

# **BOROUGH OF BARROW-IN-FURNESS**

## **AUDIT COMMITTEE**

Meeting, Tuesday, 29th June, 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 9th March, 2010 (copy attached).
6. Apologies for Absence/Attendance of Substitute Members.
7. Presentation by the Audit Commission.

#### **FOR DECISION**

- (D) 8. Audit Commission - Audit Opinion Plan 2009/2010.

- (D) 9. Audit Commission - Benefits Service Re-inspection Report.
- (D) 10. Annual Governance Statement 2009-2010.
- (D) 11. Final Accounts for the Year ended 31<sup>st</sup> March, 2010.
- (D) 12. Internal Audit Annual Report 2009-2010.
- (D) 13. Internal Audit Plan 2010-2011.
- (D) 14. Internal Audit - Assets Management Position Statement regarding a previous report.
- (D) 15. Internal Audit - Final Reports.
- (D) 16. Review of Financial Regulations.

## **PART TWO**

- (D) 17. Internal Audit – Final Report.

**NOT FOR PUBLICATION BY VIRTUE OF PARAGRAPH 3 OF PART  
ONE OF SCHEDULE 12A OF THE LOCAL GOVERNMENT ACT 1972  
AND ACCESS TO INFORMATION (VARIATION) ORDER 2006**

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

### **Membership of Committee**

Councillors Flitcroft (Chairman)  
Unwin (Vice-Chairman)  
Jefferson  
Maddox  
Sweeney  
C. Thomson

### **For queries regarding this agenda, please contact:**

Keely Fisher  
Democratic Services Officer  
Tel: 01229 876313  
Email: [ksfisher@barrowbc.gov.uk](mailto:ksfisher@barrowbc.gov.uk)

Published: 21st June, 2010

# BOROUGH OF BARROW-IN-FURNESS

## AUDIT COMMITTEE

Meeting: 9th March, 2010  
at 2.00 p.m.

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

Also present were Gina Martlew and Heather Green from the Audit Commission.

### **20 – The Local Government Act, 1972 as amended by the Local Government (Access to Information) Act, 1985 and Access to Information (Variation) Order 2006 – Urgent Items**

RESOLVED:- That by reason of the special circumstances outlined below the Chairman is of the opinion that the following items of business not specified on the agenda should be considered at the meeting as a matter of urgency in accordance with Section 100(B)(4)(b) of the Local Government Act 1972.

<u>Item</u>	<u>Reason</u>
Certification of Claims and Returns – Annual Report (Minute No. 25)	To enable this item to be considered due to there being no other meetings set until after the elections.
Countdown to IFRS – Implementation in Local Government (Minute No. 26)	To enable this item to be considered due to there being no other meetings set until after the elections.

### **21 – Minutes**

The Minutes of the meeting held on 16th December, 2009 were taken as read and confirmed, with the following addition:-

That Heather Green from the Audit Commission was in attendance at the meeting.

### **22 – Apologies for Absence/Attendance of Substitute Members**

Councillor McEwan had replaced Councillor Begley for this meeting only.

### **23 – Internal Audit – Final Reports**

The Borough Treasurer reported that Internal Audit had completed a number of audits in accordance with the approved Annual Programme. On completion, final reports were presented to this Committee for consideration. There were six final reports for consideration and the assurance levels for these reports were Restricted – 1, Substantial – 4 and 1 Unqualified. The reports included :-

1. Asset Management – Restricted Assurance;
2. Capital Programme – Substantial Assurance;
3. Budgetary Control – Substantial Assurance;
4. 77-79 Duke Street – Substantial Assurance;
5. 1-7 James Freel Close – Substantial Assurance; and
6. Treasury Management – Unqualified Assurance.

The Council's Internal Audit Manager attended the meeting to present the reports to Members.

Referring to the Asset Management report, and in particular Recommendation No. 5, Members requested that the Internal Audit Manager re-visit the issue before the next meeting in June with assurances that the documentation had been supplied.

RESOLVED:- (i) That the information be noted; and

(ii) That the Internal Audit Manager re-visit the issues with regards to Recommendation 5 of the Asset Management report and report back to the meeting in June with assurances that the appropriate documentation had been supplied.

#### **24 – Internal Audit – Progress Report April 2009 to February 2010**

The Borough Treasurer submitted a report stating that the Committee would receive regular progress reports on the programme of works carried out by the Internal Audit Service. A copy of the Internal Audit Progress Report from April 2009 to February 2010 had been appended to his report.

The Council's Internal Audit Manager had attended the meeting to present the report to Members.

The report contained a statistical summary of the total number of recommendations (126). It was noted that 115 had been fully accepted, 10 partly accepted and 1 which had not been accepted. Each of the recommendations had been assigned a priority graded 1-3; one being major issues and three being minor issues. A breakdown down of restricted assurance audits had been appended to the report.

There had been 1 Priority 2 recommendation which had been rejected with regards to Asset Management.

RESOLVED:- That the report be noted.

#### **25 – Certification of Claims and Returns – Annual Report**

This report had been tabled at the meeting as an urgent item for Members consideration.

Gina Martlew and Heather Green from the Audit Commission attended the meeting to present the report to Members.

They reported that funding from government grant paying departments was an important income stream for the Council. The Council needed to manage claiming this income carefully. It also needed to demonstrate to the Auditors that it had met the conditions which were attached to these grants. Their report summarised the findings from the certification of 2008/09 claims.

Barrow Borough Council submitted grant claims and returns to government departments each year with a combined value of more than £43 million. Of this Barrow received more than £23 million funding from various grant-paying departments. The grant-paying departments attached conditions to these grants. The Council must show that it had met these conditions. If the Council could not provide evidence, the funding could be at risk. It was therefore important that the Council managed certification work properly and could demonstrate that the relevant conditions had been met.

In 2008/09 the Audit Team had certified five claims and returns with a total value of £43.4 million. Of these, a limited review of two claims and a full review of three claims and returns had been carried out. As a result of their work, one return was amended. For three claims, they were unable to fully certify the claim and issued a qualification letter to the grant-paying body.

They did not find any areas of concern in the way in which most of the claims and returns were prepared and all were received in time with adequate supporting working papers.

However, they did find errors in the preparation of the Housing Benefit and Council Tax Benefit claim. The Housing and Council Tax Benefit service was currently the subject of a re-inspection by the Audit Commission which would make separate recommendations but there was a clear need for the Authority to drive improvement in claim processing through its monitoring of the contract with Liberata.

RESOLVED:- That the information be noted.

## **26 – Countdown to IFRS – Implementation in Local Government**

The Audit Commission tabled this item at the meeting as an urgent item. Gina Martlew and Heather Green from the Audit Commission were in attendance to present the report to Members.

It was reported that Local Authorities needed to make urgent progress now to ensure that their 2010/11 accounts would meet the required standards and would not be late. They also needed to ensure that their arrangements for managing the transition achieved good value for money.

Authorities needed to act to:-

1. Develop and maintain a detailed project plan, including the budget and resource plan;
2. Conduct a detailed impact assessment;

3. Engage the wider organisation, because IFRS was not just a finance issue;
4. Ensure that their Audit Committee, or equivalent, was aware of the implications of IFRS; and
5. Begin a dialogue with their External Auditor on the Authority's plans and progress, and the issues arising.

Miss Green reported that this briefing document had been sent to all Chief Executives and Directors of Finance throughout the country.

Members questioned the Borough Treasurer as to how the Borough Council were progressing in this area and he assured Members that the 2010/11 Accounts would be ready by the required timescale.

RESOLVED:- That the information be noted.

The meeting closed at 3.05 p.m.

<b>AUDIT COMMITTEE</b>		<b>Part One (D) Agenda Item 8</b>
<b>Date of Meeting: 29th June, 2010</b>		
<b>Reporting Officer: Borough Treasurer</b>		
<p><b>Title: Audit Commission – Audit Opinion Plan 2009-2010</b></p> <p><b>Summary and Conclusions:</b></p> <p>The Audit Commission Audit opinion plan for 2009-2010 is attached.</p> <p>The Appointed Auditor will attend the meeting to present the report and respond to any question members may have.</p> <p><b>Recommendations:</b></p> <p>Members are recommended to note the report.</p>		

### **Report**

The Audit Commission Audit opinion plan 2009-2010 is attached.

- (i) Legal Implications – Not Applicable.
- (ii) Financial Implications – Not Applicable.
- (iii) Health and Safety Implications – Not Applicable.
- (iv) Key Priorities or Corporate Aims – Not Applicable.
- (v) Risk Assessment – Not Applicable.
- (vi) Equality and Diversity – Not Applicable.
- (vii) Health and Well-being Implications – Not Applicable.

### **Background Papers**

Nil

# Audit Opinion Plan

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Barrow in Furness Borough Council

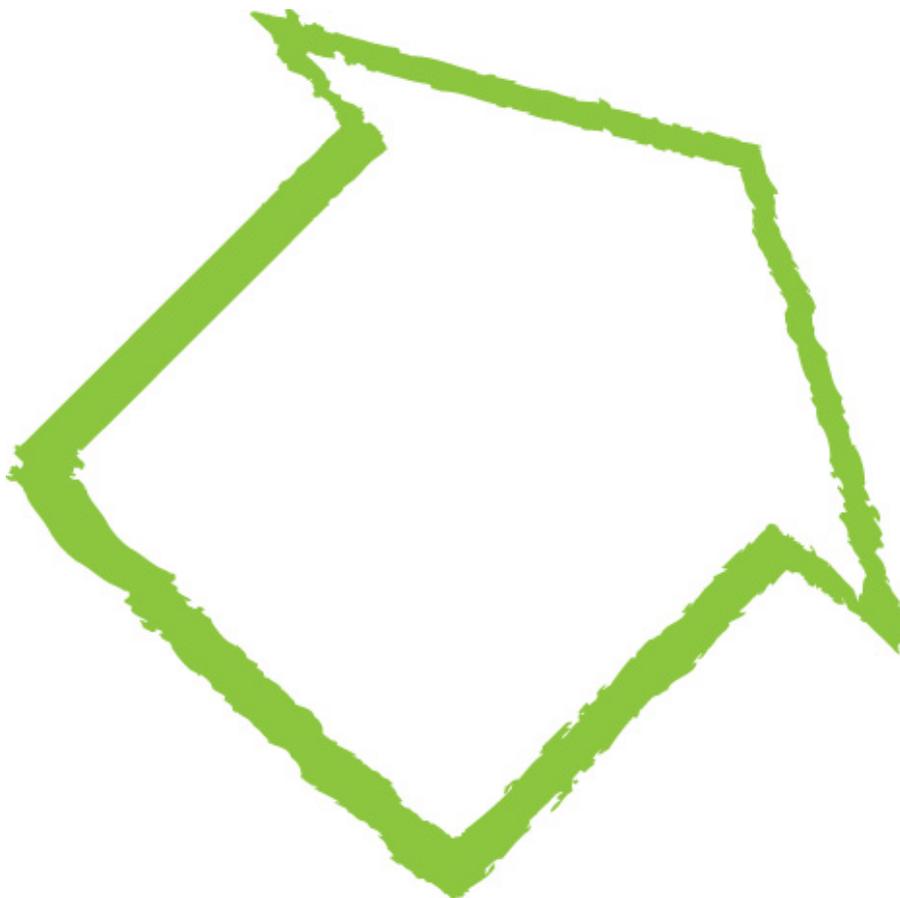
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Audit 2009/10

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June 2010

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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.
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# Introduction

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- 1 This plan sets out the audit work that I propose to undertake for the audit of financial statements 2009/10. The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:
  - audit work specified by the Audit Commission for 2009/10;
  - current national risks relevant to your local circumstances; and
  - your local risks.

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# Responsibilities

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- 2 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.
- 3 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.
- 4 We comply with the statutory requirements governing our audit work, in particular:
  - the Audit Commission Act 1998; and
  - the Code of Audit Practice.

# Fee for the audit of financial statements

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- 5 The total indicative fee for the audit is £112,580. This consists of £68,071 for the audit of the financial statements and £44,509 for the Use of Resources assessment and value for money assessment. The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales for 2009/10. Scale fees are based on several variables, including the type, size and location of the audited body.
- 6 The Audit Commission scale fee for Barrow in Furness Borough Council is £101,192. The fee proposed for 2009/10 is 11.3 per cent above the scale fee and reflects my assessment, based on previous experience and an assessment of risk, of the work that needs to be undertaken to complete the audit.
- 7 In setting the fee, I have assumed that:
  - the level of risk in relation to the audit of accounts is consistent with that for 2008/09;
  - good quality working papers will be supplied to support the 2009/10 financial statements; and
  - Internal Audit undertakes appropriate work on all material systems.
- 8 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this in the first instance with the Borough Treasurer and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.
- 9 My use of resources assessment will be based upon the evidence from three themes.
  - Managing finances.
  - Governing the business.
  - Managing resources.
- 10 The key lines of enquiry specified for the assessment are set out in the Audit Commission's work programme and scales of fees 2009/10. My work on use of resources informs my 2009/10 value for money conclusion.
- 11 The above fee excludes any work requested by you that the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.
- 12 Further information on the basis for the fee is set out in Appendix 1.

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**Specific actions Barrow in Furness Borough Council could take to reduce its audit fees**

- 13 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, I will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.

# Auditors report on the financial statements

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- 14 I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 15 I am required to issue an audit report giving our opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2010.

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## Identifying opinion audit risks

- 16 As part of our audit risk identification process, I need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:
  - identifying the business risks facing the Council, including assessing your own risk management arrangements;
  - considering the financial performance of the Council;
  - assessing internal control – including reviewing the control environment, the IT control environment and Internal Audit; and
  - assessing the risk of material misstatement arising from the activities and controls within the Council information systems.

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## Information system risks

- 17 To comply with ISA (UK&I) 315 I need to assess the risk of material misstatement arising from the activities and controls within the Council's information systems. To be able to assess these risks I need to identify and understand the material systems and document that understanding.
- 18 Material systems are those which produce material figures in the annual financial statements. For these systems I need to demonstrate our understanding by documenting the following.
  - How transactions are initiated, recorded, processed and reported in the financial statements.
  - The accounting records relevant to the transactions.
  - How the Council identifies and captures events and conditions which are material to the financial statements.
  - The financial reporting process used to prepare the financial statements.

## Assertions

- 19 When considering the risk of material misstatement I consider what the Borough Treasurer is stating when he signs the financial statements. An audited body's management is responsible for the preparation and presentation of financial statements which give a true and fair view of the nature and activity of the Council for the period. In doing so, management are making statements regarding the recognition, measurement, presentation and disclosures of various elements of the financial statements and related disclosures.
- 20 These representations from management are referred to as assertions about financial statements in ISA (UK&I) 500. The ISA states that I have to ascertain that the financial statements are free from material misstatement at the assertion level. The ISA splits out the assertions and considers their applicability in respect of:
- Income and Expenditure Account items;
  - Balance Sheet items; and
  - Disclosures and presentational elements of the financial statements.
- 21 The following table details the relevant assertions for these three categorisations, showing which assertions I need to consider by area of the financial statements.

Assertions	Income and Expenditure Account	Balance Sheet	Disclosure and presentation
<b>ACCURACY</b> Is it recorded at the right amount and are the details right?	✓		✓
<b>CLASSIFICATION</b> Is it in the right place in the accounts?	✓		✓
<b>COMPLETENESS</b> Is it all there?	✓	✓	✓
<b>CUT-OFF</b> Is it in the right year?	✓		
<b>EXISTENCE</b> Is it real, does it exist?		✓	
<b>OCCURRENCE</b> Has it happened?	✓		✓
<b>RIGHTS AND OBLIGATIONS</b> Does it belong to the body? Are they entitled to use it?		✓	✓
<b>VALUATION AND ALLOCATION</b> Is it worth it?		✓	✓

# Identification of risk

- 22 Audit procedures are planned and performed to address the risk that the financial statements presented for audit may be materially misstated. The objective of the risk assessment is to plan and perform sufficient audit work to meet our responsibilities. In practice this is the minimum amount of work necessary to deliver a safe opinion.
- 23 We identify risks under four main categories.
- Inherent risks – these are the types of risk which occur simply by virtue of the Council existing and carrying out its business and there being material figures in the financial statements.
  - Specific risks – these occur where I identify a specific issue related to the Council or an item in the financial statements.
  - Significant risks – these require special audit consideration and often relate to significant material non-routine transactions, events or judgemental matters. Non-routine transactions are transactions that are unusual either due to size or nature and therefore occur infrequently.
  - Fraud risk – these exist where I believe there is a risk of a material error in the financial statements as a result of fraud, either the misappropriation of assets or deliberate financial misreporting.
- 24 There is an inherent risk that the financial statements presented for audit may be materially misstated. We have considered the additional risks that are appropriate to the current opinion audit and have set these out in Table 1 and Table 2.

**Table 1 Significant risks**

Significant opinion risks that require special audit consideration

Risk area	Assertions	Audit response
Although International Financial Reporting Standards (IFRS) do not apply to Local Government until 2010/11, the requirements of IFRIC12 on Service Concession Arrangements will apply to Local Government in 2009/10. The Council needs to ensure that it has taken appropriate steps to assess whether it has any arrangements that fall within the scope of IFRIC12 and account for these correctly.	Completeness Existence Rights and Obligations Valuation and Allocation	We will review the assessment undertaken by the Council to assess whether it has any arrangements that fall within the scope of IFRIC 12. We will review the accounting treatment of any such arrangements.

**Table 2 Specific risks**

Specific opinion risks that relate to the Council or an item in the financial statements

Risk area	Assertions	Audit response
<p>The Council should undertake regular checks to ensure that Valuation Office Schedules have been reconciled to the Council Tax and NNDR systems by Liberata during the year. Our review of financial systems during 2009/10 identified that whilst Liberate were undertaking the reconciliations, the Council had not undertaken any checks to ensure the reconciliations were being carried out. This increases the risk that errors may not be identified by the Council.</p>	<p>Completeness Accuracy Occurrence</p>	<p>We will undertake substantive testing to ensure that the opening and closing figures in the NNDR and Council Tax systems can be reconciled to the Valuation Office Schedules.</p>
<p>In 2008/09 I identified a failure in controls for the accounts payable system due to the authorised signatory list not being up to date. We understand that action was taken immediately to rectify this issue, however there remains a risk that this control did not operate effectively during the whole of 2009/10.</p>	<p>Occurrence Accuracy</p>	<p>We will test the operation of this control during the year. We will undertake substantive testing of expenditure items where I find this control has not been operating effectively.</p>
<p>We review IT arrangements and controls in place at Barrow. This review includes assessing the arrangements the Council has place to obtain assurance over IT controls for the systems operated by Liberata. Internal Audit work is being undertaken on IT controls at Liberata but this is not yet complete. The findings of the Internal Audit review will inform our risk assessment for the opinion audit.</p>	<p>All assertions</p>	<p>We will consider the findings of the Internal Audit review once this is complete. We will consider whether any additional substantive testing is required as a result of the Internal Audit findings.</p>

## Identification of risk

Risk area	Assertions	Audit response
<p>Internal Audit have undertaken a review of asset management and this concluded that it was difficult to obtain supporting documentation to evidence the decisions made in respect of asset transactions and leasing. There is a risk that the Council may not be able to provide sufficient appropriate evidence to support asset transactions in the financial statements.</p>	<p>Accuracy Completeness Occurrence Valuation and Allocation</p>	<p>We will undertake substantive testing of asset transactions in the financial statements.</p>
<p>Our review of financial systems in 2009/10 identified that control account reconciliations were not always being completed on a timely basis and were not always up to date. There is a risk that where control account reconciliations are not completed on a timely basis, errors may go undetected.</p>	<p>Accuracy Completeness Cut-off</p>	<p>We will review and test year-end control account reconciliations.</p>
<p>The Council is required to include additional disclosures in the 2009/10 accounts in respect of senior managers remuneration. This is a politically sensitive area and the new disclosure may be subject to increased scrutiny.</p>	<p>Accuracy Completeness Classification</p>	<p>We undertake specific substantive testing of the disclosures made by the Council for this new reporting requirement.</p>
<p>Our review of financial systems in 2009/10 has identified that the debt recovery process has not been operating since July 2009 due to a system upgrade. As a result the level of debt outstanding has increased and there is an increased risk that this debt is irrecoverable.</p>	<p>Valuation and Allocation</p>	<p>We will review the level of provision included in the accounts for irrecoverable debt.</p>

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# Testing strategy

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- 25 On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year-end.
- 26 Our testing can be carried out both before and after the draft financial statements have been produced. Our pre-statement testing will focus on gaining assurance that key controls in material systems are operating properly.
- 27 Wherever possible, I seek to rely on the work of Internal Audit to help meet our responsibilities.

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# Key milestones and deadlines

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- 28 The Council is required to prepare the financial statements by 30 June 2010. We are required to complete our audit and issue our opinion by 30 September 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 2.
- 29 We will agree with you a schedule of working papers required to support the entries in the financial statements.
- 30 Every week after the production of the statements, we will meet with the key contact and review the status of all queries. If appropriate, we will meet at a different frequency depending upon the need and the number of issues arising.

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**Table 3**      **Proposed timetable**

<b>Task</b>	<b>Deadline</b>
Control and early substantive testing	January to April 2010
Receipt of accounts	21 June 2010
Forwarding audit working papers to the auditor	28 June 2010
Start of detailed testing	28 June 2010
Progress meetings	Weekly
Present report to those charged with governance at the Audit committee	29 September 2010
Issue opinion	By 30 September 2010

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# The audit team

31 The key members of the audit team for the 2009/10 audit are shown in the table below.

**Table 4**      **Audit team**

Name	Contact details	Responsibilities
Gina Martlew Appointed Auditor	<a href="mailto:g-martlew@audit-commission.gov.uk">g-martlew@audit-commission.gov.uk</a> 0844 798 4759	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Borough Treasurer and Chief Executive.
Heather Green Audit Manager	<a href="mailto:h-green@audit-commission.gov.uk">h-green@audit-commission.gov.uk</a> 0844 798 7087	Manages and coordinates the different elements of the audit work. Key point of contact for the Borough Treasurer.

## Independence and objectivity

- 32 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 33 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

## Meetings

- 34 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

## The audit team

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### Quality of service

- 35** We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact the North West Regional Head of Operations, Terry Carter ([t-carter@audit-commission.gov.uk](mailto:t-carter@audit-commission.gov.uk), 0844 798 7150).
- 36** If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.
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### Planned outputs

- 37** Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.
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**Table 5**      **Planned outputs**

<b>Planned output</b>	<b>Indicative date</b>
Opinion audit plan	June 2010
Annual governance report	September 2010
Auditor's report giving an opinion on the financial statements	September 2010

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# Appendix 1 – Basis for fee

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- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.
- 2 The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:
  - our cumulative knowledge of the Council;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
  - interviews with Council officers; and
  - liaison with Internal Audit.

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## Assumptions

- 3 In setting the fee, we have assumed that:
  - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2008/09;
  - you will inform us of significant developments impacting on the audit;
  - Internal Audit meets the appropriate professional standards;
  - Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements.
  - good quality working papers and records will be provided to support the financial statements;
  - requested information will be provided within agreed timescales;
  - prompt responses will be provided to draft reports; and
  - additional work will not be required to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, will be required to undertake additional work which is likely to result in an increased audit fee.

