisting control and reconciliation processes.</p> <p>In addition, it was suggested during the audit that the control sheet held on file could be expanded to include details of rejected direct debits and their resubmission, again to assist in tracing transactions.</p> | | | |
| Management Response | | | |
| <p>We have gradually been building on our procedures throughout the year as this is a new process within the department. All the above recommendations are now part of our procedures.</p> | | | |
| Accepted | Implementation Deadline: | Implemented | |

| | | | |
|--|---|---------------------|----------|
| Recommendation 6 | Responsibility: Housing Accounts Manager | Priority: | 3 |
| <p>The Council should ensure that the total amount of write offs for former tenant arrears are recorded correctly and reported accurately to the Housing Management Forum.</p> | | | |
| Rationale | | | |
| <p>A quarterly schedule of individual Housing debts due to be written off is prepared and authorised in accordance with the Council's Financial Regulations. The schedule is totalled and the amount reported regularly to the Housing Management Forum.</p> <p>However, for the June 2008 quarter, the schedule had been totalled incorrectly, understating the amount written off by £1,884.58, although the correct individual entries had been made to tenants' accounts.</p> <p>The incorrect total was reported to the Housing Management Forum on 26 August 2008 and included within the cumulative totals for subsequent meetings.</p> | | | |
| Management Response | | | |
| <p>Systems have been put in place so if any changes do occur then the HMF report will be amended accordingly.</p> | | | |
| Accepted | Implementation Deadline: | 31 July 2009 | |

APPENDIX 1

AUDIT FRAMEWORK

Coverage

The review covered the following areas, which were agreed as part of the preliminary planning stage:

- setting of rents;
- maintenance & reconciliation of the rent debit;
- current & former tenant arrears;
- receipt of rental income (including direct debit payments); and
- write offs.

Methodology

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review;
- identify the risk applicable to each area;
- review controls against each of the key risks;
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

In addition, Internal Audit reviewed management's progress in implementing the agreed recommendations from our previous audit report.

Performance

Auditors: Claire Jackson and Jack Jones.

The fieldwork was performed: April to May 2009.

All final Internal Audit reports from April 2007 will be presented to the Council's Audit Committee.

APPENDIX 2**CLASSIFICATIONS****Assurance Level**

| | <i>Evaluation</i> | <i>Testing</i> |
|--------------------|---|--|
| <i>Unqualified</i> | There is an adequate system of controls designed to achieve the system objectives. | The controls appear to be consistently applied. |
| <i>Substantial</i> | While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk. | Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk. |
| <i>Restricted</i> | Significant weaknesses have been identified in the system of control, which put the system objectives at risk. | The level of non-compliance identified places the system objectives at risk. |
| <i>None</i> | Control is weak, causing the system to be vulnerable to error and abuse. | Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse. |

Audit Recommendations and Follow-up

| | <i>Recommendation</i> | <i>Follow Up</i> |
|-------------------|--|--|
| <i>Priority 1</i> | Major issues that we consider need to be brought to the attention of senior management. | Follow-up will be performed at specific dates agreed with senior management. |
| <i>Priority 2</i> | Important issues which should be addressed by management in their areas of responsibility. | Follow-up of the recommendations will be performed by the end of the next audit year |
| <i>Priority 3</i> | Minor issues which provide scope for operational improvement. | Follow-up performed by the end of the next audit year. |

BARROW BOROUGH COUNCIL
INTERNAL AUDIT FINAL REPORT 08-11
FINANCIAL INFORMATION SYSTEM

Executive Summary

Introduction

The Council's financial information and accounting system is administered and controlled by the Borough Treasurer's Department, and incorporates receivables, payables, purchasing, general ledger and cash management modules utilising Oracle software. The purpose of the Council's financial information and accounting system is to provide complete and accurate financial information, including the production of statutory year end financial statements.

Audit Objectives

An audit of this system forms part of the agreed 2008/09 programme. The audit objectives were to evaluate and test the internal controls over the Council's financial information system. The scope and objectives of the audit were discussed and agreed in advance with Sue Roberts, Deputy Borough Treasurer.

Key Points

Substantial Assurance.

Three minor issues.

Audit work included a control evaluation of the system design, and testing the operation of key controls. Details of the audit methodology are provided in Appendix 1.

Audit Conclusion – *Substantial Assurance*

As a result of the audit we have concluded that while there is a basically sound system of control, there are weaknesses, which put some of the system objectives at risk. We have made three Priority 3 recommendations which relate to:

- ensuring that each suspense account has evidence of a monthly review;
- reviewing the Accounts Receivable and Purchasing Control Accounts on a consistent and timely basis; and
- updating as necessary the documented procedures for the completion of VAT returns.

Management Response

We have received a constructive management response from Sue Roberts, Deputy Borough Treasurer, accepting each of the recommendations.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

| | | |
|---|---|--------------------|
| Recommendation 1 | Responsibility: Deputy Borough Treasurer | Priority: 3 |
| The Council should ensure that each suspense account has evidence of a monthly review. | | |
| Rationale | | |
| <p>Responsibility for the monitoring and clearance of suspense accounts is allocated to various members of Borough Treasurers; suspense accounts should be formally reviewed on a monthly basis. Internal Audit selected a sample of four suspense accounts across six months of the financial year and identified that two of the accounts had been reviewed for each month in the sample. The remaining two accounts were not reviewed on a consistent basis as follows:</p> <p>The Switch suspense account receives transactions from a number of departments including Planning, Cemetery, Forum 28, Leisure Centre, TIC, Dock Museum and CRM. On a monthly basis, each department's transactions are reviewed as part of the overall Switch Suspense Account review. The audit review identified that the Switch Suspense Account had been reviewed on each month in the sample, however, on two occasions this had not been dated. Additionally, the transaction reconciliations relating to the Cemetery (August 2008) and the Dock Museum (August and September 2008) were not on file; we were informed that this was due to the Accounts Officer being unable to balance the accounts; this was being investigated further.</p> <p>In addition, the review identified that the Payroll Suspense Account is not formally reviewed by any member of staff. The Payroll Suspense Account should always be zero due to the control which will only post the monthly Payroll once any errors identified in the Budgetary Control Transactions Report are corrected by the appropriate cost accountant; however, it is still possible to manually post an item to the Suspense Account.</p> | | |
| Management Response | | |
| <p>For the specific suspense accounts mentioned:</p> <p>The Switch suspense accounts all come through on the bank statement with their own references, most of the time. Unfortunately because the bank descriptions are not consistent, it is possible that sometimes card receipts for one machine are posted to an account for a different machine. In total the Switch accounts balance out, but individually there are sometimes entries that need moving between machines. I can confirm that the monthly review has taken place for 2009-10.</p> <p>The Payroll suspense account is reviewed as part of the whole Payroll system control review that is carried out each month. Looking at the control side it is obvious that there are no suspense postings. The suspense account has always been checked, but the Trainee Accountant was not aware that the suspense account itself needed to be signed off as reviewed each month. I can confirm that the monthly review has taken place for 2009-10.</p> | | |
| Accepted | Implementation Deadline: | Immediate |