# Appendix 2 – Independence and objectivity

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- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
  - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
  - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

- 6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.
- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
  - Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
  - The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
  - The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- 7 The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

# Appendix 3 – Working together

## Meetings

- 1 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.
- 2 Our proposal for the meetings is as follows.

**Table 6 Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive	District Auditor (DA) with Audit Manager (AM) as appropriate	As required	General update
Borough Treasurer	AM and Team Leader (TL) as appropriate	Monthly (more frequently if required during the final accounts audit)	General update and update on audit and accounts issues
Borough Treasurer and Finance Team	AM and TL	Monthly (more frequently if required during the final accounts audit)	Update on accounts audit issues
Audit Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none"> <li>• Audit Plan</li> <li>• Annual governance report</li> <li>• Other issues as appropriate</li> </ul>

## Sustainability

- 3 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:
  - reducing paper flow by encouraging you to submit documentation and working papers electronically;
  - use of video and telephone conferencing for meetings as appropriate; and
  - reducing travel.

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# 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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## Copies of this report

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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<b>AUDIT COMMITTEE</b>		<b>Part One (D) Agenda Item 9</b>
<b>Date of Meeting: 29th June, 2010</b>		
<b>Reporting Officer: Borough Treasurer</b>		
<p><b>Title: Audit Commission – Benefits Service Re-inspection Report</b></p> <p><b>Summary and Conclusions:</b></p> <p>The Audit Commission carried out a re-inspection of the Council’s benefits service during January to March 2010. The final report has now been published.</p> <p>The Appointed Auditor will attend the meeting to present the report and respond to any question members may have.</p> <p><b>Recommendations:</b></p> <p>Members are recommended to note the report.</p>		

**Report**

The Audit Commission Benefits re-inspection report is attached this report.

- (i) Legal Implications – Not Applicable.
- (ii) Financial Implications – Not Applicable.
- (iii) Health and Safety Implications – Not Applicable.
- (iv) Key Priorities or Corporate Aims – Not Applicable.
- (v) Risk Assessment – Not Applicable.
- (vi) Equality and Diversity – Not Applicable.
- (vii) Health and Well-being Implications – Not Applicable.

**Background Papers**

Nil

# Benefits

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# Service

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# Reinspection

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Barrow Borough Council

June 2010



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# Service Inspections

This inspection has been carried out by the Audit Commission under section 10 of the Local Government Act 1999 and is in line with the Audit Commission's strategic regulation principles. These principles embody the objectives of our Strategic Plan and Strategic Regulation. They also reflect the principles from *The Government's Policy on Inspection of Public Services (July 2003)*. Audit Commission service inspections should:

- focus on public service outcomes from a user perspective;
- act as a catalyst to help inspected bodies improve their performance;
- concentrate inspection work where it will have most impact, so that it is proportionate and based on an assessment of risk;
- be based on a rigorous assessment of costs and benefits, with a concern for achieving value for money both by the inspected organisation and within the inspection regime itself;
- be, and be seen to be, independent of the inspected organisation;
- report in public, using impartial evidence to inform the public about the performance of public services so as to enhance accountability;
- involve collaborative working with other inspectorates and external review agencies to achieve greater coordination and a more holistic approach to the assessment of performance by audited and inspected bodies;
- share learning to create a common understanding of performance that encourages rigorous self assessment and better understanding of their performance by inspected organisations;
- be carried out objectively by skilled and experienced people to high standards and using relevant evidence, transparent criteria, and open review processes; and
- enable continuous learning so that inspections can become increasingly effective and efficient.

We assess services using published key lines of enquiry (KLOE) to inform our judgements. The KLOEs can be found on the Audit Commission's web site at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

This report is issued in accordance with the Audit Commission's duty under Section 13 of the 1999 Act.

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# Summary

- 1 Barrow Borough Council (the Council) provides a fair Benefits Service (the Service) that has uncertain prospects for improvement. This was a reinspection of the Service following an inspection carried out by the Audit Commission in 2008. Then, the Council was found to be providing a poor Benefits Service with poor prospects for improvement.
- 2 The Service has improved processing times for new claims and changes in circumstance which are now processed reasonably promptly. Customers are encouraged to provide evidence to support their claim or change quickly. An appointment scheme was introduced in April 2009 and the Service promises to process claims or changes within two days of the appointment.
- 3 The Service cannot demonstrate that it is shaped around customers needs and there has been limited engagement and consultation with customers. Customer feedback and complaints are not systematically used to improve service delivery. However, staff have a positive attitude to customer care and customers surveyed are satisfied with the service they have received.
- 4 The Service is doing more to encourage local people to claim the benefits they are entitled to and this work has become more targeted and effective. However, there is no formal benefit take-up strategy and the success of activity cannot always be measured. Relationships with stakeholders and partners have improved and are helping to make it easier for customers to access the Service through verifying documents and regular liaison.
- 5 Appeals and reconsiderations<sup>1</sup> are dealt with well. Fraud and error is effectively tackled and managed, as is overpayment recovery. However accuracy is a weakness for the Service and improvement cannot yet be demonstrated.
- 6 Value for money is improving - the Service remains high cost but has improved in terms of efficiency and effectiveness since the last inspection. However, there are no formal plans to improve value for money in the future. Benchmarking is not being used to drive down costs or improve performance.
- 7 There are no longer term plans for the Service. The Council has a short-term improvement plan for the Benefits Service but there is no service plan apart from that of the service provider. There are few outcomes defined in the improvement plan to measure success. Whilst a vision statement for the Service has been established, there are no detailed long-term aims and objectives showing how this will be delivered and improvements will be made.
- 8 The Service does not clearly show how it is contributing to the overall aims and objectives of the Council. There are no explicit links between the Council's key priorities and the Benefits Service. Lack of a clear linkage to wider corporate aims may mean the Service is not helping the Council to deliver its priorities as effectively as it could.

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<sup>1</sup> A request from a customer to have a decision on their claim looked at again.

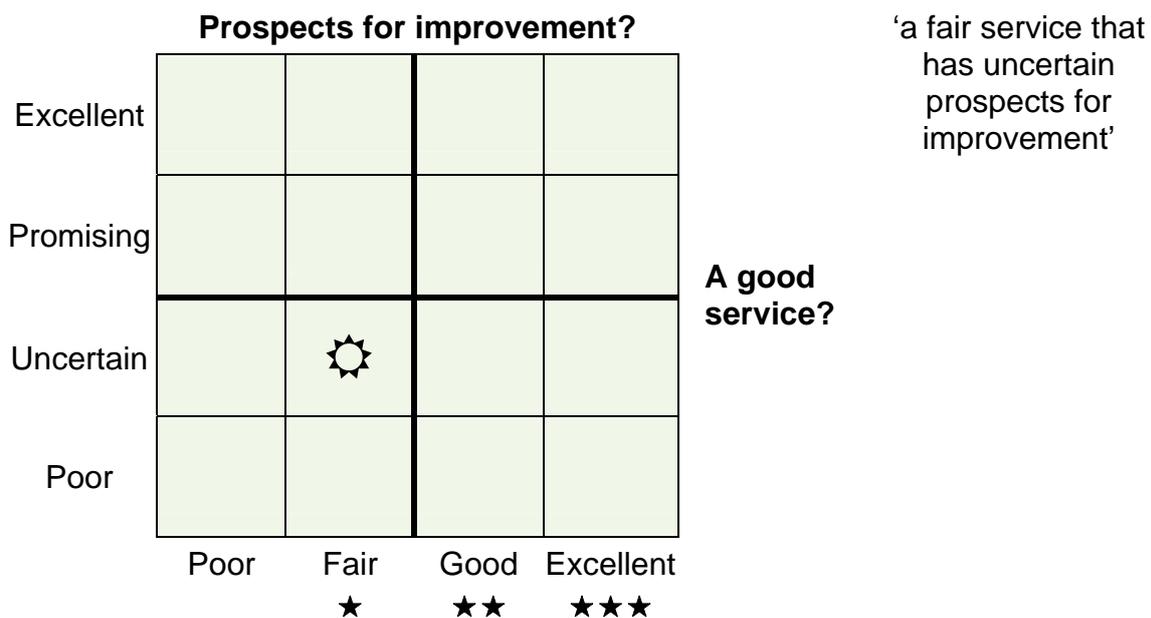
## Summary

- 9 There is not a clear trend of sustained improvement across all key aspects of the Service over the last three years. The Service does not maximise learning opportunities to identify service improvements. However, progress has been made on the majority of the recommendations from the previous inspection and there is improved leadership for the Service through better contract management.

# Scoring the Service

- 10 We have assessed Barrow Borough Council as providing a 'fair', one-star service that has uncertain prospects for improvement. Our judgements are based on the evidence obtained during the inspection and are outlined below.

**Figure 1** Scoring chart<sup>1</sup>



Source: Audit Commission

- 11 The Service is a fair, one star service because:

- it processes new claims and changes in circumstance reasonably promptly;
- there is an appointment scheme to help customers provide evidence and get their claims processed more quickly;
- it is having some success in increasing take-up of benefits through more targeted campaigns;
- it tackles fraud effectively;
- it manages appeals and reconsiderations well;
- overpayment recovery is effective; and
- customers surveyed are satisfied overall with the Service.

<sup>1</sup> The scoring chart displays performance in two dimensions. The horizontal axis shows how good the service or function is now, on a scale ranging from no stars for a service that is poor (at the left-hand end) to three stars for an excellent service (right-hand end). The vertical axis shows the improvement prospects of the service, also on a four-point scale.

## Scoring the Service

12 However there are some weaknesses including:

- accuracy levels;
- service standards are not available to customers, nor is performance against them published anywhere;
- no assessments have been carried out in the Service to ensure equal access for all (equalities impact assessments);
- limited consultation and engagement with customers;
- customers do not find the benefit notification letters easy to understand and can receive multiple copies of the same page; and
- not using benchmarking effectively to drive down costs or improve service delivery.

13 The Service has uncertain prospects for improvement because:

- there are no plans beyond the current action plan for the longer term future of the Service setting out improvements;
- the Council has not set detailed aims and objectives for the Service showing how it will improve outcomes for customers;
- the Service does not clearly demonstrate how it contributes to the overall objectives and priorities of the Council;
- accuracy levels are not yet improving;
- the Service does not maximise learning opportunities to identify service improvements; and
- there is not a clear trend of sustained improvement in the Service year on year over the last three years.

14 However:

- some changes, such as recent improvements to processing times, have had a positive impact for customers;
- progress has been made on the majority of the areas of weakness identified in the previous Audit Commission inspection of the Service;
- the Council is displaying more leadership for the Service through improved contract management; and
- improved partnership working is adding capacity.

# Recommendations

- 15 To rise to the challenge of continuous improvement, councils need inspection reports that offer practical pointers for improvement. Our recommendations identify the expected benefits for both local people and the Council. In addition, we identify the approximate costs<sup>1</sup> and indicate the priority we place on each recommendation and key dates for delivering these where they are considered appropriate. In this context, the inspection team recommends that the Council should do the following.

## Recommendation

**R1** Design and deliver a service which better meets customers needs by:

- formally recording and analysing customer complaints;
- using complaints and customer feedback to make changes to the Service that improve it for customers;
- developing a take-up strategy that is targeted and includes dates, activity details and how success will be measured;
- improving the quality of benefit notification letters; and
- using equality impact assessments to ensure the specific needs of the community are addressed.

The expected benefits of this recommendation are:

- assurance for the Service and the Council that the service it delivers is responsive and relevant to the changing needs of the whole community;
- more targeted use of resources and increasing benefit take-up among vulnerable people; and
- an understanding of the most effective take-up activity with more income brought into the local economy by successful take-up work.

The implementation of this recommendation will have high impact with low costs. This should be implemented by December 2010.

<sup>1</sup> Low cost is defined as less than 1 per cent of the annual service cost, medium cost is between 1 and 5 per cent and high cost is over 5 per cent.

## Recommendations

### Recommendation

**R2** Improve the Service delivered to customers by:

- reviewing the customer service standards to ensure they are appropriate for Barrow;
- promoting service standards to customers;
- monitoring the performance against the standards and reporting the results to customers, senior managers and councillors; and
- ensuring the Service has the capacity to deliver them.

The expected benefits of this recommendation are:

- greater clarity for both internal and external customers on what the Service should be delivering; and
- improved outcomes for service users with a stronger focus on achieving service standards.

The implementation of this recommendation will have high impact with medium costs. This should be implemented by December 2010.

### Recommendation

**R3** Improve service planning by:

- clearly defining the longer term vision, aims and objectives for the Service, and how it will contribute to the corporate priorities;
- setting out specific short, medium and long-term actions for the improvement of the Service;
- identifying and defining accountable staff and clear timescales for delivery; and
- ensuring the contract can support the delivery of the plans for the Service.

The expected benefits of this recommendation are:

- greater confidence that the Service is helping the Council deliver its priorities;
- a clear vision for the future of the Service;
- improved ability to measure success; and
- greater visibility of improvements delivered for officers and councillors.

The implementation of this recommendation will have high impact with low costs. This should be implemented by December 2010.

### Recommendation

- R4** Make better use of learning to improve the quality and performance of the Service by;
- comparing performance and costs with others to help understand how Barrow compares and identify new ways to improve efficiency and effectiveness;
  - analysing the quality of fraud referrals;
  - adequately addressing training needs identified through work checking; and
  - maximising opportunities to learn from others for example by visiting and building relationships with other benefit services.

The expected benefits of this recommendation are:

- a better understanding of the best sources of fraud referrals and where further training or effort is required;
- a more outward looking service giving more opportunities to identify and deliver service improvements; and
- more people are likely to receive accurate benefit payments.

The implementation of this recommendation will have high impact with low costs. This should be implemented by December 2010.

- 16** We would like to thank the staff of Barrow Borough Council who made us welcome and who met our requests efficiently and courteously.

Dates of inspection: on site 13 - 15 January 2010 and 19 - 20 January 2010.

# Report

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## Context

### The locality

- 17** Barrow is a remote district in south-west Cumbria. It is geographically isolated and far from main transport links, being around 35 miles from the M6 and West Coast Main Line. The Borough includes the large coastal town of Barrow-in-Furness, and the parishes of Dalton with Newton, Askam and Ireleth, and Lindal and Marton. Although it is the smallest Cumbrian district, it is home to around 71,000 people which is 14 per cent of the Cumbrian population. Consequently Barrow is more urban in nature than the other districts in Cumbria.
- 18** The Government's 2007 Deprivation Indices rank Barrow as the 29th most deprived local authority area out of 354 in England and it is the only district in Cumbria among the 50 most deprived districts in the country. Central ward in Barrow is the most deprived ward in the county. Barrow-in-Furness has the highest percentage of children living in low-income households across the Cumbrian authorities at 23 per cent, above the England average of 21 per cent.
- 19** Barrow's economy was built on the heavy industries of iron and steel making and shipbuilding. Though still a shipbuilding town, during the 1990s the shipbuilding yard reduced its workforce and 13,000 jobs were lost in the area. This has had a severe and long-lasting effect on the economy of the Borough.
- 20** Current unemployment among the working age population is 5.7 per cent. 3.6 per cent of the working age population are claiming Job Seekers Allowance (October 2009). This is less than both the North-West and Great Britain averages (4.7 and 4.1 per cent respectively). A high proportion of the working age population claim incapacity benefits at 11.6 per cent (regional average is 9.3 per cent and national average is 7.1 per cent (May 2009). This is the highest across the Cumbrian authorities.

### The Council

- 21** The Council is made up of 36 councillors with one-third elected three years in four. No one party has overall control.
- 22** An Executive Committee governs the business of the Council. Councillors do not have specific responsibilities for service areas or cross-cutting issues. Overview and scrutiny committees are responsible for corporate services and economy and regeneration.
- 23** The Council's management team comprises the Chief Executive, assisted by two Directors responsible for Corporate Services and Regeneration and Community, and the Borough Treasurer.
- 24** Barrow Borough Council is performing adequately overall according to the 2009 organisational assessment carried out by the Audit Commission. The Council is performing adequately for both managing performance and use of resources.

- 25 The 2009 area assessment for Cumbria carried out by the Audit Commission awarded a green flag for tackling worklessness in Barrow-in-Furness.

### The Council's Benefits Service

- 26 Housing Benefit (HB) and Council Tax Benefit (CTB) are national welfare benefits administered by the Council on behalf of the Department for Work and Pensions (DWP). A complex legal framework is in place to define who is entitled to benefit and to reduce fraud and error in the system. The Benefits Service within a council has a responsibility to pay the right benefit to the right person at the right time.
- 27 From 1 April 2008, the Audit Commission became responsible for benefits inspections, following the transfer of powers from the Benefit Fraud Inspectorate.
- 28 The Local Government and Public Involvement in Health Act 2007 sets out the framework for giving local people and local communities more influence and power to improve their lives. Councils must therefore provide a service that meets ever changing customer and legislative requirements including:
- reporting on the Department for Communities and Local Government National Indicators (NIs) with effect from 1 April 2008; and
  - contributing to the delivery of other national, regional and local priorities aimed at reducing poverty and addressing social and economic inequity, including targets within the Local Area Agreement.
- 29 Our responsibility to provide assurance (to government, councils, taxpayers and benefit customers) means that we will consider inspection where there is a current or future risk to the Service and its customers. The reason for commissioning the inspection in Barrow was as a follow up to a previous inspection which took place in 2008 and rated the Service as Poor with Poor prospects for improvement.
- 30 The Service in Barrow pays out around £22 million in benefits each year to<sup>1</sup>:
- 7,649 people claiming Council Tax Benefit; and
  - 5,118 people claiming Housing Benefit of which 2,124 are tenants of Barrow Borough Council, 549 are tenants of Registered Social Landlords (RSLs) and 2,445 are tenants of private landlords.

Of the total caseload of 8,122 people, 4,515 people are of working age and 3,607 are of pension age.

- 31 The Council has outsourced the Benefits Service to a private company (referred to in this report as 'the service provider'). The contract to deliver the Revenues and Benefits Service was originally awarded in 1998 for a period of ten years. In 2005, the contract was extended for a further period of ten years to 2018. The Borough Treasurer's department manages the contract. A Strategic Partnership Board comprising councillors, senior staff and the service provider's representatives was set up in April 2008 to oversee the contract. The budget for running the Service in 2009/10 is approximately £1.54 million, of which the DWP funds £760,212 and the balance is met by the Council.

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<sup>1</sup> Caseload statistics provided by the Council as at November 2009.

# How good is the Service?

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## What has the Service aimed to achieve?

32 The Council's vision for the Benefits Service is:

**To pay the right people, the right benefit, at the right time.**

33 The key issues for the Benefits Service, as stated in the 2009/10 Corporate Business Plan are to:

- implement the upgrade to the performance monitoring system;
- ensure performance targets are achieved; and
- implement the actions in the service improvement plan.

34 Barrow's corporate vision is:

**To enhance the economic and social future of the Borough to meet the needs and aspirations of the community.**

35 The key aims to support the vision are as follows.

- Effective community leadership.
- Investing in the Borough's economic future.
- Creating an enhanced quality of life for local residents.
- Developing a safe, confident and socially inclusive community.
- Delivering high quality accessible services.

36 The 2009/10 Corporate Business Plan sets out six key priorities for the Council.

- KP 1 – Create a Safer, Cleaner, Greener environment and reduce the gaps between the priority wards and the average.
- KP 2 – Meet the housing needs of the Borough and make decent housing more accessible.
- KP 3 – Provide easier access to Council services.
- KP 4 – Support economic regeneration.
- KP 5 – Continue to improve the effectiveness and efficiency of your Council.
- KP 6 – Expand facilities and activities for young people.

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### Is the Service meeting the needs of the local community and users?

37 The assessment is based on the following key issues.

- Access, customer care and user focus.
- Diversity.
- Service outcomes.
- User experience and satisfaction.

#### Access, customer care and user focus

- 38 In 2008 we found more weaknesses than strengths in this area. The inspection report made recommendations to improve those weaknesses and the Service developed an action plan to address them. The Service has progressed well against the action plan.
- 39 However, the Service cannot demonstrate that it is shaped around the needs of all service users. There are limited examples of changes made to the Service following customer feedback and customer complaints are not formally recorded or analysed to inform service delivery. The Service is starting to use community profile information to target take-up work more effectively and an appointment system has been introduced to help customers have their new claims and changes processed faster.
- 40 Staff have a positive approach to customer care and on the whole provide good advice to customers. The customers we spoke to during our inspection and the customers surveyed by the Council found staff to be approachable, friendly and helpful. During our mystery shopping exercises customer service staff checked the information they were giving was correct if they had any doubts.
- 41 Benefit take-up work is increasing and becoming more targeted and effective.
- During 2009 the Service ran an advertising campaign in the local media. The advertisements have; explained second adult rebate<sup>1</sup>, told people how to claim Council Tax Benefit and publicised the changes to benefit regulations in October 2009 about child benefit and pensioner's capital.
  - In October 2009 benefit rules changed to disregard child benefit as income and increase the amount of capital pensioners could have and still claim. Posters promoting these changes were distributed to schools, doctors' surgeries, dentists, libraries and community centres.
  - The Service now attends events run by partners to promote benefits for example Streetsafe and Age Concern. Through these events the Service is increasing awareness about benefits available and how to claim.

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<sup>1</sup> Second Adult Rebate is a Council Tax Benefit for people who share their home with a 'second adult' who is 18 or over and is on a low income and does not pay rent.

## How good is the Service?

- The Service has recently used community profile information to identify households currently not claiming benefits in deprived areas of the Borough. They have sent a targeted mailshot to 1331 households identified. This is a letter which includes information about benefits available and a 'Ready Reckoner' to help customers work out if they will be entitled to benefit. The mailshot advises customers to 'Claim if in doubt'. It is too early to see any successful claims because of this exercise.
- The Service proactively identified customers who would benefit from the October 2009 changes. They identified people from the last 12 months who may now be entitled to benefits. Customers were contacted and visited to get the necessary evidence and the exercise resulted in an additional £14,300 each year in new benefit awards.
- A joint exercise was carried out with the Pensions Service helping them to reach some of the poorest pensioners and increase their income. The Service provided a list of pensioners who were receiving Housing or Council Tax Benefit but were not receiving Pension Credit. The Pensions Service is about a third of the way through the list but the exercise has already led to an additional £40,000 a year in benefit payments.

However, there is no formal take-up strategy and the Service cannot always measure the success of take-up activity. Effective take-up campaigns help more local people become aware of benefits they may be entitled to, which can increase their income and bring extra money into the local economy<sup>1</sup>.