| | | |
|--|---|--------------------|
| Recommendation 2 | Responsibility: Deputy Borough Treasurer | Priority: 3 |
| <p>The Council should ensure the monthly Oracle Control Account reconciliations are performed on a consistent and timely basis.</p> | | |
| <p>Rationale</p> <p>The Oracle Finance System has several Control Accounts which are reviewed on a monthly basis by designated staff.</p> <p>Internal Audit obtained the Oracle Control Account file from the Trainee Technical Accountant. The review identified that during the 2008/09 financial year two Control Accounts had not been reviewed on a consistent and timely basis. These relate to:</p> <p>Receivables - Internal Audit verified that the Accounts Receivable reconciliation had been performed by the Trainee Technical Accountant or Deputy Borough Treasurer for ten of the twelve months. The reconciliation for November 2008 was not carried out until 19 January 2009. In addition, for two months a reconciliation has not been performed (January and February 2009).</p> <p>Purchasing - Internal Audit confirmed that the Purchasing Control Account had been reviewed monthly by the Trainee Technical Accountant with the exception of April and May 2008 & March 2009.</p> | | |
| <p>Management Response</p> <p>The Trainee Accountant is responsible for reviewing and documenting the Oracle control accounts on a monthly basis. Due to the training commitments of the CIPFA qualification, there are two specific examination times in the year that the Trainee is away for period of up to four weeks. Until another resource can be adequately trained up, I will undertake the reconciliations for those two examination months to ensure that our controls are maintained.</p> | | |
| Accepted | Implementation Deadline: | Immediate |

| | | |
|--|---|--------------------|
| Recommendation 3 | Responsibility: Deputy Borough Treasurer | Priority: 3 |
| <p>The Council should ensure the documented procedures for the completion of VAT returns are updated as necessary.</p> | | |
| <p>Rationale</p> <p>VAT returns are completed on a monthly basis by the Accounts Officer, the return is reviewed and submitted electronically by the Borough Treasurer or Deputy Borough Treasurer. The processing procedures have been documented and are held on the VAT returns file.</p> <p>However, Internal Audit reviewed the procedures held for the completion of VAT returns and identified the procedures relate to the previous method of the VAT return being posted. The procedures should be updated to reflect the new electronic submission process.</p> | | |
| <p>Management Response</p> <p>The Accounts Officer has updated the VAT procedure to reflect the online submission of VAT returns. Online submission means that we get our reimbursement up to 2 weeks earlier than using the postal return.</p> | | |
| Accepted | Implementation Deadline: | Implemented |

APPENDIX 1**AUDIT FRAMEWORK****Coverage**

The review covered the following areas, which were agreed as part of the preliminary planning stage:

- processing controls (inc. feeder systems);
- review of control & suspense accounts;
- journal control;
- VAT procedures;
- year-end procedures/timetable;
- bank reconciliation; and
- coding structure.

Methodology

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review;
- identify the risk applicable to each area;
- evaluate controls against each of the key risks;
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

In addition, Internal Audit reviewed management's progress in implementing the agreed recommendation from our previous audit report.

Performance

Auditors: Claire Jackson and Sarah Cullen.

The fieldwork was performed: December - April 2009.

All final Internal Audit reports from April 2007 will be presented to the Council's Audit Committee.

APPENDIX 2**CLASSIFICATIONS****Assurance Level**

| | <i>Evaluation</i> | <i>Testing</i> |
|--------------------|---|--|
| <i>Unqualified</i> | There is an adequate system of controls designed to achieve the system objectives. | The controls appear to be consistently applied. |
| <i>Substantial</i> | While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk. | Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk. |
| <i>Restricted</i> | Significant weaknesses have been identified in the system of control, which put the system objectives at risk. | The level of non-compliance identified places the system objectives at risk. |
| <i>None</i> | Control is weak, causing the system to be vulnerable to error and abuse. | Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse. |

Audit Recommendations and Follow-up

| | <i>Recommendation</i> | <i>Follow Up</i> |
|-------------------|--|---|
| <i>Priority 1</i> | Major issues that we consider need to be brought to the attention of senior management. | Follow-up will be performed at specific dates agreed with senior management. |
| <i>Priority 2</i> | Important issues which should be addressed by management in their areas of responsibility. | Follow-up of the recommendations will be performed by the end of the next audit year. |
| <i>Priority 3</i> | Minor issues which provide scope for operational improvement. | Follow-up performed by the end of the next audit year. |

BARROW BOROUGH COUNCIL

INTERNAL AUDIT FINAL REPORT 08-36

DATA PROTECTION (CLIENT AWARE SYSTEM)

Executive Summary

Introduction

The Client Aware System is a database which contains hazard warning markers about individuals who may present a significant risk of violence to staff when visiting them outside the office environment. It is used across the Council so that information entered by one department is immediately available to all others. The database was introduced in January 2007 and currently holds information on over 80 clients.

Audit Objectives

An audit of this system forms part of the agreed 2008/09 programme. The audit objectives were to evaluate and test the internal controls over the Client Aware System. The scope and objectives of the audit were discussed and agreed in advance with Andy Buck, Health and Safety Adviser.

Key Points

Substantial Assurance

Five minor issues

Audit work included a control evaluation of the system design, and testing of the operation of key controls. Details of the audit methodology are provided in Appendix 1.

Audit Conclusion – *Substantial Assurance*

As a result of the audit we have concluded that while there is a basically sound system, there are weaknesses, which put some of the system objectives at risk. We have made five Priority 3 recommendations, which concern:

- ensuring access levels for the Client Aware system are reviewed on a regular basis and procedural documents updated to reflect this;
- accurately transferring information from one Council system to another;
- investigating whether the list of 'Potentially Violent People' held by Liberata corresponds to the Council's Client Aware system;
- fully completing Marker documentation on a consistent basis; and
- advising users of the Client Aware System, that in the event of system failure, a paper copy is held by the Health and Safety Adviser

Management Response

We have received a constructive management response from Andy Buck, Health and Safety Advisor, accepting each of the recommendations.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

| | | |
|---|--|--------------------|
| Recommendation 1 | Responsibility: Health and Safety Adviser | Priority: 3 |
| <p>The Council should ensure that the access levels for the Client Aware system are reviewed on a regular basis and procedural documents updated to reflect this.</p> <p>Additionally, the email group for the Client aware System should be periodically reconciled to the user report to ensure all relevant officers are included.</p> | | |
| Rationale | | |
| <p>In order for notifications of Client Aware database amendments to be issued in an efficient manner, an email group has been set up on Outlook which includes all users. In the event of a new marker being entered on the database, the Safety Adviser notifies all users via a group email.</p> <p>Internal Audit obtained a list of officers included on the Client Aware System email user group and compared this list to a system user report. It was identified one officer; previously the Service Team Manager at Liberata is now a member of the Revenues Contract Client Monitoring Team so access levels should be amended. Furthermore, a new Liberata contact needs to be established and included on the list.</p> <p>Two further officers were listed as users on the Client Aware Database although both officers have now left the Council's employment. Additionally, the Client Aware System – use of Hazard and Cautionary Markers' procedures and the 'Barrow Client Aware System Guidance' lists of Marker contacts and Authorising Managers lists were reviewed. It was identified, as detailed above; one of the officers on the document has left the Council's employment and should be removed.</p> | | |
| Management Response | | |
| <p>Six monthly reviews of officer access and email circulation lists have been implemented in March 2009 by the Safety Adviser.</p> | | |
| Accepted | Implementation Deadline: | Implemented |

| | | |
|--|--|--------------------|
| Recommendation 2 | Responsibility: Health and Safety Adviser & Housing Manager | Priority: 3 |
| <p>The Council should ensure that data is accurately transferred when being transposed from one Council system to another.</p> | | |
| <p>Rationale</p> <p>External contractors, such as Integral who perform the Council's Housing maintenance function are notified of any potentially violent people residing at the properties works are carried out. When a 'job' is received, Housing Administration staff check the Client Aware Database if the address is flagged as a risk on the Housing system and record any relevant precautions within the notes field of the Job sheet passed to the contractor.</p> <p>Internal Audit selected a sample of five Clients from the Database who live in a Council property and checked the Housing maintenance InHouse system for job requests on that property.</p> <p>It was identified on three occasions the correct Client aware information had been entered onto the Repairs notes of the system which is included on the print issued to Integral.</p> <p>On one occasion no details were recorded on the job sheet, however, at the time of the job, the individual was not on the Client Aware System.</p> <p>However, on one occasion the details on the job sheet stated 'Two Man Visit', however, the Client Aware System records 'Police Presence'.</p> | | |
| <p>Management Response</p> <p>For past 18 months Integral (Housing contractor) have checked approx 10-25% of all job sheets, where client aware details have been included, with the Safety Adviser. This has been performed verbally. The Safety Adviser has now formalised this process into an email exchange to ensure adequate records. First formal checks have been carried out in March 2009.</p> | | |
| Accepted | Implementation Deadline: | Implemented |

| | | |
|--|--|------------------------|
| Recommendation 3 | Responsibility: Health and Safety Adviser | Priority: 3 |
| <p>The Council should investigate whether the list of 'Potentially Violent People' held by Liberata is aligned to the Council's Client Aware system.</p> | | |
| <p>Rationale</p> <p>Internal Audit selected a sample of five users of the Client Aware system and identified that although other departmental systems flag up the need to check the Client Aware Database, information is not recorded within such systems.</p> <p>However, Internal Audit were informed by the Liberata Fraud Manager that a separate list of 'Potentially Violent People' is also maintained by Liberata.</p> <p>The procedure agreed by Liberata in October 2007 is to use the Council's Client Aware system in spreadsheet format. Any incidents are to be recorded on a marker request form and passed to the nominated contact within the Housing department. Information has been requested from Liberata on 'Potentially Violent People' but this has not yet been forthcoming.</p> | | |
| <p>Management Response</p> <p>A meeting has been set up with a Liberata Officer to review the use of the Liberata PVP systems with a view to combining all data into the Client Aware System.</p> | | |
| Accepted | Implementation Deadline: | 31 October 2009 |

| | | |
|---|--|-------------------------|
| Recommendation 4 | Responsibility: Health and Safety Adviser | Priority: 3 |
| <p>The Council should ensure that Marker documentation is fully completed on a consistent basis.</p> | | |
| <p>Rationale</p> <p>When an incident occurs, the affected officer completes a 'Marker Request form' which is appraised by their line manager, and if applicable entered onto the system as a temporary marker. Temporary markers are appraised by the Control Group within one month, along with the evidence obtained to substantiate the marker. For all markers entered onto the database either a letter is issued, informing the individual of their inclusion on the Client Aware System, or where this is not appropriate, the reasons are documented on the 'Marker Request form'.</p> <p>Internal Audit selected a sample of ten records from the Client Aware System Register of Clients file, held by the Safety Advisor. It was identified:</p> <ul style="list-style-type: none"> a) the authorising manager had taken relevant action on each occasion, however on one occasion; action taken had not been recorded on the form. b) on one occasion it took 2½ months for a temporary marker to be entered on the database; c) on two occasions ratification by the control group was not recorded on the Marker request form; d) on two occasions, the reason the notification letter was not issued to the client was not documented on the marker request form. | | |
| <p>Management Response</p> <p>The database format was originally based on around 10-20 clients. Currently there are approximately 80 clients and this is continuing to increase. The database structure, procedures and documentation are being revised to improve administration process and avoid repetition.</p> | | |
| Accepted | Implementation Deadline: | 31 December 2009 |

| | | |
|---|--|---------------------|
| Recommendation 5 | Responsibility: Health and Safety Adviser | Priority: 3 |
| <p>The Council should consider advising users of the Client Aware System, that in the event of system failure, a paper copy is held by the Safety Advisor.</p> | | |
| Rationale | | |
| <p>Internal Audit selected a sample of five users of the Client Aware system and identified that only two officers were aware of the existence of a paper copy of the database.</p> | | |
| Management Response | | |
| <p>Paper copies of database in surname and address alphabetical order to be kept on file and accessible by all administrators. All CAS users to be informed when available.</p> | | |
| Accepted | Implementation Deadline: | 31 July 2009 |

APPENDIX 1

AUDIT FRAMEWORK

Coverage

The review covered the following areas, which were agreed as part of the preliminary planning stage:

- Health and Safety issues identified; and
- Data Protection

Methodology

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review;
- identify the risk applicable to each area;
- evaluate controls against each of the key risks;
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

In addition, Internal Audit reviewed management's progress in implementing the agreed recommendations from our previous audit report.

Performance

Auditors: Keith Jackson and Sarah Williams

The fieldwork was performed: January to February 2009.

All final Internal Audit reports from April 2007 will be presented to the Council's Audit Committee.