### 42 Access to the Service is fair.

- First Point, for face-to-face contact, is in the Town Hall. This is a central location in the Borough and easily accessible by public and private transport. It is open for visitors from 9.00am to 4.30pm from Monday to Thursday and from 9am to 4.00pm on Friday. A drop-in service operates but customers can make an appointment in advance to see an adviser between 3.30pm and 4.30pm Monday to Thursday.
- Clear signs outside the Town Hall tell customers and potential customers where benefits queries are dealt with and give the opening times.
- The benefits pages on the Council website and posters in First Point prominently advertise the visiting service. There is a policy which sets out the criteria which should be met for a home visit. This policy is flexible and allows staff to use their discretion to evaluate each case on its merit. There is good awareness among customer service staff and benefit processors about offering visits and they can usually arrange a visit within several days of a request.
- A floorwalker in First Point helps customers with fast queries and reduces the need for them to wait to see an adviser.
- Customers visiting First Point are seen quickly. The average waiting time during April 2009 to December 2009 was 4 minutes 25 seconds.

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<sup>1</sup> 'The Money Trail' published by the New Economics Foundation estimates that for every £1 increase in benefits paid through take up work, 77 pence is spent in the local economy.

- An adequate range of information is available on the Council's website. This has recently been improved to address some weaknesses identified during the current inspection. Prior to this the information only referred to claiming Council Tax Benefit, the overpayments information did not tell customers how to reduce their debt through providing further information to establish underlying entitlement and appeals rights were misleading. Forms and guidance are available to download and there is a basic benefits calculator to help customers work out entitlement to benefit before submitting a claim form. Changes to regulations that affect customers are highlighted.
- There is a wide range of up-to-date leaflets available in First Point.

### 43 However, there are some weaker areas.

- The abandoned call rate is high and exceeds the target for the Service. During April to December 2009 the abandoned call rate was 11.9 per cent against a target of 10 per cent. A current project is underway to review shift patterns and call volumes so they can take action to reduce the abandoned call rate.
- Customers telephoning the Service can wait too long to speak to an adviser. The average waiting time during April 2009 to December 2009 was 1 minute 28 seconds. This includes a 25 second recorded message which tells customers about the availability of information on the website and reminds customers of their duty to report changes in circumstance.
- Customers cannot access the Service in person or by telephone between Christmas and New Year as the Town Hall is closed. There are plans to move the call centre to a different location which would mean customers would be able to call the Service over the Christmas period in the future.
- Signs within the Town Hall are for the current service provider, not for the Benefits Service. If customers do not know who the current service provider is this may cause delay and confusion.

### 44 The Service helps customers to provide information and evidence to support their claim quickly. In April 2009 the Service introduced an appointment scheme for customers to bring in the evidence needed to process their new claim or change of circumstance. The Service promises to process the claim or change within two days if the customer attends and brings all the evidence. After customers have submitted a claim or a change of circumstance form, staff write out to customers clearly setting out the evidence required and give an appointment time that is within the next three or four working days. The computer system prompts staff to consider whether a visit would be more appropriate. Customers can contact the Service to rearrange an appointment if it is inconvenient and they are texted the day before the appointment to remind them to attend. Customers taking advantage of this scheme get their benefit payment faster.

## How good is the Service?

- 45 Benefit notification letters sent to customers are not easy to understand. Customers and partner organisations told us that following a change or an overpayment they receive excessive pages of information. For example the information page and a change of circumstance form follow every calculation page. This often results in the customer receiving multiple information pages and changes of circumstance forms, causing confusion and anxiety for customers. The benefits system produces the letters and the Service has recently been trying to intercept complex notification letters to try to reduce this problem. Letters that are difficult for customers to understand cause confusion and lead to additional queries to have the information explained.
- 46 Customers still do not know what level of service they can expect to receive. During 2009 the Council adopted the county wide Cumbrian customer service standards, however it does not publish them anywhere for customers to see. The standards have targets for written contact, emails, face-to-face contact and telephone contact. Not promoting the standards to customers means that they may be less able to effectively measure and challenge the level of service they receive.
- 47 The Service is not achieving Council wide customer service standards. Between April 2009 and December 2009 only 72 per cent of customers were seen within five minutes, against a target of 95 per cent. In the same period only 63 per cent of telephone calls were answered within 20 seconds, against a target of 85 per cent. The service provider has its own internal targets for dealing with customers and they do not align with the Council's service standards. There is no performance monitoring of the standards for written contact and emails. Consequently it will be difficult for the Council to deliver against its standards.
- 48 There has been limited engagement and consultation with customers however it is improving. The Service recently surveyed customers using First Point and made one change as a result - they put up a poster telling customers about the availability of private interview rooms. The survey was of 54 customers only and did not capture the views of customers using other methods of contact such as the telephone or visits. The Service has contacted customers who missed appointments to find out why and what they could do to avoid this in the future. Text message reminders were introduced following this. During 2009 the Council implemented an electronic customer feedback system. Customers can leave feedback on the website, after a telephone call and via a portal in First Point. Usage is not yet at the level agreed by the Council to provide meaningful results however there are plans to use this to improve services as usage increases.
- 49 Communication with customers about the need to report changes in circumstance is effective. In the November 2009 customer survey 96.3 per cent of customers knew about their responsibility to report changes in circumstance to the Benefits Service. This level of awareness has been achieved in several ways; by including it in all letters the Service sends out to customers; stating it on promotional information; sending out a change of circumstance form with notification letters; and reminding customers telephoning the Service using the recorded message. This helps to ensure customers report their changes promptly and receive the correct amount of benefit.

- 50** The Service has satisfactory arrangements for consulting and engaging with partners.
- The first stakeholder conference was held in May 2009. This will be an annual event. It was well attended by a range of stakeholders including Citizens Advice Bureau (CAB), Cumbria Multicultural Centre, The Probation Service, MIND<sup>I</sup>, Adult Social Care and A4e<sup>II</sup>. The event helped to raise the profile of the Service and improve relationships. Updated contact details were exchanged to make it easier for partners to contact the Service and one another.
  - Several partners can verify evidence for customers. During 2009 Age Concern and Accent Housing (the largest RSL in the area) received verification training so they can now verify evidence to support a claim, as well as the Housing Service.
  - There are more shared training events. The Service has delivered fraud awareness training to the Housing Service and councillors. The Benefits Service has received training from the Citizens Advice Bureau so they can better signpost customers to further help and welfare benefits.
  - The Service has a number of Service Level Agreements in place with Accent Housing, Jobcentre Plus, Citizens Advice Bureau, The Debt Management Centre, The Pensions Service, The Tribunals Service and the Valuation Office Agency. There are regular formal liaison meetings and either side can raise issues less formally at any time to resolve any problems.
  - The Service holds Landlord Forums twice a year. They are used to tell local landlords about any changes that may affect them, for example Local Housing Allowance, and allow landlords to flag up any issues that are causing them concern.

Good relationships with partners improves the way the Service provides support to the area's most vulnerable people. It also makes it easier for people to access the Benefits Service and resolve any potential problems quicker.

- 51** The Service has not taken any direct action in response to the recession. The caseload increased by 482 customers between November 2008 and November 2009 (6.3 per cent). This was a relatively low increase, both in terms of numbers and percentage, compared with many other councils. However, the Service is missing an opportunity to provide extra help to those facing redundancy or working reduced hours and who may be new to the benefits system.

### Diversity

- 52** In 2008 we found more weaknesses than strengths in this area. There had been slow progress corporately and a formal approach to equality and diversity had not been defined. The corporate approach to equalities and diversity is improving. There is now a corporate equalities group, who meet every eight weeks, tasked with moving the Council forward in this area. The Service has addressed many of the weaknesses identified during the previous inspection.

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<sup>I</sup> MIND is a mental health charity.

<sup>II</sup> A4e is an organisation that aims to provide redundant workers with the training they need to find work in other industries and supply companies with newly trained and enthusiastic workers.

## How good is the Service?

- 53 Equalities impact assessments (EIAs) have not been carried out in the Service. This means that it does not know if its policies and procedures are fair and ensure equal access to services for staff, service users and the wider community. The Council is currently delivering a programme of EIAs across all services and plans to cover the Benefits Service in 2010. The majority of managers have received training in carrying out an assessment and for those services that have had an EIA there has been consultation with local groups. The groups include service users with disabilities, from ethnic minorities and of mixed sexual orientation to ensure all needs are appropriately considered and addressed.
- 54 The service provider is committed to equality and diversity in its service provision. During 2009 contractor staff received training around the Council's equality and diversity policy. This should help ensure the service provider delivers a fair and equitable service, in line with Barrow BC policy.
- 55 The Service does not use information about the ethnicity of claimants effectively. The Service collects ethnicity information about claimants on the benefits claim form however it does nothing with this information. The Service is missing an opportunity to improve its understanding of how well it is reaching and meeting the needs of these groups.
- 56 Access to the Service for customers with different needs is now satisfactory. Council access points comply with the Disability Discrimination Act requirements and there is adequate promotion of services for customers who have hearing difficulties or who may need a translator. Arrangements include:
- two lifts in the Town Hall for disabled users to access both floors;
  - wheelchair users who are first time visitors to the Town Hall have evacuation procedures explained to give them assurance that they will be safe in the event of an emergency;
  - low desks and leaflets at a low height for wheelchair users;
  - Minicom<sup>1</sup> systems and sign language experts are available and well advertised in First Point and on the benefits web pages for people who are deaf or hard of hearing;
  - a recently erected prominent sign says 'welcome' in a number of languages and customer service staff have a smaller laminated version. Customers who do not speak English can use this to point to their language and then a translator can be arranged via the local Multicultural Centre. This sign is designed using the colours that work best for those with visual impairments; and
  - the Council website offers audio software as an additional format. Individual users can change the size, font and colours to suit their preference.

These arrangements help to make the Service and Council accessible to all users and ensure that any customers with hearing difficulties and translation needs are aware there is extra help available and they can ask for it.

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<sup>1</sup> The minicom service is a telephone typewriter device for communication between deaf, hard of hearing, speech impaired and or hearing persons

- 57** The Service is less effective at promoting the availability of information and forms in other languages and formats. Leaflets are available in First Point in Polish and Chinese as these are the most common non-English languages used in the area. The Service can provide information and forms in other languages or, for example, in Braille or large font, however they do not advertise this in First Point or on the benefits web pages. Customers who would benefit from this may be unaware that it exists and they can ask for it, and so the claim process may be harder than it needs to be for them.
- 58** The Service has improved its approach to awarding discretionary housing payments (DHP). These are payments made at the discretion of the Council, subject to an annual cash limit set by central government, in cases where the Council considers that additional help with housing costs is needed by vulnerable customers. More promotion work has been undertaken since the previous inspection to raise awareness of the fund. For example; the Council's benefit web pages promote DHP and an application form is available to download; leaflets have been distributed to partners such as MIND, CAB and the Probation Service; and training sessions have been delivered to the Housing Service and Accent Housing. This work has increased spending of the fund. Although the 2008/09 allocation was not spent in full, the amount of the under spend was much less than in previous years and the Council is on track to spend the full amount of funding for 2009/10 (£9,509). Unfortunately as the DWP allocates funding based on whether the full allocation was spent in previous years, the fund for 2010/11 is lower at £8,945. The Council will consider the need to top this up themselves based on the applications received during the year. The improvements mean that more vulnerable people in Barrow are getting extra help with their rent and council tax.

### Service outcomes

- 59** In 2008 there were more weaknesses than strengths in this area. Customers experienced delays in claims processing and appeals handling.
- 60** Overall, the Service has delivered the objectives stated in the 2009/10 Corporate Business Plan and has made good progress against addressing most of the recommendations from the previous inspection.
- 61** New claims and changes in circumstance are being processed reasonably promptly in this financial year so far. Performance data provided by the Service, from April 2009 to December 2009 shows it took on average 13.3 days to process new claims and change events, against a target of 16 days. This can be split out as 24.5 days for new claims and 9.8 days for changes. The Service exceeded its National Indicator (NI181) target of 21 days for 2008/09 by processing new claims and change events, on average, in 17.4 days.
- 62** Performance against the promise to process claims within two days if customers provide all the necessary evidence at an appointment is improving. In April 2009 the scheme was introduced and customers attending appointments had their claim or change processed within 3.35 working days of the appointment on average. By September 2009 this had reduced to 2.5 days. This means customers using this route are getting their claims processed quicker than if the Service just wrote out for further evidence and waited for the customer to bring or post it in.

## How good is the Service?

- 63 Work is progressed within satisfactory timescales. There are no backlogs of work and work allocation is automated to ensure that all work is progressed within seven days. Our review of weekly monitoring reports confirms this is operating effectively. This contributes towards customers receiving prompt decisions on their claims.
- 64 Accuracy is weak. From April 2009 to December 2009 83.5 per cent of claims were calculated correctly which means that one in six claims contains an error. 2008/09 accuracy performance was 85 per cent. The Service does a wide range of quality checking work which includes both random checking and targeted checking of higher risk work such as complex cases or cases completed by new staff. The Service acknowledges that accuracy is a weakness and explains it in part by the fact that new staff have been taken on. There is a sophisticated monitoring tool in use which allows detailed analysis of the errors to identify trends. Action is taken to try to address issues for example one-to-one training or group training sessions, however this is yet to deliver the desired improvements.
- 65 The Service deals with appeals and reconsiderations well. In 2008/09 82 per cent of appeals were sent to the Tribunal Service within four weeks and 91 per cent were sent within three months. For the first nine months of 2009/10 100 per cent were sent within four weeks. The Tribunals Service confirms that they have a good working relationship with Barrow and no concerns about the quality of submissions. In 2008/09 70 per cent of reconsiderations were dealt with within four weeks and this has increased to 91 per cent up to December 2009. This means that customers do not experience delays in progressing their appeal or wait too long to have a benefit decision reviewed.
- 66 The fraud team effectively tackles fraud and error. There are good examples to support this.
- Achieving a good level of sanctions and prosecutions through effective detection and investigation work. In 2008/09 the Service achieved 52 sanctions and between April and December of 2009 they have achieved 53.
  - Following up housing benefit matches from the latest National Fraud Initiative (NFI) exercise with eight frauds and over £8,000 of overpayments identified so far.
  - A strong approach to dealing with Housing Benefit Matching Service (HBMS) referrals. A team from the DWP visited the Service in October 2009 and were impressed with the methodology used to sift the matches and identify those warranting a fraud referral. DWP will be sharing the good practice with other local authorities.
  - A flexible prosecutions policy. It sets out clear criteria and guidelines for applying prosecutions, cautions and administrative penalties, while emphasising the need to treat each case on its own merits.
  - Taking cases to court which are of a good standard. The prosecution rate for cases taken to court during 2008/09 was 98 per cent and in 2009/10 it was 99 per cent. Prosecutions are then publicised in the local media.

By effectively detecting and tackling fraud the Service is reducing the burden on the public purse.

- 67 On a less positive note there are some weaker areas relating to the management of fraud work.
- At the time of the inspection customer service staff had not received fraud awareness training.
  - Current management arrangements mean no one is reviewing the fraud manager's case files.
  - There is no analysis of the quality of fraud referrals to get an understanding of the best sources of referrals and where further training may be useful.

Minimising fraud and error through good fraud awareness and high-quality referrals will help the Service to further prevent and detect fraud.

### User experience and satisfaction

- 68 In 2008 we found customer satisfaction to be comparatively low and the Service did not have an up-to-date picture of customer satisfaction.
- 69 Customer satisfaction has improved and is currently quite high. In November 2009 the Service surveyed 54 customers visiting First Point. They found 79.7 per cent of customers rated the Benefits Service overall as one or two from a scale of one to ten where one is best and ten is worst. This has increased from only 40 per cent of customers rating the Service one or two in a similar survey of customers during the last inspection in 2008. Early results from the customer feedback system also support this view. 328 customers accessing the Service either by telephone, internet or in person rated the Service - 72 per cent rated the Service as good and 9 per cent rated it as average.
- 70 Customers visiting First Point have a pleasant experience. Customers we spoke to during the inspection told us that staff were polite and helpful. The waiting area is clean with children's toys, drinking water and customer toilets are available. There are private rooms available and all areas are accessible for wheelchairs. A comfortable environment for customers helps them feel valued and can reduce stress.

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### Is the Service delivering value for money?

- 71 In 2008 we found the Service was not demonstrating value for money.
- 72 Value for money has improved since the last inspection. Although benchmarking with other local authorities shows costs of the Service remain high, efficiency and effectiveness have improved and a better service for customers is being delivered. Also, local taxpayers are contributing less towards the cost of running the Service. In 2007/08 the contribution was 58 per cent of the cost of running the Service and in 2008/9 reduced to 54 per cent. This is still well above the average of 39 per cent across all councils and the difference equates to an extra £229,270 that local taxpayers had to meet.

## How good is the Service?

- 73** Benchmarking is still not used effectively. So far benchmarking information has only compared costs with no comparison of performance alongside the costs. The Service is not confident that they are comparing like with like as they do not yet fully understand what the cost figures for the comparator services include. Until they do this they feel their comparisons and considering performance would offer little value. This is a recommendation from the previous inspection and the Service recognises they still have a way to go in this area. Benchmarking can improve learning and help to drive down costs and/or improve performance.
- 74** The Service has adequate arrangements in place to monitor the subsidy claim form. The monthly operational performance meetings between the Council and the service provider monitor the local authority error levels. The DWP rewards councils where local authority error overpayments are low, as part of the subsidy incentive scheme. The DWP sets thresholds, based on total expenditure, and if the local authority error overpayments stay within these thresholds the authority receives full subsidy. The Service has kept local authority error overpayments within these thresholds for the last three years receiving £220,000.
- 75** Overpayment recovery is effective. During 2008/09 the Service recovered 81 per cent of overpayments raised in the year and 35 per cent of total overpayment debt. The latest comparative information available is for 2007/08 and this would be better than average performance. Performance during 2009/10 remains good with 78 per cent of overpayments raised in year recovered and 38 per cent of all outstanding debt. A range of recovery methods are used which include deductions from other benefits, attachment to earnings, payment by instalments and use of debt collection agents. A weakness identified is that recovery from ongoing benefit starts as soon as the overpayment notification letter is sent out. Good practice is to give customers one month, the time they have to appeal their overpayment, before recovery starts.
- 76** The Service does not have significant levels of outstanding debt. The total outstanding as at 31st December 2009 was £778,153 and the majority of this, 60 per cent, is less than 12 months old. The total outstanding debt for 2008/09 was £779,426. Debts become increasingly difficult to collect as they age so councils are more likely to be successful in recovering younger debts.
- 77** The Service is now using the most cost-effective payment method to make payments to customers. During 2009 there was a project to move all customers on to receiving payments by BACS<sup>1</sup>. The project was successful with 99.5 per cent of customers now receiving their benefit payments by BACS resulting in an estimated yearly saving of £27,000.

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<sup>1</sup> BACS (Bankers Automated Clearing Service) is an automated payment method.

# What are the prospects for improvement to the Service?

## What is the Service track record in delivering improvement?

- 78** The Service has a mixed track record in delivering improvement over the last three years. There is not a clear sustained trend of improvement year on year, although some key aspects of the Service have improved in recent years (see Table 1). After relatively static performance between 2006/07 and 2008/09, the speed of processing new claims improved during 2009/10. The speed of processing changes in circumstances has also improved in 2008/09 and in 2009/10. Fraud sanctions have improved since 2006/07. However, there is a high error rate and the accuracy of assessments is declining. This means that customers are now notified of their benefit entitlement faster, but there is less certainty that they are being paid the right benefit.
- 79** The Service has improved the time taken to deal with appeals. The percentage of appeals submitted to the Tribunal Service within four weeks declined from 42 per cent in 2006/07 to 22 per cent in 2007/08. However, this has improved significantly since then, reaching 100 per cent during 2009/10.

**Table 1 Performance indicators**

### Track record of improvement

Performance Indicator	2006/07	2007/08	2008/09	April to December 2009
Average time taken to process new claims (days) <sup>1</sup>	29.1	28	28.5	April - August - 25.54 September - December 23.26
Average time taken to process a change in circumstance (days)	17.4	17.5	13	April - August - 15.54 September - December - 7.13
Number of fraud sanctions	38	63	52	53
Accuracy - percentage correct (comparable data available from June 2007 only)		87.9%	85%	83.5%
Percentage of appeals submitted to the Tribunal Service within 4 weeks/3 months	42%/100%	22% / 67%	82% / 91%	100% / 100%

### Audit Commission and Barrow Borough Council

<sup>1</sup> New claims and changes data from April 2008 to August 2009 taken directly from the Council's Housing Benefit system in the absence of accurate data from the Single Housing Benefit Extract (SHBE). This was only available for Barrow from September 2009. DWP collects performance information from authorities via SHBE which is a monthly electronic scan of data.

## What are the prospects for improvement to the Service?

- 80** Customer satisfaction with the Benefits Service for those using the Council's First Point office has improved. For example, customers rating the overall Benefits Service in the best two categories out of ten improved from 40 per cent in 2008 to 79.7 per cent in 2009. However, more customers were finding letters from the Service difficult to understand. In 2009 20.4 per cent of customers rated the ease of understanding letters in the worst category of ten compared with 3.3 per cent in 2008.
- 81** The Service has had mixed success in implementing an appointment system for customers. The Service has introduced a process which aims to make it easier for customers to provide evidence to support their claims. Part of the process is that the Service sets up an appointment for the customer to bring in the evidence a few days later. However 50 per cent of customers are not attending their appointments. For those that do attend the Service promises to have their claim processed within two days. The Service spoke to customers to understand the reasons for the attendance levels and it is taking action to try to improve it, for example through using text reminders of appointments.
- 82** Progress has been made on the majority of the recommendations from the previous Audit Commission inspection in 2008. This has led to improvements for customers. For example:
- the Service has improved the time taken to pay benefits by reducing core processing times;
  - the home visiting service has been promoted more widely, with flexible criteria for eligibility;
  - better management of discretionary housing payments is leading to more financial support being provided to vulnerable customers;
  - benefit take-up work has increased and is more targeted and effective; and
  - improved consultation and engagement with partners has improved capacity to meet customer needs.
- 83** However, not all issues raised by the previous inspection have been effectively addressed. For example:
- clear customer service standards have not been publicised;
  - while some benchmarking information has been obtained, it has not been analysed and used to effectively challenge and improve performance;
  - although a vision statement has been adopted there are no detailed aims and objectives that reflect the local context for the Service; and
  - while some contract performance targets have been agreed with the service provider these are for the short-term only.

## What are the prospects for improvement to the Service?

- 84 Value for money is a weak area for the Service but has recently improved. Through leveraging additional benefits from the service contract at no extra cost, the Council has improved the value for money delivered by the contract. The benefits caseload has increased while improvements can be seen in; the speed of processing claims; dealing with appeals and customer satisfaction. The Service is also now benefiting from a more effective work checking tool. The Council has used additional administrative funding it has received from the DWP for 2009/10 to increase its own capacity and has reduced costs through paying customers by BACs. Better performance coupled with some cost savings represents improvement in value for money.

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## How well does the Service manage performance?