APPENDIX 2**CLASSIFICATIONS****Assurance Level**

| | <i>Evaluation</i> | <i>Testing</i> |
|--------------------|---|--|
| <i>Unqualified</i> | There is an adequate system of controls designed to achieve the system objectives. | The controls appear to be consistently applied. |
| <i>Substantial</i> | While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk. | Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk. |
| <i>Restricted</i> | Significant weaknesses have been identified in the system of control, which put the system objectives at risk. | The level of non-compliance identified places the system objectives at risk. |
| <i>None</i> | Control is weak, causing the system to be vulnerable to error and abuse. | Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse. |

Audit Recommendations and Follow-up

| | <i>Recommendation</i> | <i>Follow Up</i> |
|-------------------|--|---|
| <i>Priority 1</i> | Major issues that we consider need to be brought to the attention of senior management. | Follow-up will be performed at specific dates agreed with senior management. |
| <i>Priority 2</i> | Important issues which should be addressed by management in their areas of responsibility. | Follow-up of the recommendations will be performed by the end of the next audit year. |
| <i>Priority 3</i> | Minor issues which provide scope for operational improvement. | Follow-up performed by the end of the next audit year. |

BARROW BOROUGH COUNCIL
INTERNAL AUDIT FINAL REPORT 08-24
PAYABLES

Executive Summary

Introduction

Accounts Payable is a module of the Council's Oracle Financial system. There are approximately 24,000 transactions each year with a value of £28.1m. As at the 18th November 2008, payments were processed during the financial year in relation to Rent Allowances (approximately £6.1m, relating to 15,600 transactions), Council Tax refunds (approximately £265,000, relating to 1,070 transactions) and National Non Domestic Rates refunds (approximately £458,000, relating to 254 transactions).

Audit Objectives

An audit of this system forms part of the agreed 2008/09 programme. The audit objectives were to evaluate and test the internal controls over the Accounts Payable system. The scope and objectives of the audit were discussed and agreed in advance with Sue Roberts, Deputy Borough Treasurer.

Audit work included a control evaluation of the system design, and testing of the operation of key controls. Details of the audit methodology are provided in Appendix 1.

Key Points

Substantial Assurance

Two minor issues.

Audit Conclusion – *Substantial Assurance*

As a result of the audit we have concluded that while there is a basically sound system, there are weaknesses, which put some of the system objectives at risk. We have made two Priority 3 recommendations, which relate to:

- ensuring all changes to supplier details are checked by a second/independent officer and the check is evidenced; and
- terminating access to Financial Systems for officers who have left the Council.

Internal Audit also reviewed the four agreed recommendations made in Audit Report 07-22, dated May 2008. Three of the recommendations have been fully implemented and one recommendation remains outstanding, this concerns updating authorised signatory forms to reflect amendments to delegated limits and cost centres.

Management Response

We have received a constructive management response from Sue Roberts, Deputy Borough Treasurer, accepting each of the recommendations.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

| | | | |
|---|---|------------------|------------------|
| Recommendation 1 | Responsibility: Deputy Borough Treasurer | Priority: | 3 |
| <p>The Council should ensure that all changes to supplier details are checked by a second/independent officer and the check is evidenced.</p> | | | |
| Rationale | | | |
| <p>Where a change to supplier details is received by the Council, the amendment should be input by one officer within the Borough Treasurer's Department and reviewed by a second or independent officer to demonstrate both transparency and accuracy. Both officers are required to initial and date the amendment form to confirm the change has been processed correctly.</p> <p>Internal Audit selected a sample of ten changes to supplier details and identified that the change had not been checked for accuracy by a second officer on six occasions.</p> | | | |
| Management Response | | | |
| <p>The responsible officers have been reminded of the need and importance of checking changes to supplier details.</p> | | | |
| Accepted | Implementation Deadline: | | Immediate |

| | | |
|---|---|--------------------|
| Recommendation 2 | Responsibility: Deputy Borough Treasurer | Priority: 3 |
| <p>The Council should ensure that access to Financial Systems is terminated for officers who have left the employment of the Council.</p> | | |
| Rationale | | |
| <p>Relevant officers are provided with access to the Oracle Finance System via a username and password. Each user is provided with access levels appropriate to their role.</p> <p>Internal Audit obtained a report of access levels from the Deputy Borough Treasurer and identified that two users have left the Council's employment; however their access does not state an end date.</p> | | |
| Management Response | | |
| <p>Access shall be reviewed with Service Managers to ensure that only active users are enabled.</p> | | |
| Accepted | Implementation Deadline: | Immediate |

| | |
|--|---|
| Previous Recommendation | Responsibility: Deputy Borough Treasurer |
| <p>The Council should implement the agreed outstanding recommendation from Audit Report 07-22, dated May 2008, namely:</p> <p>The Council should ensure that authorised signatory forms are updated on a regular basis to reflect amendments to delegated limits or cost centre changes.</p> <p>(Priority 2)</p> | |
| Rationale | |
| <p>Each Council officer, permitted to authorise expenditure, is required to complete an 'Authorised Signatory' form which details the cost centres for which they may authorise expenditure and the officer's delegated limit for those cost centres. The form is signed by the officer, the Head of Department and the Borough Treasurer.</p> <p>Internal Audit selected a sample of twenty invoices paid during 2008/09 encompassing all supplier types and payment methods (cheque and BACS). Eight occasions were identified where the invoices were coded to cost centres which did not match the authorisers' delegation. Internal Audit were informed that the above invoices were coded to cost centres which were appropriate for the authoriser to approve, however the individual 'Authorised signatory' sheets have not been updated to reflect the changes to the officer's responsibilities.</p> | |
| Management Response | |
| <p>The authorised signatory checking process was changes from 2009/10. Unauthorised invoices are not accepted.</p> | |
| Revised Implementation Deadline: | Implemented |

APPENDIX 1**AUDIT FRAMEWORK****Coverage**

The review covered the following areas, which were agreed as part of the preliminary planning stage:

- authorisation and certification of invoices;
- processing of invoices;
- payment of invoices;
- payment of rent allowance, council tax and NNDR refunds;
- security of cheques/access to the system; and
- segregation of duties.

Methodology

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review;
- identify the risk applicable to each area;
- evaluate controls against each of the key risks
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

In addition, Internal Audit reviewed management's progress in implementing the agreed recommendations from our previous audit report.

Performance

Auditors: Claire Jackson and Sarah Cullen

The fieldwork was performed: November 2008 to January 2009

All final Internal Audit reports from April 2007 will be presented to the Council's Audit Committee.