- 85 The Council has developed a clear vision statement for its Benefits Service but has not set detailed aims and objectives. The Council's vision for the Benefits Service is "to pay the right people, the right benefit at the right time". Councillors agreed the vision statement, which reflects statutory requirements for the Benefits Service. However, the Council has not set any detailed aims and objectives for the Service showing how the vision is to be delivered and how it will improve outcomes for users.
- 86 The Service does not clearly demonstrate how it contributes to the overall vision, objectives and priorities of the Council. There are no explicit links between the Council's key priorities and the Benefits Service. The Council has set out some key issues for the Service in the Corporate Business Plan for 2009/10, but these are short-term and not clearly linked to corporate objectives. The key issues focus on implementing the actions in the Benefits Service improvement plan and improving performance management. This lack of a clear linkage to wider corporate aims may mean the Service is not helping the Council to deliver its priorities as effectively as it could.
- 87 The Council has a short-term improvement plan for the Benefits Service but there is no service plan apart from that of the service provider. The Council produced an improvement plan which addresses the recommendations from the previous inspection and this has been the focus for the last 12 months. However, there are few outcomes defined in the improvement plan to measure success. There are no plans for the longer term future of the Service setting out what future improvements will be made. It is important to define and maintain a longer term view in order to see the short-term actions in the context of what the Service is trying to achieve overall.
- 88 The Council is now developing its corporate approach to improve equalities and diversity, which has been a weakness. The Council is working with other Cumbrian authorities to understand what they need to do to improve their performance and reach the 'achieving' level in the Equality Framework for Local Government by December 2010. The equality strategy has been redrafted in consultation with local voluntary groups and partners, and the Council intends to develop an action plan to address any weaknesses. Progress on equalities and diversity is important to ensure the Council is addressing the needs of all communities.

## What are the prospects for improvement to the Service?

- 89 Through improved contract management the Council is displaying more leadership for the Service. Senior councillors and managers review the performance of the service provider through quarterly Strategic Partnership Board meetings. Challenge has been provided, for example with a review of performance identifying a need to improve benefits processing times, which have subsequently improved. The Council provides leadership to the Service by identifying some areas where the Service can improve. An example of an improvement is using data from the Council's community profile system to target non-claiming households for take-up work.
- 90 There is a clear understanding at political leadership and senior manager level that the Council needs to work with its partners to address the problems of deprivation in Barrow. The Council has a good focus on addressing worklessness in Barrow with a range of interventions and partnership working which have had a significant impact on reducing the high numbers on incapacity benefit and getting them back into work. The contract with the service provider has helped with the Council's wider regeneration priority with the creation of approximately 250 jobs in the Borough.
- 91 Performance management in the Service has improved and is adequate. Performance is monitored through formal monthly and quarterly operational performance meetings between the Council and the service provider. This includes monthly reporting of benefits processing times, customer service performance and numbers of complaints and compliments. Council staff apply more scrutiny and challenge to the service provider which has led to improved performance. The arrangements mean any deterioration in performance can be quickly identified and the Council can ensure that corrective action is taken.
- 92 The use of performance target setting and contract penalties for missing them is improving. However, the penalties do not cover all key aspects of service delivery, focusing only on processing times. The contract has been changed for processing targets for 2009/10 only. These targets will need to change every year in order to continue improving performance but there is no agreed process to do this. This would have to be negotiated with the contractor. This may make it difficult for the Council to continue to hold the contractor to account for improving performance.
- 93 There are no formal plans to improve value for money as this is constrained by the contractual arrangements with the service provider. The Council is looking at its internal costs for the Service, for example by reviewing recharges, but this provides limited scope for value for money improvements.
- 94 The Service cannot demonstrate that it is learning effectively from quality checking work. There is a robust framework for quality checking work which is carried out by both Barrow Council staff and staff of the service provider. From April 2009 the service provider supplied the Council with a tool to improve the use of quality checking and results. The tool takes the reviewer through each check and records the results in a database. The database can be interrogated to identify common errors and analyse errors by type and by assessor. However this is not yet contributing to improving accuracy.

## What are the prospects for improvement to the Service?

- 95 There is little evidence of how the Service maximises learning to identify opportunities to deliver improvements. Complaints are not systematically analysed and used to improve services. The Service has started to benchmark costs but has not yet delivered any service improvements as a result of benchmarking. The Service does not seek out examples of best practice to learn from them how to make improvements. However, the Service has learned from the previous inspection. Improvements have been delivered and the Service was responsive during the reinspection, making changes as weaknesses were identified. For example, by improving information on the website.

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### Does the Service have the capacity to improve?

- 96 The Council has improved capacity to effectively manage the service contract. An additional part-time member of staff has been taken on to help manage the contract and drive forward performance improvements. This includes increased quality checking and targeted checking of higher risk claims.
- 97 The Service has developed better resilience to fluctuations in demand. During 2008/09 Barrow became part of the multicontract processing arrangement with the service provider. Before this there was a separate team of staff who worked solely on the Barrow contract. This means that staff now work across contracts and resources can be increased or decreased according to demand. This has contributed to the improved processing times. The Service is currently considering moving the telephone contact centre to the shared service centre so they can have similar benefits.
- 98 The use of information and communication technology to improve work allocation has developed. An electronic document management system now allocates all work. Work is prioritised according to age and importance. Work is also graded according to complexity so it is allocated to a particular member of staff who has the appropriate skills and pay set.
- 99 The Council is not ensuring that training is effectively addressing the accuracy issues that it has identified. Staff are generally well trained to deliver the core service. There are training plans and training records are maintained. Training includes equalities and diversity. Arrangements are in place to manage staff performance. Using the quality tool the Council identified officers who they felt were not performing adequately and their error rate was too high. They then made sure these staff did not work on their contract until their accuracy improved. However, the Service is not yet able to demonstrate the overall success of training in terms of increased accuracy levels.
- 100 Arrangements for training and receiving training from partners and stakeholders are improving. Over the last year fraud awareness training has been delivered to the Housing Service, Accent Housing and councillors and is planned for customer service staff. Customer service staff have received training on welfare advice from the Citizens Advice Bureau. In addition, the Service gave a presentation to councillors and staff from other services telling them what they do. This helps to raise the profile of the Benefits Service, increase fraud awareness and ensure that customers receive the correct advice.

## What are the prospects for improvement to the Service?

- 101 The Service is working well with partners to increase capacity. For example, the Housing Service, Accent Housing and Age Concern now verify evidence to support benefit claims for customers. This makes it easier for customers to provide evidence to support their claim and can reduce duplication. By working closely with partners the Service is better placed to be able to meet the needs of service users in a more effective way in the future.
- 102 The Council can demonstrate that it has adequate financial capacity to provide the Benefits Service. The Council has a budget forecast for the future setting out the resources to provide the Service. Monies from the extra administrative funding received by the Council in 2009/10 from the DWP have been used to increase promotional activity and client capacity to manage the contract. Senior management at the Council has indicated they would consider negotiating on the costs of the Service but that they would have to take a view on what future standard of service could be provided within reduced costs.

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Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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		<b>Part One</b>
<b>AUDIT COMMITTEE</b>		<b>(D) Agenda Item 10</b>
<b>Date of Meeting:</b>	<b>29th June, 2010</b>	
<b>Reporting Officer:</b>	<b>Director of Corporate Services</b>	
<p><b>Title: Annual Governance Statement 2009-2010</b></p> <p><b>Summary and Conclusions:</b></p> <p>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).</p> <p><b>Recommendations:</b></p> <p>Members are recommended to approve the authority's AGS for 2009-2010 and action plan to be implemented in 2010-2011.</p>		

### **Report**

The Annual Governance Statement is the mechanism used to demonstrate that, during the financial year ended 31<sup>st</sup> March 2010, the Council has an adequate governance regime in place and all business was conducted in compliance with the existing arrangements. Instances of non-compliance or weakness identified require an action plan to eliminate re-occurrence.

The AGS including a proposed action plan to be implemented in 2010-2011 is attached to this report.

(i) **Legal Implications**

The Council has a statutory obligation to review and publish its governance arrangements.

(ii) **Financial Implications**

Good governance arrangements in the Council enhance positive financial practice.

(iii) **Health and Safety Implications**

Due adherence to Health and Safety Legislation and updated policy form part of effective governance arrangements.

(iv) Key Priorities or Corporate Aims

To improve the Efficiency and Effectiveness of the Council.

(v) Risk Assessment

The risks of running an inefficient Council are mitigated by having effective governance arrangements which involve taking informed and transparent decisions which are subject to effective scrutiny and management of risk

(vi) Equality and Diversity

The governance arrangements have no negative impact on any service provided by the Council.

(vii) Health and Well being

Not Applicable

Background Papers

Nil



## **Annual Governance Statement 2009 2010**

<b>Author</b>	<b>Chief Executive</b>
<b>Date published</b>	<b>June 2010</b>
<b>Review date</b>	<b>April 2011</b>

Before the Audit Committee on 29 June 2010.

Chief Executive's Department  
Town Hall  
Duke Street  
Barrow-in-Furness  
Cumbria  
LA14 2LD

directorsadmin@barrowbc.gov.uk  
[www.barrowbc.gov.uk](http://www.barrowbc.gov.uk)

## **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 provides a wide range of statutory and discretionary services over a wide geographical area and 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 2010, 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, initiated by the Regeneration Publicity Team, which represents business, tourism, the Urban Regeneration Company (Barrow Renaissance), further and higher education and other regeneration organizations in the Borough has effectively harnessed the Council's and wider communities' development objectives with a wiser sense of ownership
- The Council's policies, aims and objectives are well established and monitored at various levels, for example Corporate Business plan, annual budget 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 savings continue to exceed 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**
- Established framework of forums providing Members and Officers with diverse opportunities for effective and efficient integrated working
  - 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
- There are authorising and reviewing officers appointed under the Regulation of Investigatory Officers Act 2000 (RIPA)
- 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 and policy decisions include cross references to the Council's strategic objectives and key priorities supported by the recommendations
- All committee reports and policy decisions consider the potential financial, risk management, legal, health and safety as well as equality and diversity impact on all service users

**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 Deputy 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 the IDeA.

**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, Barrow Borough Council's online service to help the people of Barrow Borough contact us about local issues is now established
- Committee and Council meetings are open to the public, with papers available on the internet
- Clear and colourful publications, including Annual Report, residents' magazine, tenants newsletter, A-Z of Council Services
- The Council engages with diverse communities within the Council's area through groups such as the Citizens Advice Bureau, Furness Multicultural Forum, Barrow and District Disability Association, Age Concern and the Blind Society
- The Council continues to engage with hard to reach groups through the following the Cumbrian forums:
  - AWAZ (Cumbria), promotes the active participation of minority ethnic people and groups
  - Cumbria Disability Network

- OutREACH Cumbria, a new strategic partner working on equality issues with the LGBT Community.
- 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 2009-10 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, as amended. 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.

Internal Audit's assessment of auditable areas has identified 73

potential systems which cover the Council's operations. Within the 2009-10 annual audit work schedule planned coverage amounted to 37% of systems which related to 80% of the total risk. Against this target Internal Audit achieved 32% of systems coverage which amounted to 77% of the total risk; additionally a number of unplanned audit activities were undertaken.

The majority of Council systems have achieved the level of substantial assurance. 10 systems have been classified as restricted assurance, two of which are awaiting management responses and are therefore not currently issued as final reports.

30 final reports have been issued with 21 reports achieving substantial assurance, 8 with restricted assurance and 1 unqualified assurance. This achievement demonstrates the Council's commitment to operating within a control environment that should minimise the risk of loss to the Authority.

Last year's Internal Audit report identified areas of weakness in relation to contracts let in previous financial years. These have been helpful in shaping the amendments to the Council's Contract Standing Orders. Assurance may be taken that these weaknesses are being addressed.

The outcomes of 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 16 December 2009, indicated that the

Council's has arrangements in place for securing continuous improvement in corporate governance with no significant weaknesses identified that would prevent improvement levels being sustained.

In December 2009 the Council was advised that in findings from the Audit Commission's assessment of how Barrow-in-Furness Borough Council was managing and using its resources to deliver value for money and better and sustainable outcomes for local people it had achieved an overall Level 2 which means that the Council is judged to be performing adequately.

It was also noted that the Council's theme score for financial reporting was Level 3 which meant that the Council was exceeding minimum requirements and performing well. 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 with an assessment 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. A recent audit in June 2010 noted improvements in the revenues and benefits service. It also acknowledged improved standards due to better contract management. Further areas for improvement were mentioned. The Barrow/ Liberata Improvement Board continues to work through the recommendations to further enhance the service.

A cross cutting review of health inequalities which was completed during 2007-08 involving local government and health organisations was still relevant in 2009-2010. The report concluded that organisations in Cumbria have a strong commitment to tackling health inequalities and an increasing focus on collaborative action. The Council through its key priorities and annual objectives continues to provide recreational facilities for young people; and provide concessions at its leisure facilities for the young, elderly and disabled members of the community.

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.

## Annual Governance Statement 2009-2010

The following governance issues were identified during 2009-10 as a result of the review of arrangements and by the work of external and internal audit:

- Continue to develop a benefit service that is shaped round customers with improved customer engagement and consultation
- Develop a Revenues and Benefits Service Plan for the Council with a focus on long term aims and objectives
- Improve the Council's adherence to its duty to promote equality by attaining the "Achieving level" of the local government equality framework by March 2011.

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**  
**21 June 2010.**

**Councillor K. Williams**  
**Deputy Leader**  
**21 June 2010**

<b>AUDIT COMMITTEE</b>	<b>(D) Agenda Item 11</b>
<b>Date of Meeting: 29th June, 2010</b>	
<b>Reporting Officer: Borough Treasurer</b>	
<b>Title: Final Accounts for the Year ended 31st March, 2010</b>	
<b>Summary and Conclusions:</b>	
The Accounts and Audit Regulations 2003 require the approval of the Statement of Accounts by 30 <sup>th</sup> June 2010 and publication by 30 <sup>th</sup> September 2010.	
This report presents the Council's Statement of Accounts for the year ended 31 <sup>st</sup> March 2010.	
<b>Recommendations:</b>	
Members are recommended to:	
<ol style="list-style-type: none"><li>1. Review and scrutinise the annual statement of accounts. To consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statement that need to be brought to the attention of the Council.</li><li>2. Formally approve the Statement of Accounts for 2009-2010 and agree its submission to the Audit Commission.</li><li>3. Authorise the chairman of this committee to sign the accounts on behalf of the Council.</li></ol>	

## **Report**

The statement of accounts for the year (subject to audit) is attached to this report.

Local Authority accounts are prepared to comply with Generally Accepted Accounting Principles (GAAP) in the United Kingdom. This means that public sector accounts are moving towards alignment with company accounts. The professional accounting body for the public sector the Chartered Institute of Public Finance and Accountancy (CIPFA) issues Statement of Recommended Practice (SORP) and guidance to authorities on the best way of producing the accounts.

In preparing the accounts for 2009-2010, your officers have complied with recommended practice and all the relevant legislations.

The results for the financial year ended 31<sup>st</sup> March 2010 are:

### **The General Fund:**

Members will recall that the 2009-2010 original General Fund (GF) net revenue budget was set at £13,742,000. The net GF expenditure for the year is £13,449,953. The **surplus** for the year is £292,047.

The final GF balance as at the 31<sup>st</sup> March 2010 is £2,263,306. This is a prudent level of balance to maintain and represents around 16% of the net revenue budget.

The actual expenditure is compared to the original budget and the difference forms part of the GF balance.

The main variations from the original budget have been reported to the Executive Committee on a quarterly basis throughout 2009-2010. The full year variations for major items over £50,000 are detailed below:

<b>A. Major under-spends / Over-recovery of income</b>	£
Direct staff costs	310,806
Exceptional income	150,956
Benefits overpayments recovered	133,068
Benefits administration subsidy	94,506
Net treasury activities – investments and borrowing	63,730
Planning applications fee income	61,599
Electricity and Gas	61,005
<i>Other items (including £1,881,225 net Area Based Grant c/fwd)</i>	<i>1,947,438</i>
<b>(A) Total Major Under-spends</b>	<b>2,823,108</b>
<b>B. Major over-spends / Under-recovery of income</b>	
Bad debt provision	245,312
Contracts indexation	235,905
Recycling reward income	119,846
Concessionary fares	53,873
<b>(B) Total Major Over-spends</b>	<b>654,936</b>
<b>C. Utilisation of Surplus</b>	
Contribution to earmarked reserves	2,296,087
Contribution from earmarked reserves	(419,962)
<b>(C) Total Net Contributions</b>	<b>1,876,125</b>
<b>Increase in GF Balance (A-B-C)</b>	<b>292,047</b>

### **The Housing Revenue Account:**

The Housing Revenue Account (HRA) original budget for 2009-2010 was set at a surplus of £52,670. The outcome for the year was a deficit of £22,918.

The HRA balance as at the 31<sup>st</sup> March 2010 is £824,061.

The main reasons are:

<b>Major Variations</b>	£
Income under recovered (£163,604 relates to dwelling rents)	212,862
Housing subsidy payable lower than budgeted	(207,721)
Net other items over spend	17,777
<b>Decrease in HRA Balance</b>	<b>22,918</b>

**The Collection Fund:**

The Collection Fund (CF) resulted in a deficit of £80,235. This deficit will be shared in 2011-2012 amongst the Borough Council, Cumbria County Council and the Police Authority in proportion to their precepts for 2010-2011.

<b>Share of deficit to be incorporated in setting the 2011-2012 tax:</b>	£
Cumbria County Council	59,661
Cumbria Police Authority	9,959
Barrow Borough Council	10,615
<b>Total</b>	<b>80,235</b>

**Reserves:**

The available reserves as at the 31<sup>st</sup> March 2010 are:

- The Opportunity Reserve at £1,111,758 of which £208,474 is committed. In the year approved amounts totalling £83,794 were used for the following:

<b>Approved used of the Opportunity Reserve:</b>	£
Energy efficiency programme	57,150
Waste minimisation project	21,644
Barrow community trust (year 3) - Executive Committee 14/11/2007	5,000
<b>Total</b>	<b>83,794</b>

- The general reserve stood at £461,623.
- Other earmarked reserves amounted to £3,308,717.

<b>Other earmarked reserves:</b>	£
Balance brought forward	1,348,798
Contribution in the year	2,296,087
Used in the year	(336,168)
<b>Balance carried forward</b>	<b>3,308,717</b>

<b>Main contributions to earmarked reserves:</b>	£
Area Based Grant carried forward	1,951,582
Industrial units ring fencing of income	262,545
<b>Used for:</b>	
Budget setting support	189,000
Leisure Centre loss of income support	76,060

- The Usable Capital Receipts at the year end were £1,908,986.
- The Major Repairs Reserve for the HRA at the year end was £411,486.

More detailed information and analysis of the accounts can be obtained from the attached full Statement of Accounts.

Members should note that the main statements will be restated on an IFRS basis and reported to this committee later in the year.

(i) Legal Implications

The Accounts and Audit Regulations 2003 require the approval of the Statement of Accounts by 30<sup>th</sup> June 2010 and publication by 30<sup>th</sup> September 2010.

(ii) Financial Implications

Included in the report

(iii) Health and Safety Implications

Not Applicable.

(iv) Key Priorities or Corporate Aims

Not Applicable.

(v) Risk Assessment

Not Applicable.

(vi) Equality and Diversity

Not Applicable.

(vii) Health and Well-being Implications

Not Applicable.

Background Papers

Nil

## Barrow Borough Council

# Statement of Accounts for 2009-10

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Issued by:  
 Borough Treasurer  
 Barrow Borough Council  
 Town Hall  
 Duke Street  
 Barrow-in-Furness  
 Cumbria  
 LA14 2LD

[financialservices@barrowbc.gov.uk](mailto:financialservices@barrowbc.gov.uk)  
[www.barrowbc.gov.uk](http://www.barrowbc.gov.uk)

Published June 2010

## Explanatory Foreword to the Accounts

### Introduction

The Statement of Accounts summarises the Council's transactions for the 2009-10 financial year and its position at the year-end 31 March 2010. 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 2010. 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 49**) 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 50 to 57**) 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 58 to 60**) 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 2010, the Council had an adequate governance regime in place and that all business was conducted in compliance with the existing arrangements. (**Pages TBA**).

### Comparison with revenue budget

The Council's original spending plans (budget) in overall terms and the actual outturn for 2009-10 are shown below:

2008-09			2009-10	
Budget	Actual		Budget	Actual
£			£	
13,092,000	13,145,927	Net General Fund budget approved by Council on the 23 February 2009	13,742,000	13,449,953
(53,927)		Movement in the General Fund balance for the year	292,047	
		<b>To be funded by:</b>		
8,887,317		Central Government	9,412,688	
4,204,683		Council Tax	4,227,312	

The net actual expenditure after contributions to reserves for 2009-10 is £292,047 below the Council's net General Fund budget. There was a net under-spend on the General Fund services of £220,734. A net contribution to earmarked reserves of £1,876,125 was made. This includes £1,881,225 carried forward Area Based Grant. Area Based Grant is a non-ring fenced fund received from Central Government.

For the Housing Revenue Account the original spending plans (budget) and the actual outturn for 2009-10 are shown below:

2008-09			2009-10	
Budget	Actual		Budget	Actual
£			£	
29,820 surplus	120,557 surplus	Housing Revenue Account budget approved by Council on the 23 February 2009	52,670 surplus	22,918 deficit

The main reason for the deficit of £22,918 for 2009-10 is lower than budgeted dwelling rents matched mostly by an under-spend of subsidy payable to Central Government.

### Balances and reserves

The balances and reserves available to the Council at the 31 March 2010:

	31 March 2009	31 March 2010
	£	£
General Fund revenue balance	(1,971,258)	(2,263,306)
General Fund earmarked reserves	(3,005,972)	(4,882,098)
HRA revenue balance	(845,980)	(824,061)
Usable capital receipts reserve	(1,572,673)	(1,908,986)
Total usable reserves and balances	(7,395,883)	(9,878,451)

### 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 2009-10 and how it has been financed is shown below, together with the current debt outstanding and the prudential limit on external borrowing.

2008-09		2009-10
£		£
15,656,880	Capital investment	11,640,005
(2,115,177)	Financed by borrowing	(1,174,051)
(10,817,391)	Financed by grant	(8,295,879)
(642,407)	Financed by capital receipts	(303,636)
(2,081,905)	Financed by balances and reserves	(1,866,439)
(15,656,880)		(11,640,005)
(39,000,000)	Authorised limit for external debt	(36,000,000)
(29,000,000)	Total of external loans	(22,389,734)

### **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 2009-10 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 2009-2010 there has been a change in the accounting treatment of Council Tax and Business Rates transactions. For Council Tax, the share of the relevant transactions for the County Council and the Police Authority are now included as debtors or creditors in the balance sheet. The Council's portion of the transactions remains within the main statements. The Business Rates collected on behalf of Central Government are now shown as a debtor or creditor in the balance sheet.

### **The credit crunch**

In 2009-2010 the Council continued its cautious approach towards counterparty investment decisions. Deposits have been limited to the Council's main bank, the HSBC which has one of the highest credit rating scores and a solid capitalisation value.

### **International Financial Reporting Standards**

New financial reporting standards are being introduced from the financial year 2010-11 to comply with IFRS requirements, as required by HM Treasury. The Council's accounts will have to be prepared in accordance with the new code.

## 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 2009 (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 included in the Balance Sheet as current liabilities and current assets respectively.

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.

### **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**

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 apart from specialised property which is included at depreciated replacement cost. 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 2009 and was carried out in accordance with specific government guidance on stock valuation issued in July 2005. For all other assets the last full 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-minimus 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-minimus 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, except for the Housing Revenue Account where resource accounting determines that depreciation charges remain.

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 60** of this Statement of Accounts give a true and fair view of the financial position of the Council for 2009-10 and its income and expenditure for the year ended 31 March 2010.

**M Saleh CFP, BA, M.Litt**  
**Borough Treasurer**  
**22 June 2010**

**Councillor O N Flitcroft**  
**Audit Committee Chairman**  
**29 June 2010**

## 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 £
1,594,853	Central services to the public	8,842,999	(7,098,433)	1,744,566
10,274,443	Cultural, environmental and planning services	16,283,902	(6,900,836)	9,383,066
1,506,418	Highways, roads and transport services	2,366,183	(1,523,758)	842,425
7,105,306	Housing Revenue Account	6,244,206	(8,999,098)	(2,754,892)
953,610	Other housing services	21,761,634	(20,922,784)	838,850
(146,341)	Exceptional items <b>Note 2</b>	37,739	(188,696)	(150,957)
1,570,491	Corporate and democratic core	1,622,245	(85,809)	1,536,436
4,109,539	Non distributed costs <b>Note 3</b>	3,065,464	(748,650)	2,316,814
<b>26,968,319</b>	<b>Net Cost of Services</b>	<b>60,224,372</b>	<b>(46,468,064)</b>	<b>13,756,308</b>
406,155	Loss on the disposal of fixed assets <b>Note 4</b>			103,366
(3,258)	Gain on the disposal of contingent assets <b>Note 5</b>			(50,678)
108,500	Parish council precepts			102,000
1,276,500	Interest payable and similar charges <b>Note 6</b>			994,929
235,905	Contribution of housing capital receipts to Government Pool <b>Note 7</b>			243,988
(462,405)	Interest and investment income <b>Note 6</b>			(16,558)
1,276,000	Pensions interest cost and expected return on pensions assets <b>Note 8</b>			1,969,000
<b>29,805,716</b>	<b>Net Operating Expenditure</b>			<b>17,102,355</b>
(4,238,811)	Income from Council Tax <b>Note 1</b>			(4,437,775)
(3,909,334)	General government grants <b>Note 9</b>			(5,272,760)
(7,801,311)	Non-domestic rates redistribution			(7,316,049)
<b>13,856,260</b>	<b>Deficit for the year</b>			<b>75,771</b>

### 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
£		£
13,856,260	Deficit for the year on the Income and Expenditure Account	75,771
(13,802,333)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year <b>Notes 17 and 18</b>	(367,818)
53,927	(Increase)/decrease in General Fund Balance for the Year	(292,047)
(2,025,186)	General Fund Balance brought forward	(1,971,259)
(1,971,259)	General Fund Balance carried forward	(2,263,306)

### 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
£		£
13,856,260	Deficit for the year on the Income and Expenditure Account	75,771
(14,688,294)	Surplus arising on the revaluation of fixed assets <b>Note 25</b>	(1,669,227)
(1,345,000)	Actuarial (gains)/losses on pension fund assets and liabilities <b>Note 8</b>	9,216,000
<u>(2,177,034)</u>	Total recognised gains for the year	<u>7,622,544</u>

## Balance Sheet

31 March 2009			31 March 2010
£			£
	<b>Tangible Fixed Assets</b> <i>Notes 19 to 32</i>		
	<b>Operational assets:</b>		
80,370,912	Council dwellings	83,356,750	
43,591,465	Other land and buildings	43,382,575	
2,198,441	Equipment	1,832,320	
1,877,376	Infrastructure assets	1,810,938	
9,466,305	Community assets	9,717,045	
	<b>Non-operational assets:</b>		
15,739,045	Commercial and other properties	15,778,114	
10,565,905	Assets under construction	11,303,501	
8,182,464	Surplus assets, held for disposal	9,066,541	
171,991,913	<b>Total fixed assets</b>		176,247,784
7,367	Long-term debtors <b>Note 33</b>		10,300
171,999,280	<b>Total long-term assets</b>		176,258,084
	<b>Current assets</b>		
30,586	Stocks <b>Note 34</b>	29,845	
7,003,334	Debtors <b>Note 35</b>	7,026,789	
4,592,394	Cash and bank	1,125,842	
			8,182,476
183,625,594	<b>Total assets</b>		184,440,560
	<b>Current liabilities</b>		
(633,282)	Short-term borrowing <b>Note 36</b>	(489,173)	
(5,658,478)	Creditors <b>Note 37</b>	(6,372,340)	
			(6,861,513)
177,333,834	<b>Total assets less current liabilities</b>		177,579,047
(29,000,000)	Long-term borrowing <b>Note 6</b>		(22,389,734)
(509,095)	Provisions <b>Note 38</b>		(680,191)
(3,020,970)	Unapplied grants <b>Note 39</b>		(2,342,126)
(39,011,597)	Grants deferred <b>Note 39</b>		(43,763,534)
0	Deferred liability <b>Note 40</b>		(37,625)
(22,199,154)	Liability related to defined benefit pension scheme <b>Note 8</b>		(32,395,363)
83,593,018	<b>Total assets less liabilities</b>		75,970,474
	<b>Financed by: (Note 41)</b>		
(69,836,971)	Capital adjustment account <b>Note 42</b>		(68,371,658)
664,718	Financial instruments adjustment account <b>Note 43</b>		423,645
(29,268,854)	Revaluation reserve <b>Note 44</b>		(30,169,311)
(1,572,673)	Usable capital receipts reserve <b>Note 45</b>		(1,908,986)
(7,367)	Deferred capital receipts		(5,300)
22,199,154	Pensions reserve <b>Note 8</b>		32,395,363
0	Major repairs reserve <b>Page 56 Note 15</b>		(411,486)
(1,971,258)	General Fund balance		(2,263,305)
(845,980)	Housing Revenue Account balance		(823,061)
52,185	Council tax adjustment account <b>Note 46</b>		45,723
(3,005,972)	Earmarked reserves <b>Note 47</b>		(4,882,098)
(83,593,018)	<b>Total net worth</b>		(75,970,474)

## Cash Flow Statement

2008-09		2009-10	
£		£	£
(8,461,506)	<b>Net movement on revenue activities</b> <i>Note 53</i>		(7,883,883)
	<b>Returns on Investments and Servicing of Finance</b>		
	Cash outflows		
1,276,500	Interest paid	1,139,037	
	Cash inflows		
(493,277)	Interest received		(18,546)
783,223	<b>Net movement in servicing of finance</b>		1,120,491
	<b>Capital Activities</b>		
	Cash outflows		
5,560,775	Purchase of fixed assets	1,641,705	
8,526,239	Other capital cash payments	6,695,523	
	Cash inflows		
(798,601)	Sale of fixed assets		(490,316)
(8,445,373)	Capital grants received <i>Note 54</i>		(5,726,917)
(33,417)	Other capital cash receipts <i>Note 55</i>		(52,745)
4,809,623	<b>Net movement on capital activities</b>		2,067,250
(2,868,660)	<b>Net cash (inflow)/outflow before financing</b> <i>Note 56</i>		(4,696,142)
	<b>Management of liquid resources</b>		
(4,900,000)	Net increase/(decrease) in short-term deposits		0
3,743,900	Net increase/(decrease) in other liquid resources	1,548,940	
(1,156,100)	<b>Net movement on liquid resources</b>		1,548,940
	<b>Financing</b>		
	Cash outflows		
2,000,000	Repayments of amounts borrowed	6,610,266	
	Cash inflows		
(2,000,000)	New short-term loans		0
0	<b>Net movement on financing</b>		6,610,266
(4,024,760)	<b>Net (increase)/decrease in cash</b>		3,463,064

## Notes to the Core Financial Statements

### 1. Prior period adjustments

The Core Accounting Statements have been restated for 2008-09 to reflect the change in accounting for the Collection Fund. Both NNDR and the council tax relating to the major preceptors are now included as government debtors. The amounts relating to the Council remain in the Statements in the relevant headings.

The income recognised in the Income and Expenditure Account is the amount due for the year on an accrual basis. This includes the Council's share of the surplus or deficit on the year and excludes any prior year surplus or deficit due to the General Fund from the Income and Expenditure Account.

#### *Income and Expenditure Account*

	Income from Council Tax	Collection fund (surplus)/deficit
	£	£
Audited Statement of Accounts 2008-09	(4,273,918)	(39,265)
Include 2008-09 deficit	35,107	
Remove 2006-07 collection fund surplus		39,265
Income from Council Tax	(4,238,811)	0

This results in an increase in the deficit for the year of £74,372 (£35,107 + £39,265) which is excluded from the General Fund balance in the Statement of Movement on the General Fund Balance.

#### *Statement of Movement on the General Fund Balance*

	Deficit for the year on the Income and Expenditure Account	Net additional amount required by statute and non-statutory proper practices to be debited to credited to the General Fund Balance
	£	£
Audited Statement of Accounts 2008-09	13,781,888	(13,727,961)
Change in Income from Council Tax	74,372	
Council tax adjustment		(74,372)
	13,856,260	(13,802,333)

The Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year is been restated to exclude the Income from Council Tax not attributable to the 2008-09 General Fund Balance. The overall effect of this change in accounting treatment is neutral to the General Fund.

All elements of the national non-domestic rates (NNDR) and the council tax relating to the major preceptors are now included as government debtors. The amounts due to the major preceptors and the NNDR pool are held as debtors on the Balance Sheet. The amounts relating to the Council are carried in the relevant headings:

**Balance Sheet**

	NDR		Council tax	
	DCLG	Cumbria County Council	Police Authority	Barrow Borough Council
	£	£	£	£
<b>Audited Statement of Accounts 2008-09</b>				
Government debtors	473,426	289,500	47,451	
<b>Allocate Debtors</b>				
Arrears	1,370,212	3,368,199	556,274	610,511
Bad debt provision	(1,074,151)	(2,252,603)	(372,028)	(408,301)
<b>Allocate Creditors</b>				
Prepayments and receipts in advance	(566,396)	(761,319)	(125,735)	(137,995)
	203,091	643,777	105,962	64,215
Government debtors	203,091	643,777	105,962	
Council tax arrears				610,511
Bad debt provision - council tax arrears				(408,301)
Prepayments and receipts in advance				(137,995)
	203,091	643,777	105,962	64,215

The Council Tax income for 2009-10 is shown on an accrual basis which includes the demand on the Collection Fund and the share of the balance for the year.

**2. Exceptional items**

The exceptional items for 2009-10 are shown below.

2008-09		2009-10
£		£
	<b>Exceptional expenditure items:</b>	
15,000	Employment tribunal	0
30,789	Consultant fees for VAT claim	37,739
	<b>Exceptional income items:</b>	
(38,181)	Bank of Credit and Commerce International dividend	0
(153,949)	VAT repaid including interest for cultural services	(188,696)
<b>(146,341)</b>		<b>(150,957)</b>

**3. Non distributed costs**

In addition to specific items of revenue expenditure, the non distributed costs include the capital charges that relate to the Council's non-operational assets. The value of these transactions varies between years, so to provide some clarity the transactions associated with non-operational assets for 2009-10 are shown below.

2008-09		2009-10
£		£
	<b>Non-operational assets</b>	
326,756	Depreciation charged for the year	436,122
5,601,486	Impairment losses	2,498,625
715,772	Non Council assets written out to revenue	45,000
0	Gain on previous year impairment losses	(74,080)
(188,292)	Deferred grants amortised to revenue	(234,134)
(2,363,362)	Deferred grants not attributable to specific assets	(440,436)
<b>4,092,360</b>		<b>2,231,097</b>

#### 4. Disposal of fixed assets

The losses on the fixed assets that the Council has sold for 2009-10 are shown below.

2008-09		2009-10	
£		£	
	<b>Sale proceeds:</b>		
(236,000)	Dwellings	(287,905)	
(126,101)	Commercial and other properties	(108,000)	
(205,000)	Assets under construction	0	
(150,000)	Surplus assets, held for disposal	(431,717)	
(717,101)	Total sale proceeds		(827,622)
	<b>Carrying value:</b>		
163,200	Dwellings	207,001	
126,101	Commercial and other properties	108,000	
607,544	Assets under construction	0	
226,410	Surplus assets, held for disposal	615,987	
1,123,255	Total carrying value		930,988
406,154	Losses on disposals of fixed assets		103,366

#### 5. Disposal of 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 claw back a proportion of the discount originally awarded to the tenant purchasing the dwelling from the Council.

#### 6. Financial instruments

##### *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.
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

##### *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 the adoption of a Treasury Management Strategy and treasury management clauses within its financial regulations;
- 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.

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 23 February 2009 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2009-10 was set at £36,000,000. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £33,000,000. This is the expected limit of external borrowings or other long term liabilities.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 30% based on the Council's net debt.

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; these are a requirement of the Code of Practice and are reviewed periodically.

#### **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 Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after that. Details of the Investment Strategy can be found on the Council's website, the key areas of the Investment Strategy are that the minimum criteria for investment counterparties include:

- Minimum credit rating of A (Fitch or equivalent rating).
- UK institutions provided with support from the UK Government.
- Building societies limited by value based on their asset size.

In addition to adopting the minimum criteria above the Council agreed that the Borough Treasurer restrict investment activity to those counterparties considered of higher quality until the market returned 'normal' conditions.

The Council had no exposure to credit risk during 2009-10 or 2008-09 as there were no Council funds invested in the market.

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:

<b>Debt outstanding</b>	<b>Default and uncollectability provision</b>
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 £661,506 of the £1,038,594 balance owed by trade debtors for 2009-10 is past its due date for payment (£488,520 of the £1,594,998 for 2008-09). The past due amount can be analysed by age as follows:

<b>31 March 2009</b>		<b>31 March 2010</b>
<b>£</b>	<b>Debt outstanding</b>	<b>£</b>
232,339	Less than 3 months	288,165
40,407	Three months to six months	89,871
74,176	Six months to one year	86,736
141,598	More than one year	196,734
488,520	Total	661,506
346,844	Provision for bad and doubtful debt	494,956
71%	Percentage of provision	75%

#### **Liquidity risk**

The Council manages its liquidity position through the risk management procedures above (setting and approval of prudential indicators and the approval of treasury and investment strategy reports), as well as a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when it is needed.

The Council has ready access to borrowings from the Money Market to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

#### **Refinancing and maturity risk**

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the Borough Treasurer addresses the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and

- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period (approved by Council in the Treasury Management Strategy):

31 March 2009		31 March 2010	Approved maximum limits	Approved minimum limits
£	PWLB loans	£	£	£
(4,000,000)	Over 20 but not over 25 years	(4,000,000)	100% fixed if maturity structure 10 years and above	0%
(6,000,000)	Over 25 but not over 30 years	(6,000,000)		
(19,000,000)	Over 40 but not over 45 years	(12,389,734)		
<u>(29,000,000)</u>		<u>(22,389,734)</u>		

All trade and other payables (£4,356,675; £4,263,075 for 2008-09) are due to be paid in less than one year and are not shown in the table above.

### **Market risk**

**Interest rate 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, depending on how variable and fixed interest rates move across differing financial instrument periods. 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 (no impact on revenue balances);
- 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 (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, 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, subject to influences from Government grants. Movements in the fair value of fixed rate investments will be reflected in the Statement of Total Realised Gains and Losses, unless the investments have been designated as Fair Value through the Income and Expenditure Account, in which case gains and losses will be posted to the Income and Expenditure Account.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The Borough Treasurer will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

The risk of interest rate loss is partially mitigated by Government grants payable on financing costs.

For 2009-10 (and 2008-09) 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 2009-10 (and 2008-09) the Council held fixed rate borrowings with the Public Works Loans Board and short-term fixed rate investments.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be to decrease the fair value of fixed rate borrowing liabilities by £3,432,650 to a fair value of £19,574,327 for 2009-10.

The approximate impact of a 1% fall in interest rates would increase the fair value of fixed rate borrowing liabilities by £4,463,167 to a fair value of £27,470,144 for 2009-10.

**Price risk** - The Council does not invest in equity shares or marketable bonds 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.

#### **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 2009	31 March 2010	31 March 2009	31 March 2010
	£	£	£	£
<b>Financial liabilities at amortised cost</b>				
Trade creditors <b>Note 37</b>	0	0	(3,704,516)	(4,356,675)
Long-term borrowing principal	(29,000,000)	(22,389,734)	0	0
Accrued interest on borrowing	(633,282)	(489,173)		
<b>Total borrowings</b>	<b>(29,633,282)</b>	<b>(22,878,907)</b>	<b>(3,704,516)</b>	<b>(4,356,675)</b>
<b>Loans and receivables</b>				
Trade debtors <b>Note 35</b>	0	0	1,594,998	1,038,594
<b>Total investments</b>	<b>0</b>	<b>0</b>	<b>1,594,998</b>	<b>1,038,594</b>

#### **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:

2009-10	Financial liabilities: measured at amortised cost	Financial assets: loans and receivables	Total
	£	£	£
Interest payable	(994,929)	0	(994,929)
Interest and investment income	0	16,558	16,558
<b>Net gain/(loss) for the year</b>	<b>(994,929)</b>	<b>16,558</b>	<b>(978,371)</b>

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

#### ***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:

- For loans from the PWLB, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures, the rates applied at 31 March 2010 are from 4.29% to 4.42%; 3.97% to 4.15% were applied at 31 March 2009.
- 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 2009			31 March 2010	
Carrying amount	Fair value		Carrying amount	Fair value
£	£		£	£
(29,633,282)	(30,993,447)	PWLB debt	(22,389,734)	(23,006,977)
(4,263,075)	(4,263,075)	Trade creditors	(4,356,675)	(4,356,675)
<b>(33,896,357)</b>	<b>(35,256,522)</b>	<b>Total Financial Liabilities</b>	<b>(26,746,409)</b>	<b>(27,363,652)</b>
1,594,998	1,594,998	Trade debtors	1,038,594	1,038,594
<b>1,594,998</b>	<b>1,594,998</b>	<b>Total Loans and Receivables</b>	<b>1,038,594</b>	<b>1,038,594</b>

The fair value of the financial liabilities 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.

#### **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.

#### **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:

	<b>Local Government Pension Scheme</b>	
	<b>£</b>	
	<b>2008-09</b>	<b>2009-10</b>
<b>Income and Expenditure Account</b>		
Net Cost of Services:		
current service cost	1,078,000	699,000
past service cost	0	31,000
curtailment cost		51,000
<i>Included in Net Cost of Services</i>	1,078,000	781,000
Net Operating Expenditure:		
- interest cost	4,761,000	4,648,000
- expected return on assets in the scheme	(3,485,000)	(2,679,000)
<i>Included in Net Operating Expenditure</i>	1,276,000	1,969,000
Net Charge to the Income and Expenditure Account	2,354,000	2,750,000
Statement of Movement on the General Fund Balance:		
- reversal of net charges made for retirement benefits in accordance with FRS 17	(2,354,000)	(2,750,000)
	(2,354,000)	(2,750,000)
Actual amount charged for pensions in the year:		
- employers' contributions payable to scheme	1,302,180	1,361,149
- retirement benefits payable to pensioners	329,856	408,642
Total actual pensions paid in the year	1,632,036	1,769,791

In addition to the recognised gains and losses included in the Income and Expenditure Account, an actuarial loss of £9,216,000 (a gain of £1,461,000 in 2008-09) 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 a loss of £12,918,000 at 31 March 2010; a loss of £3,696,000 at 31 March 2009.

**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:

	<b>Local Government Pension Scheme</b>	
	<b>2008-09</b>	<b>2009-10</b>
<b>Present Value of the scheme liabilities:</b>	<b>£</b>	<b>£</b>
1 April	79,108,000	66,644,000
Current service cost	1,078,000	699,000
Interest cost	4,761,000	4,648,000
Contributions by scheme members	371,000	370,000
Actuarial (gains) and losses	(15,111,000)	18,837,000
Benefits paid	(3,557,000)	(3,424,000)
Past service costs	0	31,000
Curtailment costs	0	51,000
31 March	66,650,000	87,856,000

	<b>Local Government Pension Scheme</b>	
	<b>2008-09</b>	<b>2009-10</b>
<b>Fair Value of the scheme assets:</b>	<b>£</b>	<b>£</b>
1 April	56,171,000	44,445,000
Expected return on assets	3,485,000	2,679,000
Actuarial gains and (losses)	(13,650,000)	9,621,000
Employer contributions	1,625,000	1,770,000
Contributions by scheme members	371,000	370,000
Benefits paid	(3,557,000)	(3,424,000)
31 March	44,445,000	55,461,000

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 £12,300,000 (£10,165,000 in 2008-09).

**Scheme history**

<b>All in £'s</b>	<b>2005-06*</b>	<b>2006-07 As Revised</b>	<b>2007-08 As Revised</b>	<b>2008-09</b>	<b>2009-10</b>
Present Value of liabilities	74,245,000	72,669,000	79,108,000	66,650,000	87,856,000
Fair Value of assets	55,540,000	57,379,000	56,171,000	44,445,000	55,461,000
Scheme deficit	18,705,000	15,290,000	22,937,000	22,205,000	32,395,000

\* The Council has elected not to restate the fair value of assets for 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 £32,395,000 at 31 March 2010 (£22,205,000 at 31 March 2009) 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.



**History of experience gains and losses**

The actuarial gains identified as movements on the Pensions Reserve in 2009-10 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2010:

	2005-06	2006-07 as revised	2007-08 as revised	2008-09	2009-10
	%	%	%	%	%
Differences between the expected and actual return on assets	12.9	0.6	(5.6)	(30.7)	17.3
Experience gains and losses on liabilities	(1.0)	0	0.4	0	0

**9. General Government grants**

These are Government grants that are not attributable to specific services. The grants for 2009-10 that the Council received are shown below.

2008-09		2009-10
£		£
(1,086,006)	Revenue Support Grant	(1,688,639)
(2,809,693)	Area Based Grant	(3,485,181)
(13,635)	Local Authority Business Growth Incentive	(25,940)
0	Housing Planning Delivery Grant	(73,000)
<b>(3,909,334)</b>	<b>Total</b>	<b>(5,272,760)</b>

**10. Extraordinary items**

There are no extraordinary items for 2009-10.

**11. Members allowances**

The Council has 36 councillors, the details of allowances and expenses are:

2008-09		2009-10
£		£
81,644	Basic allowance	82,940
33,106	Extra responsibility allowance	34,376
13,646	Expenses	18,945
5,020	Mayoral expenses	5,080
<b>133,416</b>	<b>Total</b>	<b>141,341</b>

## 12. Senior Officer remuneration

Regulation 4 of the Accounts and Audit (Amendment No.2) (England) Regulations 2009 introduced a new legal requirement to increase transparency and accountability in Local Government for reporting remuneration of Senior Employees.