APPENDIX 2**CLASSIFICATIONS****Assurance Level**

| | <i>Evaluation</i> | <i>Testing</i> |
|--------------------|---|--|
| <i>Unqualified</i> | There is an adequate system of controls designed to achieve the system objectives. | The controls appear to be consistently applied. |
| <i>Substantial</i> | While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk. | Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk. |
| <i>Restricted</i> | Significant weaknesses have been identified in the system of control, which put the system objectives at risk. | The level of non-compliance identified places the system objectives at risk. |
| <i>None</i> | Control is weak, causing the system to be vulnerable to error and abuse. | Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse. |

Audit Recommendations and Follow-up

| | <i>Recommendation</i> | <i>Follow Up</i> |
|-------------------|--|---|
| <i>Priority 1</i> | Major issues that we consider need to be brought to the attention of senior management. | Follow-up will be performed at specific dates agreed with senior management. |
| <i>Priority 2</i> | Important issues which should be addressed by management in their areas of responsibility. | Follow-up of the recommendations will be performed by the end of the next audit year. |
| <i>Priority 3</i> | Minor issues which provide scope for operational improvement. | Follow-up performed by the end of the next audit year. |

BARROW BOROUGH COUNCIL
INTERNAL AUDIT FINAL REPORT 08-06
RECEIPT BOOK CHECKS

Executive Summary

Since July 1997, Internal Audit has performed compliance testing on all completed Council Receipt Books. Receipts are required to be completed, issued and summarised on the appropriate Council Paying-in Sheet, in accordance with the Council's General Procedures for Receiving Income. Since 2003 a number of Council Departments have ceased to collect income due to the increasing availability of electronic payment methods. There are a small number of departments where this process remains; these are noted on Appendix 1.

Receipt books are used to record each transaction; these are classed as controlled stationery, and as such are issued only to authorised officers.

Audit Objectives

An audit of this system forms part of the agreed 2008/09 programme. The audit objectives were to review the internal controls over the manual receipting system. The scope and objectives of the audit were discussed and agreed in advance with the Deputy Borough Treasurer, Sue Roberts.

A list of all Receipt Books checked and the corresponding Department is included in Appendix 1.

| Key Points |
|--------------------------------------|
| Substantial Assurance |
| One Important Issue |
| Four Previous Recommendations |

Audit Conclusion – *Substantial Assurance*

As a result of the audit we have concluded that while there is a basically sound income receipting system, there are weaknesses, which put some of the system objectives at risk. We have made one Priority 2 recommendation relating to ensuring that all receipts within a banking period are recorded on the corresponding Paying-in Sheet together with each cheque payment.

Internal Audit also reviewed the four outstanding recommendations from Audit report 07-37, dated April 2008. Each recommendation remains outstanding and relates to:

- ensuring Paying-in Sheets are countersigned by an independent officer;
- ensuring that all carbonated copies, within receipt books, are legible and complete;
- following the correct procedure for cancelling receipts; and
- marking the final receipt of the banking with the total amount and date banked.

Management Response

We have received a constructive management response from Sue Roberts, Deputy Borough Treasurer, accepting the recommendation.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

| Recommendation 1 | Responsibility: Deputy Borough Treasurer | Priority | 2 |
|--|--|----------|-------------------------|
| <p>The Council should ensure that all receipts issued within a banking period are recorded on the corresponding Paying-in Sheet. Furthermore, all receipt numbers where cheque payments have been made should be recorded on the appropriate sheet.</p> | | | |
| <p>Rationale</p> | | | |
| <p>For each banking of receipted income, a Paying-in Sheet is completed detailing the amount banked and the receipt numbers to which the income relates.</p> <p>However, within the receipt books reviewed in the financial year, Internal Audit identified seven instances where either the receipt numbers had not been recorded on the Paying-in Sheet or the total of the recorded receipt numbers was incorrect. This related to bankings from three CRM receipt books, a Mayor's Office receipt book and an Environmental Health receipt book.</p> <p>Additionally, within four receipt books completed during the year, the receipt numbers which related to cheque payments had not been consistently recorded on the Paying-in Sheet. This related to receipt books held by CRM, the Mayor's Office and Environmental Health.</p> | | | |
| <p>Management Response</p> | | | |
| <p>The responsible officers will be reminded of the importance of this procedure to eliminate future occurrence.</p> | | | |
| <p>Accepted</p> | <p>Implementation Deadline:</p> | | <p>Immediate</p> |

| Previous Recommendations | Responsibility: Deputy Borough Treasurer |
|---|--|
| <p>The Council should implement the agreed recommendations from audit report 07-37, dated April 2008, namely:</p> <ol style="list-style-type: none"> 1. The Council should ensure that during banking of income, the Paying-in Sheet is countersigned by an independent officer. (Priority 2) 2. The Council should ensure that all carbonated copies within receipt books are legible and complete. (Priority 2) 3. The Council should ensure that the correct procedure is followed for cancelling receipts. (Priority 2) 4. The Council should ensure during banking of income, that the final receipt of the banking is marked with the date and the amount to be paid in. (Priority 3) | |
| Rationale | |
| <ol style="list-style-type: none"> 1. Where banking of Council income is performed using Paying-in Sheets, the total of each banking should be recorded on the sheet together with the date of banking. The paying in sheet should be signed by the banking officer, checked and countersigned by an independent officer. This requirement is stipulated within the General Procedures for Receiving Income. However, Internal Audit testing of completed receipt books identified ten instances where this procedure had not been followed. This related to bankings from receipt books held by CRM, the Mayor's Office and Environmental Health. 2. The Council's General Procedures for Receiving Income state that 'Receipts when issued should be fully completed (i.e. date of receipt, name of payer, amount both in figures and words in the spaces provided, details of the reason for the payment, whether cash or cheque and the signature of the recipient) and the carbon inserted to ensure a proper copy on the retained copy page of the book.' Internal Audit testing identified 100 receipts, within the 22 receipt books reviewed, where the carbonated copies were not present and the receipt details had been written in pen directly on the copy sheet. Additionally, there were a further 100 instances where the receipt had been incorrectly dated, or not at all. A further 103 receipts had the payment method recorded in pen directly onto the carbon copy. In addition, the payment method was not marked on 397 receipts within the books reviewed. This related to all CRM, Market, Central Reception, Mayor's Office and Environmental Health receipt books. | |

Finally, Internal Audit testing of receipt books also identified twelve receipts which had not been signed by the issuer. This related to CRM, the Market, Mayor's Office and Environmental Health.

3. The Council's General Procedures for Receiving Income state that 'Where an uncorrectable error has been noticed in the writing of a receipt, resulting in, either its replacement by a correct version or it being unnecessary because of the lack of a receipt, the top (customer copy) should be clearly marked cancelled, as should its retained copy, and the cancelled top receipt should be retained, in the book, with the cancelled copy receipt'.

However, Internal Audit testing of completed receipt books identified fourteen instances where this procedure had not been followed. This related to CRM, the Mayor's Office and Environmental Health.

4. Where banking of Council income is performed using manual receipts, the total of each banking should be recorded on the final receipt, together with the date of banking. This requirement is stipulated within the General Procedures for Receiving Income.

However, Internal Audit testing identified a number of instances where this procedure had not been followed within each receipt book reviewed.

Management Response

The managers of the responsible officers will be asked to review the necessity of holding paying in books. If these remain necessary, Borough Treasurers will liaise with the managers to provide additional training to re-emphasis the importance of these procedures.

| | | |
|--|---|------------------|
| | Revised Implementation Deadline: | Immediate |
|--|---|------------------|

APPENDIX 1**AUDIT FRAMEWORK****Coverage**

The review covered the following areas, which were agreed as part of the preliminary planning stage:

- completion of receipts;
- completion of Paying in sheets;
- cancellation of receipts; and
- banking of income.

Receipt Books

| Receipt Book Number | Responsible Department |
|---------------------|------------------------|
| 1-16 | CRM |
| 122, 113, 125, 129 | Market |
| 121, 123 | Reception |
| 118 | Environmental Health |
| 107, 114 | Mayors' Office |

Performance

Auditors: Sarah Williams and Sarah Cullen

The fieldwork was performed: 2008-2009

All final Internal Audit reports from April 2007 will be presented to the Council's Audit Committee.

APPENDIX 2**CLASSIFICATIONS****Assurance Level**

| | <i>Evaluation</i> | <i>Testing</i> |
|--------------------|---|--|
| <i>Unqualified</i> | There is an adequate system of controls designed to achieve the system objectives. | The controls appear to be consistently applied. |
| <i>Substantial</i> | While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk. | Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk. |
| <i>Restricted</i> | Significant weaknesses have been identified in the system of control, which put the system objectives at risk. | The level of non-compliance identified places the system objectives at risk. |
| <i>None</i> | Control is weak, causing the system to be vulnerable to error abuse. | Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse. |

Audit Recommendations and Follow-up

| | <i>Recommendation</i> | <i>Follow Up</i> |
|-------------------|--|---|
| <i>Priority 1</i> | Major issues that we consider need to be brought to the attention of senior management. | Follow-up will be performed at specific dates agreed with senior management. |
| <i>Priority 2</i> | Important issues which should be addressed by management in their areas of responsibility. | Follow-up of the recommendations will be performed by the end of the next audit year. |
| <i>Priority 3</i> | Minor issues which provide scope for operational improvement. | Follow-up performed by the end of the next audit year. |

BARROW BOROUGH COUNCIL
INTERNAL AUDIT FINAL REPORT 08-22
SUNDRY DEBTORS

Executive Summary

Introduction

The Council's sundry debtors system is administered and controlled by the Borough Treasurer's Department using a module of the Council's Oracle Financial system. Invoices are raised centrally, either manually upon receipt of an authorised Accounts Receivable (AR) Transaction Request Form or imported electronically from departmental databases. The Borough Treasurer's Department are responsible for the initial recovery of debts associated with invoices raised, prior to passing debts to Crutes debt collection agency. The Council raise in excess of 6,000 invoices with a value of approximately £3.8million annually.

Audit Objectives

An audit of this system forms part of the agreed 2008/09 programme. The audit objectives were to evaluate and test the internal controls over the sundry debtors system. The scope and objectives of the audit were discussed and agreed in advance with Sue Roberts, Deputy Borough Treasurer.

Audit work included a control evaluation of the system design, and testing the operation of key controls. Details of the audit methodology are provided in Appendix 1.

Key Points

Substantial Assurance

Two minor issues.

Seven previous recommendations

Audit Conclusion – *Substantial Assurance*

As a result of the audit we have concluded that while there is a basically sound system, there are weaknesses, which may put some of the system objectives at risk. We have made two Priority 3 recommendations, which relate to:

- ensuring AR Transaction request forms are dated by a member of the Borough Treasurer's Department on a consistent basis; and
- requesting Crutes to provide updates to recovery status on a consistent and timely basis.

Internal Audit reviewed the four recommendations made in our previous audit report 07-18, dated May 2008. Each recommendation remains outstanding and relates to:

- updating the corporate debt recovery policy to reflect the variations between different sundry debtors;
- retaining confirmation from departments to proceed with raising invoice batches;
- reconciling the total Print Batch report figures to the total database figures agreed by the Department, for each batch of invoices raised; and

- considering documenting, in the 'Crutes Referrals' file, the months where no invoices were referred to Crutes.

Internal Audit also reviewed the two outstanding agreed recommendations made in audit report 05-30, dated May 2006. The recommendations remain outstanding, which concern:

- ensuring AR request forms are signed and dated by the requestor and authorised by a relevant designated signatory; and
- approving invoice cancellations and credit memos raised by an appropriate authorised signatory.

Finally, Internal Audit reviewed the one outstanding recommendation made in audit report 04-41, dated May 2005. The recommendation, concerning reviewing recovery action of disputed invoices remains outstanding.

Management Response

We have received a constructive management response from Sue Roberts, Deputy Borough Treasurer, accepting each of the recommendations.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

| | | |
|---|---|--------------------|
| Recommendation 1 | Responsibility: Deputy Borough Treasurer | Priority: 3 |
| <p>The Council should ensure that AR Transaction request forms are consistently dated to confirm completion by a member of the Borough Treasurer's Department.</p> | | |
| Rationale | | |
| <p>In order to raise an invoice, the requesting department completes an Accounts Receivable Transaction request form, which is carbonated and held in pre printed books, controlled by the Payments Officer. The form should contain as much detail as possible, be signed and dated by the requester, and counter-signed by either the Cost Centre Manager or a designated authorised signatory. Once complete, the forms are sent to the Payments Officer to be processed (within four working days).</p> <p>Internal Audit selected a sample of twenty AR Transaction request forms and verified that on each occasion the form had been signed by a member of the Borough Treasurers Department confirming the transaction request had been completed. However, on eight occasions the AR Transaction request form had not been dated by a member of the Borough Treasurer's Department. Without the date of completion it is not possible to confirm the task has been performed within the appropriate timescale.</p> | | |
| Management Response | | |
| <p>The responsible officer has been reminded of the importance of dating the forms and also to remind officers who cover this work during time off.</p> | | |
| Accepted | Implementation Deadline: | Immediate |