The number of employees which includes all Senior Officers, whose remuneration excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were:

Remuneration band	2008-09	2009-10
	Number of employees	Number of employees
£60,000 - £64,999	1	1
£65,000 - £69,999	1	0
£70,000 - £74,999	1	2
£95,000 - £99,999	1	1

The following table sets out the above Senior Officers emoluments for 2009-10 and the comparative year, 2008-09 below:

### 2009-10

Post title	Salary and allowances	Benefits in kind	Total remuneration excluding pension contributions	Pension contributions	Total remuneration including pension contributions
	£	£	£	£	£
Chief Executive	99,645	0	99,645	21,951	121,596
Director of Corporate Services	72,178	0	72,178	15,845	88,023
Director of Regeneration and Community Services	66,159	4,384	70,543	15,845	86,388
Borough Treasurer	54,592	5,900	60,492	13,102	73,594
	<b>292,574</b>	<b>10,284</b>	<b>302,858</b>	<b>66,743</b>	<b>369,601</b>

### 2008-09

Post title	Salary and allowances	Benefits in kind	Total remuneration excluding pension contributions	Pension contributions	Total remuneration including pension contributions
	£	£	£	£	£
Chief Executive	99,540	0	99,540	21,037	120,577
Director of Corporate Services	71,248	0	71,248	14,989	86,237
Director of Regeneration and Community Services	65,308	4,384	69,692	14,989	84,681
Borough Treasurer	54,592	5,900	60,492	12,556	73,048
	<b>290,688</b>	<b>10,284</b>	<b>300,972</b>	<b>63,571</b>	<b>364,543</b>

The allowances include car subsidy, telephone and local election allowance. The benefits in kind relate to lease cars.

### 13. Audit costs

In 2009-10 the Council incurred the following fees relating to external audit:

2008-09		2009-10
£		£
117,166	Fees payable to the Audit Commission:	118,821
40,270	For external audit services carried out by the appointed auditor	45,250
1,150	For the certification of grants and claims	2,490
	National Fraud Initiative	
158,586	Total	166,561

### 14. Value Added Tax

There is £919 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 2008-09. From September 2009 the Council has introduced the requirement for petrol receipts with mileage claims and the VAT element has been recovered.

### 15. 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 **Notes 9, 54 and 58**.

26 Senior Council Officers and all 36 Members were asked to declare any direct financial relationships, other than remuneration, with the authority.

For 2009-10 there were 4 members receiving housing benefit as a private landlord, 1 members business received rate relief and there were 3 members that transacted business as a supplier of the Council.

In 2008-09 there was 1 Senior Officer and 3 members receiving housing benefit as a private landlord and there were 2 members that transacted business as a supplier of the Council.

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

2008-09		2009-10
£		£
	<b>Senior Officers</b>	
3,650	Received housing benefit as a private landlord	0
	<b>Members</b>	
39,408	Received housing benefit as a private landlord	168,647
0	Received business rate relief	3,104
95,153	Traded with the Council as a supplier	4,210
138,211		175,961

## **16. 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.

## **17. 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.

### 18. 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	
		£	£
(1,466,433)	Depreciation of fixed assets	(2,346,570)	
(16,023,975)	Impairment of fixed assets <b>Note 25</b>	(3,142,922)	
0	Gain on previous impairment loss <b>Note 25</b>	1,436,701	
(1,018,295)	Assets written down to revenue	(72,180)	
2,363,362	Deferred grants amortised to revenue	598,719	
507,522	Deferred grants fully released	440,436	
(1,569,865)	Revenue Expenditure Funded From Capital Under Statute (REFFCUS) <b>Note 28</b>	(2,287,990)	
1,534,862	Grant associated with REFFCUS <b>Note 28</b>	2,268,100	
(406,155)	Net loss on sale of fixed assets	(103,366)	
3,258	Net gain on sale of contingent assets	50,678	
(2,354,000)	Net charges made for retirement benefits in accordance with FRS 17 <b>Note 8</b>	(2,750,000)	
241,073	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	
(74,372)	Council Tax adjustment <b>Note 46</b>	6,462	
(18,263,018)	<b>Total to be excluded from Income and Expenditure account</b>		(5,660,859)
813,984	Minimum revenue provision for the repayment of debt <b>Note 29</b>	1,105,260	
(235,905)	Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool <b>Note 7</b>	(243,988)	
1,223,263	Capital expenditure charged to revenue	315,482	
1,632,035	Employer's contributions payable to the Superannuation Pension Fund and retirement benefits payable direct to pensioners <b>Note 8</b>	1,769,791	
3,433,377	<b>Total to be included in Income and Expenditure account</b>		2,946,545
120,557	HRA balance <b>Page 51</b>	(22,918)	
(125,882)	Transfers to or from the Major Repairs Reserve	493,289	
1,032,633	Net transfer to or from earmarked reserves <b>Note 47</b>	1,876,125	
1,027,308	<b>Total movement in reserves</b>		2,346,496
(13,802,333)	<b>Net additional amount required to be credited to the General Fund balance for the year</b>		(367,818)

## 19. Movement on operational fixed assets

	<b>Council dwellings</b>	<b>Land and buildings</b>	<b>Equipment</b>	<b>Infra-structure</b>	<b>Community assets</b>	<b>Total</b>
	£	£	£	£	£	£
<b>Balance sheet value</b>						
At 31 March 09	80,370,912	43,591,465	3,514,218	2,001,323	9,516,351	138,994,269
Reclassification of assets	(60,000)	302,920	(42,488)	42,488	(54,370)	188,550
Items written down to revenue	0	0	0	0	(27,180)	(27,180)
Assets written out at end of useful economic life	0	0	(128,838)	0	0	(128,838)
Revaluation gain 1/4/09	3,275,866	248,257	0	0	0	3,524,123
Impairment loss 1/4/09	(252,642)	(130,358)	0	0	(15,000)	(398,000)
Eliminate depreciation on revaluation 1/4/09	(1,561,600)	(182,780)	0	0	0	(1,744,380)
Impairment loss on commissioning	0	(494,204)	0	0	0	(494,204)
Acquisitions in year	0	0	385,958	0	0	385,958
Enhancements in year	1,791,215	1,056,787	9,145	0	385,597	3,242,744
Disposals in year	(207,001)	0	0	0	0	(207,001)
<b>At 31 March 10</b>	<b>83,356,750</b>	<b>44,392,087</b>	<b>3,737,995</b>	<b>2,043,811</b>	<b>9,805,398</b>	<b>143,336,041</b>
<b>Depreciation</b>						
At 31 March 09	0	0	(1,315,777)	(123,947)	(50,046)	(1,489,770)
Reclassification of assets	0	0	42,488	(42,488)	0	0
Assets written out at end of useful economic life	0	0	128,838	0	0	128,838
Charged in the year	(1,561,600)	(1,192,292)	(761,224)	(66,438)	(38,307)	(3,619,861)
Eliminate depreciation on revaluation 1/4/09	1,561,600	182,780	0	0	0	1,744,380
<b>At 31 March 09</b>	<b>0</b>	<b>(1,009,512)</b>	<b>(1,905,675)</b>	<b>(232,873)</b>	<b>(88,353)</b>	<b>(3,236,413)</b>
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
<b>Net Book Value at 31 March 10</b>	<b>83,356,750</b>	<b>43,382,575</b>	<b>1,832,320</b>	<b>1,810,938</b>	<b>9,717,045</b>	<b>140,099,628</b>
Estimated useful economic life	30 years	5-75 years	3-50 years	3-50 years	20-30 years	

## 20. Movement on non-operational fixed assets

	Commercial and other properties	Assets under construction	Surplus assets, held for disposal	Total
	£	£	£	£
<b>Balance sheet value</b>				
At 31 March 09	15,739,045	10,580,565	8,182,464	34,502,074
Eliminate depreciation from 2008-09 reclassification	0	(14,660)	0	(14,660)
Reclassification of assets	2,507,769	(2,756,319)	60,000	(188,550)
Items written down to revenue	(45,000)	0	0	(45,000)
Revaluation gain 1/4/09	123,047	0	0	123,047
Impairment loss 1/4/09	(412,589)	(107,122)	(62,763)	(582,474)
Eliminate depreciation on revaluation 1/4/09	(128,967)	0	0	(128,967)
Impairment loss on commissioning	(2,209,485)	0	0	(2,209,485)
Acquisitions in year	0	380,000	964,350	1,344,350
Enhancements in year	619,449	3,221,037	538,477	4,378,963
Disposals in year	(108,000)	0	(615,987)	(723,987)
<b>At 31 March 10</b>	<b>16,085,269</b>	<b>11,303,501</b>	<b>9,066,541</b>	<b>36,455,311</b>
<b>Depreciation</b>				
At 31 March 09	0	(14,660)	0	(14,660)
Eliminate depreciation from 2008-09 reclassification	0	14,660	0	14,660
Charged in the year	(436,122)	0	0	(436,122)
Eliminate depreciation on revaluation 1/4/09	128,967	0	0	128,967
<b>At 31 March 10</b>	<b>(307,155)</b>	<b>0</b>	<b>0</b>	<b>(307,155)</b>
Net Book Value at 31 March 09	15,739,045	10,565,905	8,182,464	34,487,414
<b>Net Book Value at 31 March 10</b>	<b>15,778,114</b>	<b>11,303,501</b>	<b>9,066,541</b>	<b>36,148,156</b>
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. The indication of estimated useful economic life excludes land held as an asset which is held at 999 years, or in perpetuity.

## 21. Summary of movement on fixed assets

	Operational assets	Non-operational assets	Total fixed assets
	£	£	£
<b>Balance sheet value</b>			
At 31 March 09	138,994,269	34,502,074	173,496,343
Eliminate depreciation from 2008-09 reclassification	0	(14,660)	(14,660)
Reclassification of assets	188,550	(188,550)	0
Items written down to revenue	(27,180)	(45,000)	(72,180)
Assets written out at end of useful economic life	(128,838)	0	(128,838)
Revaluation gain 1/4/09	3,524,123	123,047	3,647,170
Impairment loss 1/4/09	(398,000)	(582,474)	(980,474)
Eliminate depreciation on revaluation 1/4/09	(1,744,380)	(128,967)	(1,873,347)
Impairment loss on commissioning	(494,204)	(2,209,485)	(2,703,689)
Acquisitions in year	385,958	1,344,350	1,730,308
Enhancements in year	3,242,744	4,378,963	7,621,707
Disposals in year	(207,001)	(723,987)	(930,988)
<b>At 31 March 10</b>	<b>143,336,041</b>	<b>36,455,311</b>	<b>179,791,352</b>
<b>Depreciation</b>			
At 31 March 09	(1,489,770)	(14,660)	(1,504,430)
Eliminate depreciation from 2008-09 reclassification	0	14,660	14,660
Reclassification of assets	0	0	0
Assets written out at end of useful economic life	128,838	0	128,838
Charged in the year	(3,619,861)	(436,122)	(4,055,983)
Eliminate depreciation on revaluation 1/4/09	1,744,380	128,967	1,873,347
<b>At 31 March 09</b>	<b>(3,236,413)</b>	<b>(307,155)</b>	<b>(3,543,568)</b>
Net Book Value at 31 March 09	137,504,499	34,487,414	171,991,913
<b>Net Book Value at 31 March 10</b>	<b>140,099,628</b>	<b>36,148,156</b>	<b>176,247,784</b>

## 22. Reclassification of fixed assets

The movements between asset classifications are summarised below, these are the values as at 1 April 2009.

Asset classification	Moved out of this asset classification	Moved into this asset classification	Net movement
	£	£	£
<b>Operational assets:</b>			
Council dwellings – demolished flats	(60,000)		(60,000)
Land and buildings – arches	(60,000)		
Land and buildings – car parks		362,920	302,920
Equipment – footpath lighting	(42,488)		(42,488)
Infrastructure – footpath lighting		42,488	42,488
Community assets – allotment	(54,370)		(54,370)
<b>Non-operational assets:</b>			
Commercial and other properties – construction land	(1,039,110)		
Commercial and other properties – arches		60,000	
Commercial and other properties – industrial units		2,733,196	
Commercial and other properties – office building		753,683	2,507,769
Assets under construction – industrial units	(2,733,196)		
Assets under construction – car parks	(362,920)		
Assets under construction – office building	(753,683)		
Assets under construction – construction land		1,039,110	
Assets under construction – allotment		54,370	(2,756,319)
Surplus assets – demolished flats		60,000	60,000
Net movement	(5,105,767)	5,105,767	0

## 23. Fixed assets written down to revenue

A number of assets have been written down to revenue to remove them from the Council's asset base. This occurs when an asset is identified as not being owned by the Council, although historically it has been added into the Council's Asset Register, or when the title has been transferred and the Council's Asset Register has not been updated.

The movements are summarised below:

Asset classification	Written down to revenue
	£
Community assets – rented allotment sites	(27,180)
Commercial and other properties – adopted highway	(45,000)
Net movement	(72,180)

## 24. Fixed assets written out at end of life

A number of assets have been written out of the Balance Sheet and Asset Register as they have reached the end of their useful economic life. These are equipment items that are not suitable to re-life as they have been completely consumed through service delivery. The accumulated depreciation is written out against the gross book value to remove the assets from the Balance Sheet as their new book value is already zero.

## 25. Revaluation and impairment of fixed assets

Where on revaluation there has been an increase over the previous carrying amount, a revaluation gain has occurred.

The increase in value is credited against any previous impairment charged to the Income and Expenditure Account, where the gain has occurred from a reversion of the original cause. Where there is no previous impairment to reverse, the revaluation gain is credited to the Revaluation Reserve.

Where on revaluation there has been a decrease over the previous carrying amount, an impairment loss has occurred. All of the impairment losses relate to a decline in market value either on revaluation or on commissioning of the asset into use.

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.

Asset classification	Revaluation Reserve	Income and Expenditure Account	Total
	£	£	£
<b>Revaluation gains at 1/4/09</b>			
Council dwellings	1,914,309	1,361,557	3,275,866
Operational land and buildings	247,193	1,064	248,257
Commercial and other properties	48,967	74,080	123,047
<b>Total of revaluation gains</b>	<b>2,210,469</b>	<b>1,436,701</b>	<b>3,647,170</b>
<b>Impairment loss at 1/4/09</b>			
Council dwellings	(149,073)	(103,569)	(252,642)
Operational land and buildings	(95,585)	(34,773)	(130,358)
Community assets	(3,250)	(11,750)	(15,000)
Commercial and other properties	(239,428)	(173,161)	(412,589)
Assets under construction	0	(62,763)	(62,763)
Surplus assets	(53,905)	(53,217)	(107,122)
<b>Impairment loss on commissioning assets into use</b>			
Operational land and buildings	0	(494,204)	(494,204)
Commercial and other properties	0	(2,209,485)	(2,209,485)
<b>Total of impairment losses</b>	<b>(541,241)</b>	<b>(3,142,922)</b>	<b>(3,684,163)</b>
<b>Total</b>	<b>1,669,228</b>	<b>(1,706,221)</b>	<b>(36,993)</b>

## 26. Valuation information

The last full valuation of Council assets was undertaken at the 1 April 2008. The Housing Revenue Account assets have been subsequently revalued at the 1 April 2009 and a number of other assets have been revalued both at 1 April 2009 and as they have been commissioned into use.

All valuations are performed by external valuers and the certified values used in these accounts were prepared by Mr R Bulger from the Valuation Office Agency and Mr S Adams of Peill and Company, both Fellows of the Royal Institution of Chartered Surveyors; and Mr M

Messenger from Norfolk Property Services, Member of the Royal Institution of Chartered Surveyors.

<b>Valuation certificates</b>	<b>Valued as at</b>	<b>£</b>
Valuation Office Agency	1 April 2009	83,952,486
Valuation Office Agency	1 April 2008	1,487,246
Peill and Company	1 April 2008	16,680,206
Norfolk Property Services	1 April 2008	39,568,751
Norfolk Property Services	Date commissioned into use during 2009-10	1,449,740
<b>Total</b>		<b>143,138,429</b>

<b>Operational assets</b>	<b>Council dwellings</b>	<b>Land and buildings</b>	<b>Community assets</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Valued at historic cost	0	35,384,217	0	35,384,217
<b>Valued at current value as at:</b>				
1 April 2008	0	5,971,786	72,000	6,043,786
1 April 2009	81,832,536	1,454,950	0	83,287,486
Date commissioned into use during 2009-10	0	95,840	0	95,840
<b>Total</b>	<b>81,832,536</b>	<b>42,906,793</b>	<b>72,000</b>	<b>124,811,329</b>

<b>Non-operational assets</b>	<b>Commercial and other properties</b>	<b>Assets under construction</b>	<b>Surplus assets</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Valued at historic cost	225,000	0	0	225,000
<b>Valued at current value as at:</b>				
1 April 2008	15,488,800	273,000	321,400	16,083,200
1 April 2009	665,000	0	0	665,000
Date commissioned into use during 2009-10	1,353,900	0	0	1,353,900
<b>Total</b>	<b>17,732,700</b>	<b>273,000</b>	<b>321,400</b>	<b>18,327,100</b>

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 apart from specialised property which is included at depreciated replacement cost. 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.

During 2008-09 the following asset types were impaired due to prevailing market conditions:

<b>Asset class</b>	<b>Impairment</b>
Dwellings	12%
Depot	21%
Non-Operational Offices	0% - 27%
Industrial Land and Buildings	0% - 26%

Following advice from the Valuers concerned, the impairment in value that occurred during 2008-09 has not fully abated and there is no further impairment loss across the asset types in general. During 2009-10 some individual assets have suffered an impairment loss when they were revalued and a number of assets have gained in value, reversing the impairment loss from 2008-09.

## 27. Capital Financing Requirement

2008-09		2009-10
£		£
32,573,297	<b>Opening Capital Financing Requirement</b>	33,874,490
	<b>Capital investment:</b>	
	<b>Operational assets</b>	
1,977,594	Council dwellings	1,791,215
1,251,414	Land and buildings	1,056,787
1,333,821	Equipment	395,103
428,185	Community assets	385,597
	<b>Non-operational assets</b>	
1,286,246	Commercial and other properties	619,449
4,855,369	Assets under construction	3,601,037
2,954,385	Surplus assets	1,502,827
1,569,865	Revenue Expenditure Funded from Capital Under Statute (REFFCUS)	2,287,990
	<b>Sources of finance:</b>	
(642,407)	Capital receipts	(300,066)
(9,282,528)	Government grants and contributions	(6,031,350)
(1,534,862)	Grants relating to REFFCUS	(2,268,100)
(2,081,905)	Balances, reserves and revenue contributions	(1,866,439)
(813,984)	Minimum revenue provision	(1,105,260)
33,874,490	<b>Closing Capital Financing Requirement</b>	33,943,280
	<b>Explanation of movements in year:</b>	
1,301,193	Increase/(decrease) in underlying need to borrow for capital expenditure that was incurred before 1 April 2008	(909,972)
0	Increase in underlying need to borrow for capital expenditure that was incurred after 1 April 2008	978,762
1,301,193	Increase in Capital Financing Requirement	68,790

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

## 28. Revenue Expenditure Funded From Capital Under Statute (REFFCUS)

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

## 29. Minimum Revenue Provision

The Minimum Revenue Provision (MRP) is the statutory requirement for the Council to make provision to repay external debt. The Council's MRP policy is to provide the statutory 4% to the General Fund Capital Financing Requirement for capital expenditure incurred before 1 April 2008 for General Fund purposes. For capital expenditure incurred after the 1 April 2008, the provision will be based on the normal depreciation method.

## 30. Assets numbers

	Number as at 31 March 2009	Number as at 31 March 2010
<b>Operational fixed assets:</b>		
Dwellings	2,735	2,717
Arches	1	0
Artificial Pitch	1	1
Arts Centre	1	1
Car Parks	14	16
Cemetery Buildings	4	4
Conveniences	8	8
Dog Kennels	1	1
Community Centres	12	12
HRA Garages	487	487
Leisure Centre	1	1
Markets	2	1
Museums	1	1
Operational Offices	2	2
Parks Buildings	4	4
Equipment	52	58
Community Assets	98	96
Infrastructure Assets	11	12
<b>Non-Operational fixed assets:</b>		
Commercial and other property	76	79
Surplus assets	142	157
Assets under construction	14	13

The Arches have been transferred from operational assets to non-operational commercial and other property during 2009-10. The Car Parks have increased in 2009-10, these were assets under construction that have been brought into use. The Market line has reduced to reflect the Mall transferring into non-operational commercial and other property during 2009-10.

## 31. Information on major operational assets held

Net book Value 31 March 2009 £		Valuation base	Expected life	Net Book Value 31 March 2010 £
8,970,619	Town Hall	Depreciated Replacement Cost	75 years	8,974,549
8,832,016	Park Leisure Centre	Depreciated Replacement Cost	50 years	8,780,447
8,528,153	Forum 28	Depreciated Replacement Cost	30 years	8,335,870
5,796,786	Dock Museum	Depreciated Replacement Cost	25 years	5,619,454
1,814,624	Crematorium	Depreciated Replacement Cost	20 years	1,735,033

### 32. Capital commitments

As at 31 March 2010 the Council was contractually committed to capital works which amounted to £2,691,328, of which £2,301,072 is grant funded. Capital commitments at 31 March 2009 were £169,662.

31 March 2009	Capital projects	31 March 2010
£		£
34,292	Building refurbishment	2,254,313
0	Link Road Phase II	250,000
0	Environmental improvements	165,507
126,869	Retentions	21,508
8,501	Housing IT system	0
<b>169,662</b>		<b>2,691,328</b>

### 33. Long-term debtors

At the Balance Sheet date the Council had the following long-term debtors:

31 March 2009		31 March 2010
£		£
7,367	Mortgage principal	5,300
0	Catering contract deposit	5,000
<b>7,367</b>		<b>10,300</b>

The outstanding mortgage principal relates to Council dwellings purchased under the Right to Buy (RTB) scheme.

### 34. Stocks

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

31 March 2009		31 March 2010
£		£
11,854	Tourist Information Centre	12,646
11,220	Dock Museum shop	10,851
7,512	Other stocks held for internal issue	6,348
<b>30,586</b>		<b>29,845</b>

### 35. Debtors

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

31 March 2009		31 March 2010
£		£
610,511	Council tax arrears	530,432
404,706	HRA rent arrears	327,326
4,945,267	Government departments	5,905,841
1,594,998	Trade debtors	1,038,594
390,929	Sundry debtors	249,288
511,050	Benefit overpayments	545,390
266,176	Payments in advance	239,864
(1,720,303)	Provision for bad and doubtful debt	(1,809,946)
<b>7,003,334</b>		<b>7,026,789</b>

### 36. Short-term borrowing

The short-term borrowing represents the interest payable within the next 12 months on the long-term borrowing that the Council held at the Balance Sheet date.