| | | |
|---|---|-------------------------|
| Recommendation 2 | Responsibility: Deputy Borough Treasurer | Priority: 3 |
| <p>The Council should consider requesting Crutes to provide updates regarding a debtor's recovery status on a consistent and timely basis.</p> | | |
| <p>Rationale</p> <p>On a monthly basis the Recovery Officer compiles a list of cases to be referred to Crutes. The monthly list is issued to Crutes, where the Crutes contact for the Council issues the 'Letter before Action' and should update the referral list with action taken/comments (e.g. letter issued/debtor paid). The details are returned to the Council's Recovery Officer who will reply requesting further action.</p> <p>However, the Council's contact at Crutes has changed since the previous audit. Internal Audit were informed that the new contact does not always update the spreadsheet and return it to the Recovery Officer; instead the Recovery Officer receives updates on an ad hoc basis, often via email.</p> <p>This potential weakness does not provide management with adequate assurance that recovery action is progressed on a timely basis, which may result in a loss of income to the Council. Furthermore, such reduced action may not be in compliance with service delivery expectations.</p> | | |
| <p>Management Response</p> <p>I agree this should be happening. The Council are currently reviewing arrangements with Crutes and will emphasise this requirement.</p> | | |
| Accepted | Implementation Deadline: | 31 December 2009 |

| Previous Recommendations | Responsibility: Deputy Borough Treasurer |
|---|---|
| <p>The Council should implement the agreed outstanding recommendations made in Audit report 07-18, dated May 2008, namely:</p> <ol style="list-style-type: none"> 1. The Council should consider reviewing its corporate policy for the recovery of sundry debtors; specifically to reflect the variations in the recovery of sundry debts across Council departments. (Priority 2) 2. The Council should ensure that confirmation from departments to proceed in raising invoice batches is retained. (Priority 3) 3. The Council should ensure for each batch of invoices raised, that the total 'Print Batch' report figures are reconciled to the total database agreed by the relevant Department. (Priority 3) 4. The Council should consider documenting the months where there are no sundry debts referred to Crutes for recovery. (Priority 3) | |
| Rationale | |
| <ol style="list-style-type: none"> 1. Debtors to the Council have 30 days in which to pay their outstanding accounts. If payment has not been received 14 days after the invoice was issued, a reminder is issued. Seven days later a second reminder is issued if payment has still not been received. Following the second reminder, debts are either returned to the originating department for recovery or referred to Crutes debt collection agency for further action. Internal Audit selected a sample of fifteen accounts from the latest 'Outstanding invoices' report and reviewed recovery action taken. Action had taken place in accordance with Borough Treasurer's Department procedures on each occasion. However, the following issues were identified: <ul style="list-style-type: none"> • Invoice 164033 has £1 outstanding but has had 10 reminders issued between June and November 2008. As the debt is under £50 this should be classified as uneconomical to pursue. • Invoice 167664 does not have a 'Dunning Setup' on the system so reminders have not been issued. The amount outstanding is £458.25. • Invoice 166105, the invoice was raised by the Estates Department. Reminders have been issued; however the debt has not been referred to Crutes at the request of the Projects and Property Manager. • Invoice 165593, the debtor was issued with an instalment form; however this has never been completed. We were informed that the Projects and Property Manager is aware of the situation but has not advised the Recovery Officer of action to take. • Invoice 169411 at the time of the review, the second reminder had not been issued. (The first reminder was issued 26 Nov 2008). | |

Rationale

2. Debtor details for services such as allotment rental, Homelink charges, grazing fees, service charges and lotteries are held on a specific spreadsheet. The Borough Treasurer's Department have introduced databases for each of the above services from which the invoices can be imported into the Oracle system. Prior to import, a copy of the spreadsheet is forwarded to the relevant department to check for accuracy and to confirm that the invoices are to be raised. For the five batches of 2008/09 invoices (tested in the previous audit), it was identified that confirmation documentation was not held in relation to the raising of allotments and Homelink invoices.
3. For each batch of invoices printed, a 'Print Batch report' is produced detailing the value and number of transactions (invoices). For the five batches of 2008/09 invoices (tested in the previous audit), the spreadsheet totals for the Service Charges had been incorrectly totalled; the corrected total did agree to the 'Print Batch report'. The remaining batch spreadsheet total (Homelink), did not match the Print Batch Total reports.
4. Recovery referrals to Crutes are issued on a monthly basis by the Council's Recovery Officer. Crutes update the referral spreadsheet with the status of individual cases and send a copy to the Recovery Officer. Following this, the Recovery Officer updates the spreadsheet with action to be taken.

For a sample of six months during 2008/09 it was identified referrals had only been made in four of the months. For the two months where referrals had not been made, the Recovery Officer informed Internal Audit that these months related to occasions where there were no cases to refer. However, this was not documented on file. Recording the months where there are no sundry debtors to refer, may assist in achieving completeness within the process.

Management Response

1. This is under review.
2. The responsible officer has been reminded.
3. The responsible officer has been reminded.
4. This has been implemented from 2009/10.

| | |
|---|------------------|
| Revised Implementation Deadline: | Immediate |
|---|------------------|

| | |
|--|---|
| Previous Recommendations | Responsibility: Deputy Borough Treasurer |
| <p>The Council should implement the agreed outstanding recommendations made in Audit report 05-30, dated May 2006, namely:</p> <ol style="list-style-type: none"> 1. The Borough Treasurer's Department should ensure that Accounts Receivable Request forms are signed and dated by the requestor and authorised by a relevant designated signatory. (Priority 2) 2. The Council should ensure that invoice cancellations and credit memos raised, are approved by an appropriate authorised signatory. (Priority 3) | |
| Rationale | |
| <ol style="list-style-type: none"> 1. A random sample of twenty Invoice/AR request forms was selected, from which Internal Audit identified one occasion where the invoice had been authorised by a member of staff who was not on the authorised signatory list. In addition, for two of the sample the Authoriser had not dated the form; and on one further occasion the form had been signed by the authoriser prior to the request date. 2. Internal Audit selected a sample of twenty invoice cancellations and credit memos. The review identified for three of the sample cancellations/credits were authorised by officers not on the authorised signatory list; in addition one credit did not have any authorisation details on file. | |
| Management Response | |
| <p>The authorised signatory checking process was changes from 2009/10. Unauthorised requests are not accepted.</p> | |
| Revised Implementation Deadline: | Implemented |

| | | | |
|--|---|--|------------------------|
| Previous Recommendation | Responsibility: Deputy Borough Treasurer | | |
| <p>The Council should implement the agreed outstanding recommendation made in Audit report 04-41, dated May 2005, namely:</p> <p>The Council should review recovery action of disputed invoices; and ensure that reasons for an invoice being in dispute are documented. (Priority 3)</p> | | | |
| Rationale | | | |
| <p>The 'Outstanding Invoice' report is produced twice per month, and now incorporates the 'disputed invoices' details. The end column of the report states 'Disputed'; and includes the date the invoice was disputed.</p> <p>Internal Audit obtained the latest report of 'Outstanding Invoices' dated 9th December 2008 and identified that 80 invoices over one year old were currently in dispute.</p> <p>A sample of ten disputed invoices was selected and Internal Audit confirmed for each of the sample, the date the invoice was disputed had been recorded on the Oracle System and the Recovery Officer's spreadsheet. However for nine of the sample the reason for the dispute was not documented. Internal Audit were informed that often no reason is provided when the Recovery Officer is informed of a disputed invoice.</p> | | | |
| Management Response | | | |
| <p>I agree that this should be improved and a formal procedure introduced.</p> | | | |
| Revised Implementation Deadline: | | | 31 October 2009 |