### 37. Creditors

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

31 March 2009		31 March 2010
£		£
(775,354)	Government departments	(1,104,966)
(137,995)	Council tax prepayments and receipts in advance	(83,295)
(3,704,516)	Trade creditors	(4,356,675)
(1,040,613)	Receipts in advance	(827,404)
<b>(5,658,478)</b>		<b>(6,372,340)</b>

### 38. 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 51**). The movements on provisions for the year were:

2008-09		2009-10
£		£
	<b>Early retirement provision</b>	
(66,106)	Brought forward	(59,889)
6,217	Provision used during the year	6,217
(59,889)		(53,672)
	<b>Insurance provision</b>	
(632,040)	Brought forward	(449,206)
0	New provision made	0
182,834	Provision used during the year	(177,313)
(449,206)		(626,519)
<b>(509,095)</b>	<b>Total of provisions</b>	<b>(680,191)</b>

### 39. 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 2009	Unapplied grants	31 March 2010
£		£
(2,626,899)	Balance brought forward	(3,020,970)
(8,838,491)	Grants receivable for the year	(5,112,248)
8,444,420	Grants applied to finance capital expenditure	5,791,092
<b>(3,020,970)</b>	<b>Balance carried forward</b>	<b>(2,342,126)</b>

31 March 2009	Deferred grants	31 March 2010
£		£
(33,692,522)	Balance brought forward	(39,011,597)
2,363,362	Grants amortised to revenue	598,719
507,522	Grants fully released to revenue	440,436
(8,189,959)	Grants applied to finance capital expenditure	(5,791,092)
<u>(39,011,597)</u>	Balance carried forward	<u>(43,763,534)</u>

#### 40. Deferred liabilities

A property that the Council acquired by compulsory purchase order during 2007-08 was sold during 2009-10. The owner of the property cannot be traced, so the funds are held as a deferred liability which will be held for the statutory period of 12 years.

#### 41. Reserves and Balances

The Council keeps a number of reserves and balances 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. Balances are held separate for statutory reasons.

The movements on reserves and balances for the year were:

Reserve or Balance	Balance	Net Movement	Balance	Purpose of Reserve or Balance
	1 April 2009	in Year	31 March 2010	
	£	£	£	
Capital Adjustment Account <b>Note 42</b>	(69,836,971)	1,465,313	(68,371,658)	Store of capital resources set aside to meet past expenditure
Financial Instruments Adjustment Account <b>Note 43</b>	664,718	(241,073)	423,645	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments
Revaluation Reserve <b>Note 44</b>	(29,268,854)	(900,457)	(30,169,311)	Store of gains on revaluation of fixed assets not yet realised through sales
Usable Capital Receipts Reserve <b>Note 45</b>	(1,572,673)	(336,313)	(1,908,986)	Proceeds of fixed asset sales available to meet future capital investment
Pensions Reserve <b>Note 8</b>	22,199,154	10,196,209	32,395,363	Balancing amount to allow inclusion of Pensions Liability in the Balance Sheet
Major Repairs Reserve <b>Page 56</b> <b>Note 15</b>	0	(411,486)	(411,486)	Resources available to meet capital investment in council housing

General Fund Balance <b>Page 13</b>	(1,971,258)	(292,047)	(2,263,305)	A prudent level of balance maintained for potential emergency/ extraordinary expenditure on non-housing services
HRA Balance <b>Page 51</b>	(845,980)	22,919	(823,061)	A prudent level of balance maintained for potential emergency/ extraordinary expenditure on Council housing services
Council tax adjustment account <b>Note 46</b>	52,185	(6,462)	45,723	Balance of council tax surplus or deficit to be returned to revenue in future years
Earmarked Reserves <b>Note 47</b>	(3,005,972)	(1,876,126)	(4,882,098)	Revenue set aside for specific purposes
<b>Total</b>	<b>(83,585,651)</b>	<b>7,620,477</b>	<b>(75,965,174)</b>	

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

#### 42. Movement on Capital Adjustment Account

2008-09		2009-10
£		£
1,466,433	Depreciation of General Fund assets	2,346,570
2,077,092	Depreciation of HRA assets	1,709,412
17,042,270	Impairment of assets	3,142,922
0	Gain on previous impairment loss	(1,436,701)
0	Assets written down to revenue	72,180
(2,363,362)	Deferred grants amortised to revenue	(598,719)
(507,522)	Deferred grants fully released	(440,436)
1,569,865	Revenue Expenditure Funded From Capital Under Statute (REFFCUS)	2,287,990
(1,534,862)	Grant associated with REFFCUS	(2,268,100)
1,123,256	Carrying value of assets on disposal	930,988
(69,235)	Revaluation gains for assets on disposal	(21,333)
0	Revaluation gains for assets on written down	(34,130)
(813,984)	Minimum Revenue Provision	(1,105,260)
(642,407)	Capital receipts used in capital financing	(300,066)
(1,092,569)	Grants used in capital financing	(240,258)
(57,225)	Revenue used in capital financing	0
(2,024,680)	Reserves used in capital financing	(1,866,439)
(1,505,467)	Conversion of current value depreciation to historic cost depreciation	(713,307)
<b>12,667,603</b>		<b>1,465,313</b>

**43. Movement on Financial Instruments Adjustment Account**

<b>2008-09</b>		<b>2009-10</b>
<b>£</b>		<b>£</b>
	<b>Premiums from the early repayment of debt:</b>	
0	Deferred premiums from rescheduling during the year to be amortised to the HRA	11,745
(249,970)	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	(251,077)
(249,970)	Premiums from the early repayment of debt charged to the HRA in accordance with statutory provisions	(239,332)
	<b>Discounts from the early repayment of debt:</b>	
0	Deferred discounts from rescheduling during the year to be amortised to the HRA	(11,745)
8,897	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	10,004
8,897	Discounts from the early repayment of debt charged to the HRA in accordance with statutory provisions	(1,741)
<b>(241,073)</b>		<b>(241,073)</b>

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**.

**44. Movement on Revaluation Reserve**

<b>2008-09</b>		<b>2009-10</b>	
<b>£</b>		<b>£</b>	<b>£</b>
(33,620,580)	Gains on the revaluation of fixed assets	(2,210,469)	
8,728,905	Loss on the revaluation of fixed assets	0	
10,203,381	Loss on the impairment of fixed assets	541,241	(1,669,228)
69,235	Gains written out on the disposal of fixed assets		21,333
	Gains written out on the write down of fixed assets		34,130
1,505,467	Conversion of current value depreciation to historic cost depreciation		713,307
<b>(13,113,592)</b>			<b>(900,458)</b>

**45. Movement on Usable Capital Receipts reserve**

<b>2008-09</b>		<b>2009-10</b>
<b>£</b>		<b>£</b>
(236,000)	Proceeds from the sale of Council dwellings	(287,905)
(2,058)	Proceeds from the repayment of mortgage principal	(2,067)
(3,258)	Proceeds from the repayment of Right To Buy discount	(50,678)
(481,101)	Proceeds from the sale of fixed assets	(539,717)
642,408	Receipts used in capital financing	300,066
235,905	Share of receipts paid to Capital Receipts Pool	243,988
<b>155,896</b>		<b>(336,313)</b>

**46. Movement on Council Tax adjustment account**

<b>2008-09</b>		<b>2009-10</b>
<b>£</b>		<b>£</b>
39,265	Actual surplus for 2006-07 distributed in 2008-09	0
0	Actual deficit for 2007-08 distributed in 2009-10	(17,077)
35,108	Actual deficit for 2008-09 distributed in 2010-11	0
0	Actual deficit for 2009-10 distributed in 2011-12	10,615
<b>74,373</b>		<b>6,462</b>

**47. Movement on earmarked reserves**

<b>2008-09</b>		<b>2009-10</b>
<b>£</b>		<b>£</b>
(1,165,628)	New contributions made	(2,296,087)
132,995	Reserve used in the year	419,962
<b>(1,032,633)</b>		<b>(1,876,125)</b>

**48. Interests in companies**

The Council holds no interests in companies.

**49. 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 and the HRA.

Year on year the net assets employed in the General Fund and HRA have changed and this is largely caused by the increase of £10,196,209 in the liability related to the defined benefit pension scheme.

<b>2008-09</b>		<b>2009-10</b>
<b>£</b>		<b>£</b>
14,789,539	General Fund	3,163,568
68,803,479	HRA	72,806,906
<b>83,593,018</b>	<b>Total net assets</b>	<b>75,970,474</b>

**50. 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:

<b>2008-09</b>		<b>2009-10</b>
<b>£</b>		<b>£</b>
90,727	Assets	43,781
(18,445)	Gross income	(11,156)
26,004	Gross expenditure	16,158
<b>7,559</b>	<b>Net deficit for the year</b>	<b>5,002</b>

One of the trust funds holds a land asset that has impaired in value leading to a reduction in the overall assets of the trusts.

### 51. 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 38**) reflects the Councils' potential liability, but there may remain unquantifiable liabilities.

### 52. Cashflow restatement

The net cash inflow from revenue activities for 2008-09 differs from the audited Statement of Accounts for 2008-09 as a result of restating the Collection Fund entries. The entries are reclassified as liquid resources:

	£
Net cash inflow from revenue activities as per Statement of Accounts 2008-09	(4,717,710)
NNDR and council tax relating to the major preceptors excluded from revenue activities:	(3,743,796)
Restated net cash inflow from revenue activities	<u>(8,461,506)</u>
Net increase in other liquid resources as per Statement of Accounts 2008-09	104
Items now included from revenue activities	3,743,796
Restated net increase in other liquid resources	<u>3,743,900</u>

### 53. 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.

2008-09		2009-10
£		£
	(Surplus)/deficit for the year	
13,781,888	Income and Expenditure account deficit for the year	75,771
	<b>Non-cash and other excluded items:</b>	
(1,466,433)	Depreciation	(2,346,570)
(17,042,270)	Impairment	(3,142,922)
0	Gain on previous impairment	1,436,701
0	Assets written down to revenue	(72,180)
2,363,362	Grants released to revenue	598,719
507,522	Grants released to revenue in full	440,436
(406,155)	Loss on sale of fixed assets	(103,366)
3,258	Gain on sale of contingent assets	50,678
(591,321)	Bad debt provision	(323,337)
6,218	Early retirement provision	6,218
(594,525)	NNDR paid from Income and Expenditure account	(537,817)
(24,846)	Festival fund	0
(721,964)	Effect of FRS17 pension accounting	(980,209)
(1,276,500)	Interest payable – shown elsewhere	(994,929)
462,405	Interest receivable – shown elsewhere	16,558
4,039	Accruals - (decrease)/increase in stocks	(741)
(2,581,820)	Accruals - (decrease)/increase in debtors	2,459,718
(742,371)	Accruals - decrease/(increase) in creditors	(4,571,925)
(31,339)	Accruals – (decrease)/increase in interest receivable	(2,248)
0	Accruals - decrease/(increase) in interest payable	144,109
(110,654)	Other items	(36,547)
<u>(8,461,506)</u>	Net cash (inflow)/outflow from revenue activities	<u>(7,883,883)</u>

#### 54. Analysis of capital grants received

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

2008-09		2009-10
£		£
0	North West Development Agency	(2,072,517)
(5,062,439)	West Lakes Renaissance	(1,835,442)
(1,080,709)	European Regional Development Fund	(900,205)
(526,640)	Cumbria County Council	(482,534)
0	Seaside Town Grant	(200,000)
0	Heritage Lottery	(109,500)
0	Sea Change Grant	(100,000)
(15,511)	Safer, Stronger Communities Fund	(16,719)
0	Arts Council	(10,000)
(1,374,436)	Housing Capital Grant	0
(120,000)	Department of Health	0
(104,081)	Big Lottery	0
(92,020)	Urban Renewal Fund	0
(27,018)	Planning Delivery Grant	0
(20,000)	Marine Fisheries Agency	0
(19,500)	Sport England	0
(3,019)	Coast Protection	0
<b>(8,445,373)</b>		<b>(5,726,917)</b>

#### 55. Analysis of other capital cash receipts

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

2008-09		2009-10
£		£
(18,601)	Emlyn Hughes House insurer	0
(9,500)	Furness Maritime Trust	0
(3,258)	Proceeds from the repayment of Right To Buy discount	(50,678)
(2,058)	Proceeds from the repayment of mortgage principal	(2,067)
<b>(33,417)</b>		<b>(52,745)</b>

#### 56. Movement in cash reconciled to the movement in net debt

2008-09		2009-10	
£		£	£
	<b>Balances brought forward</b>		
562,131	- Bank	4,586,891	
4,901,987	- Liquid resources	3,745,887	
(29,000,000)	- Borrowing	(29,000,000)	
<b>(23,535,882)</b>	<b>Total brought forward</b>		<b>(20,667,222)</b>
	<b>Balances carried forward</b>		
4,586,891	- Bank	1,123,827	
3,745,887	- Liquid resources	5,294,827	
(29,000,000)	- Borrowing	(22,389,734)	
<b>(20,667,222)</b>	<b>Total carried forward</b>		<b>(15,971,080)</b>
<b>2,868,660</b>	<b>Net (increase)/decrease for the year</b>		<b>4,696,142</b>
4,024,760	Net movement on bank		(3,463,064)
(1,156,100)	Net movement on liquid resources		1,548,940
0	Net movement on financing		6,610,266
<b>2,868,660</b>	<b>Net movement for the year</b>		<b>4,696,142</b>

**57. Reconciliation of liquid resources to the Balance Sheet**

Liquid resources are cash in hand, short-term investments and the balance of transactions with the Government for NNDR and the major preceptors for Council Tax. At the Balance Sheet date the Council held the following liquid resources:

<b>31 March 2009</b>		<b>31 March 2010</b>
<b>£</b>		<b>£</b>
2,091	Cash	2,015
3,743,796	Balance of transactions with the Government for NNDR and the major preceptors for Council Tax	5,292,812
<b>3,745,887</b>		<b>5,294,827</b>

**58. Analysis of other revenue government grants**

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

<b>2008-09</b>		<b>2009-10</b>
<b>£</b>		<b>£</b>
(21,354,908)	DWP grants for benefits	(24,761,316)
(7,801,311)	NNDR redistribution	(7,316,049)
(2,809,693)	Area Based Grant	(3,485,181)
(1,086,006)	Revenue Support Grant	(1,688,639)
(922,564)	Housing Capital Grant	(1,493,000)
(361,969)	Housing Benefit administration subsidy	(395,320)
(364,814)	Concessionary travel	(373,418)
(334,128)	Council Tax Benefit administration subsidy	(364,896)
(351,000)	Disabled Facilities Grant	(347,000)
0	Cumbria County Council	(246,574)
(70,000)	NHS Life check roll out grant	(100,000)
(21,750)	Free swimming grant	(76,199)
(56,114)	Planning Delivery Grant	(73,000)
(85,000)	Homelessness funding	(61,050)
0	Empty shops grant	(52,632)
(158,157)	West Lakes Renaissance housing market renewal	(51,864)
(45,034)	Safer, Stronger Communities Fund	(47,583)
0	Better Regulation	(42,000)
0	Regional choice grant	(37,818)
0	Mortgage rescue program	(28,500)
(13,635)	Local Authority Business Growth Incentive	(25,940)
(229,000)	Other grants where less than £25,000 received in 2009-10	(169,835)
<b>(36,065,083)</b>		<b>(41,237,814)</b>

**59. Authorisation of accounts for issue**

These accounts authorised for issue by the Mohamad Saleh CFP, BA, M.Litt, Borough Treasurer on 22 June 2010.

**60. 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

2008-09		2009-10	
£		£	
	<b>Income</b>		
(8,098,913)	Dwelling rents	(8,336,247)	
(284,759)	Non-dwelling rents	(306,845)	
(394,829)	Charges for services and facilities	(318,866)	
(27,540)	Contribution from another Local Authority	(37,140)	
(8,806,041)	<b>Total Income</b>		(8,999,098)
	<b>Expenditure</b>		
2,918,874	Repairs and maintenance	2,959,661	
2,814,592	Supervision and management	2,650,321	
(3,718)	Negative HRA subsidy payable <b>Note 3</b>	192,219	
10,036,430	Depreciation and impairment of dwellings <b>Notes 4 and 10</b>	285,545	
48,303	Depreciation and impairment of other operational HRA fixed assets <b>Note 10</b>	100,833	
16,595	Debt Management Costs	11,942	
80,271	Increase in bad debt provision	43,685	
15,911,347	<b>Total Expenditure</b>		6,422,206
7,105,306	<b>Net Cost of HRA Services as included in the whole authority Income and Expenditure Account</b>		(2,754,892)
90,986	HRA share of Corporate and Democratic Core <b>Note 5</b>		110,938
69,788	HRA share of Non Distributed Costs <b>Note 6</b>		(6,578)
7,266,080	<b>Net Cost of HRA Services</b>		(2,650,532)
(72,800)	Gain on sale of fixed assets <b>Note 7</b>		(35,855)
(3,258)	Gain on sale of contingent assets		(50,678)
488,446	Interest payable		469,638
(467)	Interest income – mortgages		(261)
223,000	Pensions interest cost and expected return on pensions assets <b>Note 8</b>		352,000
7,901,001	<b>(Surplus) or deficit for the year on HRA services</b>		(1,915,688)

## 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:

2008-09		2009-10
£		£
7,901,001	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	(1,915,688)
(8,021,558)	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year <b>Notes 1 and 2</b>	1,938,607
(120,557)	(Increase)/decrease in the HRA Balance	22,919
(725,423)	HRA Balance brought forward	(845,980)
(845,980)	HRA Balance carried forward <b>Note 16</b>	(823,061)

### 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:

2008-09		2009-10	
£		£	£
(8,118,999)	Impairment of fixed assets	(121,307)	
0	Gain on previous impairment loss	1,368,251	
41,570	Deferred grants amortised to revenue	46,769	
0	Deferred grants fully released	35,901	
72,800	Gain on sale of HRA fixed assets	35,855	
3,258	Gain on sale of contingent assets	50,678	
241,073	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	
(411,406)	Net charges made for retirement benefits in accordance with FRS 17 <b>Note 8</b>	(476,834)	
(8,171,704)	<b>Total to be excluded from Income and Expenditure account</b>		1,180,386
(125,882)	Transfer to/(from) Major Repairs Reserve <b>Note 15</b>	493,289	
249,244	Employer's contributions payable to the Superannuation Pension Fund and retirement benefits payable direct to pensioners <b>Note 8</b>	264,932	
26,784	Capital expenditure funded by the HRA	0	
150,146	<b>Total to be included in Income and Expenditure account</b>		758,221
(8,021,558)	<b>Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year</b>		1,938,607

## 3. Negative 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 2009-10, issued by the DCLG.

2008-09		2009-10	
£		£	
(1,825,782)	Allowance for management	(1,825,817)	
(3,061,765)	Allowance for maintenance	(3,015,529)	
(1,951,210)	Major Repairs Allowance	(2,202,701)	
(1,141,842)	Charges for capital	(880,668)	
(7,980,599)	Total allowance for expenditure	(7,924,715)	
7,998,282	Rent receivable	8,077,650	
836	Interest on receipts	461	
18,519	Net subsidy payable for the year	153,396	
(22,237)	Previous year adjustments	38,823	
(3,718)	Total HRA subsidy in the year	192,219	

The Major Repairs Allowance includes an additional £300,000 advanced by the Government as part of the measures to aid economic recovery.

#### 4. Depreciation and impairment of dwellings

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

2008-09		2009-10
£		£
1,959,001	Depreciation of dwellings	1,561,600
(41,570)	Deferred grants releases to revenue	(18,067)
8,118,999	Impairment of dwelling values	103,569
0	Gain on previous impairment loss	(1,361,557)
<b>10,036,430</b>		<b>285,545</b>

#### 5. HRA share of Corporate and Democratic Costs

These are the HRA share of corporate costs and corporate management. These are shown in the Corporate and Democratic Costs line of the Income and Expenditure Account (**Page 12**) but are required by statute to be charged to the HRA.

#### 6. HRA share of Non Distributed Costs

These are the HRA share of depreciation and impairment of non-operational assets. These are shown in the Non Distributed Costs line of the Income and Expenditure Account (**Page 12**) but are required by statute to be charged to the HRA.

#### 7. HRA tangible fixed asset disposals

2008-09		2009-10
£		£
	<b>Sale proceeds:</b>	
(236,000)	Dwellings	(287,905)
0	Surplus assets	(49,401)
	<b>Carrying value:</b>	
163,200	Dwellings	207,001
0	Surplus assets	94,450
<b>(72,800)</b>	<b>(Gains)/losses on the sale of fixed assets</b>	<b>(35,855)</b>

#### 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 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	
	£	
	2008-09	2009-10
<b>HRA Income and Expenditure Account</b>		
Net Cost of Services:		
current service cost	188,406	124,834
Net Operating Expenditure:		
- interest cost	832,000	830,000
- expected return on assets in the scheme	(609,000)	(478,000)
<i>Included in Net Operating Expenditure</i>	223,000	352,000
Net Charge to the Income and Expenditure Account	411,406	476,834
Statement of Movement on the HRA Balance		
- reversal of net charges made for retirement benefits in accordance with FRS 17	(411,406)	(476,834)
	(411,406)	(476,834)
Actual amount charged against HRA Balance for pensions in the year:		
- employers' contributions payable to scheme	227,587	243,087
- retirement benefits payable to pensioners	21,657	21,845
Total actual pensions paid in the year	249,244	264,932

#### 9. Extraordinary and exceptional items

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

#### 10. Movement on HRA fixed assets

	Council dwellings	Other operational buildings	Equipment	Commercial and other properties	Surplus assets, held for disposal	Total
	£	£	£	£	£	£
<b>Balance sheet value</b>						
At 31 March 09	80,370,912	1,527,650	96,499	715,000	0	82,710,061
Reclassification of assets	(60,000)	0	0	0	60,000	0
Revaluation gain 1/4/09	3,275,866	108,357	0	36,015	0	3,420,238
Impairment loss 1/4/09	(252,642)	(97,963)	0	0	0	(350,605)
Eliminate depreciation on revaluation 1/4/09	(1,561,600)	(83,094)	0	(36,015)	0	(1,680,709)
Enhancements in year	1,791,215	0	0	0	34,451	1,825,666
Disposals in year	(207,001)	0	0	0	(94,451)	(301,452)
<b>At 31 March 10</b>	<b>83,356,750</b>	<b>1,454,950</b>	<b>96,499</b>	<b>715,000</b>	<b>0</b>	<b>85,623,199</b>
<b>Depreciation</b>						
At 31 March 09	0	0	(38,584)	0	0	(38,584)

Current year charge	(1,561,600)	(83,094)	(28,702)	(36,015)	0	(1,709,411)
Eliminate depreciation on revaluation 1/4/09	1,561,600	83,094	0	36,015	0	1,680,709
<b>At 31 March 10</b>	0	0	(67,286)	0	0	(67,286)
Net Book Value at 31 March 09	80,370,912	1,527,650	57,915	715,000	0	82,671,477
<b>Net Book Value at 31 March 10</b>	83,356,750	1,454,950	29,213	715,000	0	85,555,913
Estimated useful economic life	30 years	10-20 years	3 years	30 years	Not applicable	

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

#### 11. HRA Capital Financing Requirement (CFR)

2008-09		2009-10
£		£
9,010,011	<b>Opening CFR</b>	9,010,011
	Capital investment:	
1,977,594	Council dwellings	1,791,215
400	Other operational buildings	0
25,991	Operational equipment	0
0	Surplus assets	34,451
	Sources of finance:	
(25,991)	Government grants and other contributions	(34,451)
(1,977,994)	Balances and reserves	(1,791,215)
9,010,011	<b>Closing CFR</b>	9,010,011

#### 12. Dwelling stock

The Council was responsible for managing 2,717 dwellings in 2009-10. 4 properties were sold during 2009-10 and 12 one bedroom flats were demolished; 42 properties were sold in 2008-09.