APPENDIX 1**AUDIT FRAMEWORK****Coverage**

The review covered the following areas, which were agreed as part of the preliminary planning stage:

- raising of accounts;
- payments; and
- recovery.

Methodology

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review;
- identify the risk applicable to each area;
- evaluate controls against each of the key risks;
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

In addition, Internal Audit reviewed management's progress in implementing the agreed recommendations from our previous audit report.

Performance

Auditors: Claire Jackson and Sarah Cullen

The fieldwork was performed: December 2008-February 2009.

All final Internal Audit reports from April 2007 will be presented to the Council's Audit Committee.

APPENDIX 2**CLASSIFICATIONS****Assurance Level**

| | <i>Evaluation</i> | <i>Testing</i> |
|--------------------|---|--|
| <i>Unqualified</i> | There is an adequate system of controls designed to achieve the system objectives. | The controls appear to be consistently applied. |
| <i>Substantial</i> | While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk. | Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk. |
| <i>Restricted</i> | Significant weaknesses have been identified in the system of control, which put the system objectives at risk. | The level of non-compliance identified places the system objectives at risk. |
| <i>None</i> | Control is weak, causing the system to be vulnerable to error and abuse. | Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse. |

Audit Recommendations and Follow-up

| | <i>Recommendation</i> | <i>Follow Up</i> |
|-------------------|--|---|
| <i>Priority 1</i> | Major issues that we consider need to be brought to the attention of senior management. | Follow-up will be performed at specific dates agreed with senior management. |
| <i>Priority 2</i> | Important issues which should be addressed by management in their areas of responsibility. | Follow-up of the recommendations will be performed by the end of the next audit year. |
| <i>Priority 3</i> | Minor issues which provide scope for operational improvement. | Follow-up performed by the end of the next audit year. |

BARROW BOROUGH COUNCIL
INTERNAL AUDIT FINAL REPORT 08-20
TREASURY MANAGEMENT

Executive Summary

Introduction

The Council defines Treasury Management as “the management of the Council's cash flows, its banking, money market and capital market transactions; the effective control of those risks associated with those activities; and the pursuit of optimum performance consistent with those risks”. The CIPFA Prudential Code for Capital Finance in Local Authorities was implemented from 1st April 2004, which covers the borrowing and investment activities and the effective management of associated risks. The performance of treasury transactions is delegated to the Deputy Borough Treasurer.

The Council's Treasury Management Strategy 2008-09 was approved by Executive Committee on 30th January 2008 and by Council on 18th February 2008. The principal loan amount is currently £29m which relates to 6 loans with the Public Works Loan Board, with maturity dates between 2031 and 2053. Since the previous audit review there has been one short term loan of £2m, this has subsequently been repaid. There have been 9 new fixed term investments. However, it was reported to Executive Committee on 15th October 2008 that a cautious approach was being adopted with regard to investing temporarily surplus funds; therefore surplus funds have since been deposited into an interest bearing account with the Council's own bank, HSBC plc.

Audit Objectives

An audit of this system forms part of the agreed 2008/09 programme. The audit objectives were to evaluate and test the internal controls over the Treasury Management process. The scope and objectives of the audit were discussed and agreed in advance with Sue Roberts, Deputy Borough Treasurer.

Audit work included a control evaluation of the system design, and testing the operation of key controls. Details of the audit methodology are provided in Appendix 1.

| Key Points |
|------------------------------|
| Unqualified Assurance |
| No recommendations |

Audit Conclusion – *Unqualified Assurance*

As a result of the audit we have concluded that there is a basically sound system of control, and as such we have not raised any new recommendations.

In addition, Internal Audit reviewed the one agreed recommendation made in report 07-15, dated November 2007 the recommendation has now been implemented.

Management Response

We have received a constructive management response from Sue Roberts, Deputy Borough Treasurer, accepting the report.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.

APPENDIX 1

AUDIT FRAMEWORK

Coverage

The review covered the following areas, which were agreed as part of the preliminary planning stage:

- Treasury Management Policy/Strategy;
- Investment of Funds;
- Long term borrowing;
- Temporary borrowing; and
- Management information and reporting.

Our audit coverage excludes any activities on the part of the Council involving the use of derivatives or complex financial instruments. We have only checked the controls and therefore, cannot express an opinion on the financial accuracy of the reported figures or the appropriateness of the investment policies.

Methodology

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review;
- identify the risk applicable to each area;
- evaluate controls against each of the key risks;
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

In addition, Internal Audit reviewed management's progress in implementing the agreed recommendations from our previous audit report.

Performance

Auditors: Claire Jackson and Sarah Cullen

The fieldwork was performed: March to April 2009

All final Internal Audit reports from April 2007 will be presented to the Council's Audit Committee.

APPENDIX 2**CLASSIFICATIONS****Assurance Level**

| | <i>Evaluation</i> | <i>Testing</i> |
|--------------------|---|--|
| <i>Unqualified</i> | There is an adequate system of controls designed to achieve the system objectives. | The controls appear to be consistently applied. |
| <i>Substantial</i> | While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk. | Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk. |
| <i>Restricted</i> | Significant weaknesses have been identified in the system of control, which put the system objectives at risk. | The level of non-compliance identified places the system objectives at risk. |
| <i>None</i> | Control is weak, causing the system to be vulnerable to error and abuse. | Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse. |

Audit Recommendations and Follow-up

| | <i>Recommendation</i> | <i>Follow Up</i> |
|-------------------|--|---|
| <i>Priority 1</i> | Major issues that we consider need to be brought to the attention of senior management. | Follow-up will be performed at specific dates agreed with senior management. |
| <i>Priority 2</i> | Important issues which should be addressed by management in their areas of responsibility. | Follow-up of the recommendations will be performed by the end of the next audit year. |
| <i>Priority 3</i> | Minor issues which provide scope for operational improvement. | Follow-up performed by the end of the next audit year. |