	31 March 2009	Movement in year	31 March 2010
<b>Houses</b>			
1 bedroom	143	0	143
2 bedroom	389	0	389
3+ bedroom	926	(4)	922
<b>Flats</b>			
1 bedroom	962	(13)	949
2 bedroom	307	(1)	306
3+ bedroom	8	0	8
<b>Total</b>			
Houses	1,458	(4)	1,454
Flats	1,277	(14)	1,263
<b>Dwelling stock</b>	<b>2,735</b>	<b>(18)</b>	<b>2,717</b>

### 13. 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 2009		31 March 2010	
£		£	
80,370,912	Balance Sheet value EUV-SH of dwellings	83,356,750	
87,068,488	Difference of dwellings EUV-SH and EUV-VP: economic cost	90,303,146	
<b>167,439,400</b>	<b>Value of dwelling stock at EUV-VP</b>	<b>173,659,896</b>	

### 14. 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:

2008-09		2009-10	
£		£	
404,707	Arrears	327,326	
300,143	Provision for bad and doubtful debts	252,997	
74%	Percentage of provision	77%	

### 15. 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.

2008-09		2009-10	
£		£	
	MRR transfers in the year:		
(1,959,000)	From HRA for depreciation of dwellings	(1,561,600)	
(118,091)	From HRA for depreciation of other fixed assets	(147,812)	
7,790	Difference between MRA received and depreciation of dwellings	(641,101)	
118,091	To HRA for depreciation of other fixed assets	147,812	
<b>(1,951,210)</b>	<b>MRA subsidy receivable for the year</b>		<b>(2,202,701)</b>
	Capital expenditure financed by MRR:		
812,411	Heating and insulation	865,205	
801,645	Kitchens and bathrooms	729,019	
274,200	Rewires	196,991	
62,954	Roofs	0	
<b>1,951,210</b>	<b>Total capital expenditure</b>		<b>1,791,215</b>
0	Balance brought forward		0
<b>0</b>	<b>Balance carried forward</b>		<b>(411,486)</b>

**16. HRA balance**

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

<b>31 March 2009</b>		<b>31 March 2010</b>
<b>£</b>		<b>£</b>
(845,980)	Total HRA balance carried forward	(823,062)
(72,000)	Of which: committed to ongoing housing maintenance	(26,629)

## Collection Fund

2008-09		2009-10	
£		£	£
	<b>Income</b>		
(26,448,363)	Income from Council Tax	(26,976,469)	
	<i>Transfers from General Fund:</i>		
(5,733,613)	- Council Tax benefits <b>Note 1</b>	(6,220,892)	
(19,922,338)	Income collectable from business ratepayers <b>Note 2</b>	(19,715,487)	
(52,104,314)	<b>Total Income</b>		(52,912,848)
	<b>Expenditure</b>		
	<i>Precepts and demands:</i>		
23,977,059	- Cumbria County Council	24,541,825	
4,273,918	- Barrow Borough Council	4,448,390	
3,869,405	- Cumbria Police Authority	4,053,196	
	<i>Business rate:</i>		
19,819,743	- Payment to national pool	19,613,699	
102,595	- Costs of collection	101,788	
	<i>Bad and doubtful debts: Note 3</i>		
(227,638)	- Write offs	(698,147)	
550,019	- Provisions	932,332	
52,365,101	<b>Total Expenditure</b>		52,993,083
260,787	<b>Deficit for the year</b>		80,235

## 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 2010 was £57,731,571 (£48,770,384 at the 31 March 2009).

The national non-domestic rate multiplier for 2009-10 was 48.5 pence in the pound (46.2 pence in the pound for 2008-09).

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 48.1 pence in the pound (45.8 pence in the pound for 2008-09) 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 2009		31 March 2010	
£		£	
<b>Council Tax</b>			
4,534,984	Arrears	4,009,603	
3,032,932	Provision for bad and doubtful debts	2,576,734	
67%	Percentage of provision	64%	
<b>Business ratepayer</b>			
1,370,212	Arrears	1,223,351	
1,074,151	Provision for bad and doubtful debts	938,188	
78%	Percentage of provision	77%	

These balances relate to the total Collection Fund transactions for the year. The council tax transactions are apportioned between the precepting authorities and form part of the debtor for Cumbria County Council and the Police Authority, with the Council's share contained in the relevant Balance Sheet headings.

### 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.

	Deficit for 2008-09 to be distributed in 2010-11	Deficit for 2009-10 to be distributed in 2011-12
	£	£
Cumbria County Council	193,691	59,661
Police Authority	31,989	9,959
Barrow Borough Council	35,107	10,615
	260,787	80,235

### 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 2009-10 as it was in 2008-09.

The Council Tax base for the year was set as:

2008-09 Band D equivalent number of chargeable dwellings	Band	Standard factor	2009-10 Band D equivalent number of chargeable dwellings
27	Disabled reductions		29
10,853	A	6/9	10,849
3,832	B	7/9	3,810
3,710	C	8/9	3,724
2,075	D	9/9	2,054
1,085	E	11/9	1,085
312	F	13/9	311
106	G	15/9	107
1	H	18/9	1
22,001	Equivalent chargeable dwellings		21,970
21,561	98% of which gives the Council Tax base		21,531

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.

2008-09 Council Tax £	Band	Property value	2009-10 Council Tax £
989.79	A	Up to £39,999	1,019.97
1,154.76	B	£40,000 to £51,999	1,189.97
1,319.72	C	£52,000 to £67,999	1,359.96
<b>1,484.69</b>	<b>D</b>	<b>£68,000 to £87,999</b>	<b>1,529.96</b>
1,814.62	E	£88,000 to £119,999	1,869.95
2,144.55	F	£120,000 to £159,999	2,209.95
2,474.48	G	£160,000 to £319,999	2,549.93
2,969.38	H	£320,000 and over	3,059.91

<b>AUDIT COMMITTEE</b>	<b>Part One (D) Agenda Item 12</b>
<b>Date of Meeting: 29th June, 2010</b>	
<b>Reporting Officer: Borough Treasurer</b>	
<p><b>Title: Internal Audit Annual Report 2009-2010</b></p> <p><b>Summary and Conclusions:</b></p> <p>The head of internal audit is required to produce an annual report at the end of each financial year. For the year 2009-2010, the full report is attached.</p> <p><b>Recommendations:</b></p> <ol style="list-style-type: none"> <li>1. Members are recommended to note the annual report for 2009-2010.</li> <li>2. Members are also invited to comment on or question any part of the report.</li> </ol>	

### **Report**

The report of the head of Internal Audit is attached.

(i) Legal Implications

None

(ii) Financial Implications – Not Applicable.

(iii) Health and Safety Implications – Not Applicable.

(iv) Key Priorities or Corporate Aims – Not Applicable.

(v) Risk Assessment – Not Applicable.

(vi) Equality and Diversity – Not Applicable.

(vii) Health and Well-being Implications – Not Applicable.

### **Background Papers**

Nil



***BARROW BOROUGH COUNCIL***

**INTERNAL AUDIT ANNUAL REPORT**

**2009/2010**

**May 2010**

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# EXECUTIVE SUMMARY

## Background

The purpose of this report is to meet the Head of Internal Audit's annual reporting requirements set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code). The Head of Internal Audit's formal annual report should present an opinion on the overall adequacy and effectiveness of the internal control environment, and:

- a) Include an opinion on the overall adequacy and effectiveness of the organisation's internal control environment;
- b) Disclose any qualifications to that opinion, together with the reasons for the qualification;
- c) Present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies;
- d) Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement;
- e) Compare the work actually undertaken with the work that was planned; and
- f) Comment on compliance with these standards and the Internal Audit quality assurance programme.

The Code states that "the Head of Internal Audit should provide a written report to those charged with governance timed to support the Statement on Internal Control" (which has now been replaced with the requirement to produce an Annual Governance Statement). Therefore, in setting out how it meets the reporting requirements, this report also outlines how the Internal Audit function has supported the Council in meeting the requirements of the Accounts and Audit (Amendment) (England) Regulations 2006, and the 2007 CIPFA/SOLACE Framework and Guidance notes; with regard to internal control.

Additionally the CIPFA Audit Panel has produced a document "the review of the Effectiveness of the System of Internal Audit" which refers to the "system of Internal Audit" and the need for the Head of Internal Audit to acquire an understanding of all sources of assurances; and assessing such the assurance available.

## Scope of Responsibility

The Council is responsible for ensuring its business is conducted in accordance with law and proper standards. In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

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

## **Review of Effectiveness**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal audit. The review of the effectiveness of the system of internal audit is informed by the work of the internal auditors and the senior managers within the authority who have responsibility for the development and maintenance of the internal control environment; and also by comments made by the external auditors and other review agencies and inspectorates in the annual audit letter and other reports.

## **Basis of Assurance**

We have conducted our audits in accordance with professional standards and good practice contained within the Code and additionally from our own internal quality assurance systems. We have also outlined any limitations in the scope of our audit work in “qualifications to the opinion” within the detail of this report.

In addition, Internal Audit have undertaken a self assessment against the requirements of the Code, and can confirm compliance. This is supported by the work undertaken by the Council’s External Auditor, the Audit Commission, and aids the review of the effectiveness of the system of internal audit.

## **Head of Internal Audit Annual Opinion Statement**

This opinion statement is provided in support of the Council’s Annual Governance Statement (formally Statement on Internal Control) as required under the Accounts and Audit (Amendment) (England) Regulations 2006. Our opinion is derived from work carried out by Internal Audit during the year as part of the agreed internal audit plan for 2009/2010. The Internal Audit plan for 2009/2010 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the internal control environment.

The Code states that the internal control environment comprises three key areas, internal control, governance and risk management processes. My opinion on the effectiveness of the internal control environment is based on an assessment of each of these key areas.

As referred to in the “Background” there is a requirement for the “system of Internal Audit” to include an assessment of sources of assurance, beyond just that of Internal Audit itself. As the Council are required to produce an Annual Governance Statement sources of assurance are reflected within this process, which Internal Audit are a part of; therefore the control environment is reviewed more fully in this way.

## **2009/2010 Year Opinion**

My overall opinion is that, for the systems reviewed, the Council has basically sound systems of control in place, although there are weaknesses which put some of the

system objectives at risk. There are a number of systems receiving low assurance, four of which relate to contract letting and management. The profile of assurance is in our experience comparable to other local authorities, with the majority of Council systems receiving Substantial Assurance, with exceptions mentioned above. Weaknesses found as a result of our work, together with our recommendations for improvement, have been included in our reports to senior management and Members. Additional weaknesses identified through the Annual Governance Statement process are recorded separately as an Appendix to the Annual Governance Statement and reflect the assurance provided from all sources both internal and external.

There are however, ten areas where only restricted assurance can be provided, these relate to:

- Hindpool Urban Park;
- Barrow Park;
- Risk Management;
- IT General Controls;
- Asset Management;
- Barrow Public Park Heritage Restoration Project;
- Contract Probity;
- Sodexo Accounts Dock Museum Café;
- Construction of Holker Street Car Park (awaiting management response); and
- IT Asset Management (awaiting management response).

## **Co-operation**

The successful achievement of the audit plan is dependent on the contribution of the Council's staff as audit clients. I would like to record our appreciation for the involvement and commitment of staff, and for their critical appraisal of our recommendations during the year. I would also like to acknowledge the support shown by the Audit Committee in the delivery of our Plan.

# **1. SERVICE BACKGROUND**

## **1.1 Our reporting lines**

Furness Audit provide the Council's Internal Audit service under the direction of the Borough Treasurer with access to the Chief Executive and elected members if, in exceptional circumstances, we consider this necessary.

The Head of Internal Audit Keith Jackson, meets with the Borough Treasurer, on a regular basis to discuss progress; in addition to attendance at External Audit liaison meetings. He also attends Audit Committee on a regular basis, which includes presentation of progress reports and an analysis of significant agreed recommendations.

## **1.2 Professional standards**

We aim to exceed the professional standards throughout our work, providing your internal audit service in accordance with the statements, standards and guidelines published by CIPFA (in particular the Code) and the Institute of Internal Auditors.

## **1.3 Our audit process**

We adopt a risk-based approach to identify, and evaluate the application of, financial and other management controls.

Our process includes a computerised matrix evaluation approach. This approach is a practical process for documenting efficiently, and in an easily assimilated form, a rigorous analysis of the potential causes of risk and an assessment of the strength of controls against these risks. In addition, it can be used to demonstrate clearly the effect of implementing recommendations to address weaknesses. It allows for ready identification of control weaknesses, and of key controls, which are critical for the achievement of the systems objectives, as well as unnecessary or excessive controls. Our methodology specifically includes a rigorous quality assurance programme to ensure compliance with this process.

The level and mix of staff utilised for the internal audit service is matched to the complexity of each assignment, with specialists, such as computer auditors and contract auditors, utilised where appropriate. However, continuity of audit staffing is a key feature of the service provided throughout the contract.

## **1.4 2009/2010 Audit Plan**

The Audit Plan for 2009/2010 was derived from a needs assessment of all agreed auditable areas within the Council. Each area is prioritised by significance band of which there are 5, with band 1 being the highest. This has resulted in an annual plan which concentrates on reviewing all significance band 1 and 2 audits (annual audits) with the remaining time allocated on a risk

assessed and cyclical basis. This assessment and resultant plan may be reviewed by Internal Audit during the year as required.

During the year, the specific scope and objective of each audit assignment was discussed with the relevant Line Manager prior to the commencement of each audit.

I will continue to monitor closely any new issues which may arise and will work closely with the Borough Treasurer in rescheduling priorities where required.

## **2. REVIEW OF PERIOD**

### **2.1 Progress against 2009/2010 Annual Plan**

A detailed analysis of the current situation regarding the 2009/2010 Plan is provided in Appendix A.

The assessment of auditable areas has identified 73 systems, which cover the Council's operations. The audit coverage achieved in the period, compared to the audit plan, is set out in the table below. The slight reduction of actual compared to planned coverage mainly relates to the performance of a number of unplanned audits, with the associated cancellation of planned work; all of which were included within regular progress reports issued to the Audit Committee.

<b>2009/2010</b>	<b>Percentage of systems covered</b>	<b>Percentage of risk covered</b>
<b>Planned</b>	37%	80%
<b>Achieved</b>	32%	77%

### **2.2 Liaison with external audit**

I have liaised with the Audit Commission throughout the year; providing detailed information and documentation to assist in the delivery of their work.

Our aim is to maximise the benefit from the Internal Audit service by avoiding duplication of coverage and facilitating where appropriate the Audit Commissions approach, in order to provide maximum assurance.

### 3. ANNUAL STATEMENT OF ASSURANCE

In order to help management evaluate the significance of each assignment, we allocate each audit into a significance band which is simply a method of assessment and prioritisation. For example significance band 1 audits have the greatest “significance” or priority in terms of audit coverage. 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
Unqualified Assurance	The controls appear to be consistently applied.
Substantial Assurance	Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.
Restricted Assurance	The level of non-compliance identified places the system objectives at risk.
None	Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.

The majority of Council systems, see Appendix A, have achieved the level of Substantial Assurance. However, ten systems have been classified as Restricted Assurance, (two reports are awaiting a management response and are therefore not in the statistics below).

Final Reports Issued	Unqualified Assurance		Substantial Assurance		Restricted Assurance		No Assurance	
	No.	%	No.	%	No.	%	No.	%
30	1	3	21	70	8	27	0	0

*With the exception of the contract audit work undertaken, this achievement demonstrates the Council’s commitment to operating within a control environment that should minimise the risk of loss to the Authority.*

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.

## 4. RECOMMENDATIONS AND FOLLOW UP IN THE YEAR

### 4.1 Introduction

Our audit recommendations are categorised by three priority levels. These categorisations are described below.

*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.

### 4.2 Recommendations made

The following table summarises the number of audit recommendations made during the year in our Final Reports, and the management responses, analysed in accordance with the above categories.

<b>Recommendations</b>	<b>Total</b>	<b>Priority 1</b>	<b>Priority 2</b>	<b>Priority 3</b>
Made	<b>173</b>	8	112	53
Fully Accepted	<b>162</b>	8	102	52
Partly Accepted	<b>10</b>	0	9	1
Not Accepted	<b>1</b>	0	1	0

In addition, there are 27 Priority 2 recommendations and 4 Priority 3 recommendations made, where a draft report has been issued, and is awaiting a management response.

### 4.3 Implementation of recommendations

During the year we have reported on the implementation of 158 agreed audit recommendations made in previous reports. The results are as follows:

<b>Fully Implemented</b>	<b>Not Implemented</b>	<b>Overtaken by events</b>	<b>TOTAL</b>
89	57	12	158

For recommendations not fully implemented revised dates have been agreed with management for their implementation. Internal Audit will further review progress on their implementation during 2010/2011.

## **5. QUALIFICATIONS TO THE OPINION**

Internal Audit has had unrestricted access to all areas and systems across the authority and has received appropriate co-operation from officers and members.

## APPENDIX A

### PROGRESS AGAINST AUDIT PLAN 2009/2010

Audit Assignment	SYSTEM SIGNIFICANCE BAND	Status	Assurance
<b>ANNUAL AUDITS</b>			
Performance Management	1	Final	Substantial
Risk Management	1	Final	Restricted
Income Collection	1	Final	Substantial
Financial Information System	1	Initial Draft	Substantial
Housing and Council Tax Benefits	1	Draft	Substantial
Council Tax	1	Final	Substantial
Business Rates (NNDR)	1	Final	Substantial
Corporate Control/Governance	2	Ongoing	-
Procurement (Waste, Recycling & Street Cleaning Contract)	2	Complete	-
Procurement (Grounds Maintenance Contract)	2	Complete	-
Standing Orders and Financial Regulations	2	Complete	-
Budgetary Control	2	Final	Substantial
Treasury Management	2	Final	Unqualified
Payroll (including expenses/allowances)	2	Final	Substantial
Receivables	2	Final	Substantial
Periodic Checks	2	Complete	-
Payables	2	Final	Substantial
Car Park Meter Charges	2	Final	Substantial
Housing Rents	2	Final	Substantial
Housing Maintenance (Day to day repairs)	2	Cancelled time used for Sodexo review	

<b>Audit Assignment</b>	<b>SYSTEM SIGNIFICANCE BAND</b>	<b>Status</b>	<b>Assurance</b>
<b>VFM Reviews/Other Projects/Spot Checks</b>			
Receipt Book Checks	-	Final	Substantial
Petty Cash Spot Checks	-	Complete	-
Maternity Policy Review	-	Complete	-
Landlords Grant Investigation	-	Complete	-
Sodexo Accounts Dock Museum Café	-	Final	Restricted
Payables Extended Testing	-	Complete	-
Flexi Time Spot Checks	-	Complete	-
NWDA Final Claim Check 77-79 Duke Street	-	Complete	-
West Lakes Renaissance Urban Design Framework Year 2 Auditors Report	-	Complete	-
<b>RISK ASSESSED SYSTEMS</b>			
Capital Programme	3	Final	Substantial
Housing Strategy	3	Cancelled. Time allocated to Final Grant Claims	
Concessionary Travel	3	Cancelled. Time allocated to additional contract audits	
Property Portfolio Including Sales	3	Combined with Asset Management	
Asset Management	3	Final	Restricted
Licensing	3	Cancelled. Time allocated to additional funding checks	
Waste Management	4	Combined with Procurement	
Refuse Collection (including Recycling)	4	Cancelled. Time allocated to additional funding checks	
<b>COMPUTER ENVIRONMENT AUDITS</b>	1		
IT General Controls		Final	Restricted
Code of Connection		Final	Substantial
IT General Controls Liberata		Fieldwork On-going	-

<b>Audit Assignment</b>	<b>SYSTEM SIGNIFICANCE BAND</b>	<b>Status</b>	<b>Assurance</b>
Implementation Review PC Management Control	-	Complete	-
<b>CONTRACT AUDIT</b>	1		
Refurbishment Ground Floor Male and Female Toilets		Draft	Substantial
Construction of Holker Street Car Park		Draft	Restricted
Units 1-7 James Freel Close		Final	Substantial
Alterations to the Park Leisure Centre		Fieldwork Complete	-
Emlyn Street Car Park		Awaiting Final Account	-
External fabric repairs, 104 Abbey Rd		On going contract	-
Contract Probity		Final	Restricted
<b>AGREED ADDITIONAL WORK</b>			
<b>Community Centre Accounts</b>			
Hawcoat	-	Complete	-
Askam & Ireleth	-	Complete	-
Abbotsvale	-	Complete	-
Dalton Community Association	-	Complete	-
Roosegate	-	Complete	-
Barrow Playing Fields Users Association	-	Complete	-
Mayors Account	-	Complete	-
<b>External Funding Checks</b>			
Furness Enterprise	-	Complete	-
<b>National Fraud Initiative</b>	-	Complete	-

<b>Audit Assignment</b>	<b>SYSTEM SIGNIFICANCE BAND</b>	<b>Status</b>	<b>Assurance</b>
<b>Implementation Review</b>			
Building Control	-	Complete	-
Forum 28	-	Complete	-
Right to Buy	-	Complete	-
Land Charges	-	Complete	-
Corporate Health & Safety Review	-	Complete	-
Client Monitoring (Revenues & Benefits)	-	Complete	-
Contract Payment Procedures/ Contract Register 06-25	-	Complete	-
Contract Payment Procedures/ Contract Register 7-28	-	Complete	-
<b>CONTINGENCY</b> <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	Final	Substantial
Receivables	2	Final	Substantial
Payables	2	Final	Substantial
IT Asset Management	1	Draft	Restricted
Barrow Public Park Heritage restoration project	1	Final	Restricted
Performance Management	1	Final	Substantial
Hindpool Urban Park	-	Final	Restricted

<b>AUDIT COMMITTEE</b>	<b>(D) Agenda Item 13</b>
<b>Date of Meeting: 29th June, 2010</b>	
<b>Reporting Officer: Borough Treasurer</b>	
<b>Title: Internal Audit Plan 2010-2011</b>	
<b>Summary and Conclusions:</b>	
<p>Under Section 151 of the Local Government Act 1972, I have a responsibility to ensure the proper management of the finances of the Council. In order to achieve this, an Internal Audit function needs to be maintained to provide me with the assurance necessary to discharge my duties under section 151.</p>	
<p>The Internal Audit function examines and evaluates the adequacy of the Council's system of internal controls as a contribution to ensuring that resources are used in an economical, efficient and effective manner.</p>	
<p>Internal Audit is an independent and objective appraisal function established by the Council for reviewing the system of internal control. This is in compliance with the Accounts and Audit Regulations 2003 as amended, which specifically require a local authority to maintain an adequate and effective system of internal audit. This work is delivered by way of a risk-based approach to the Internal Audit planning process; resulting in the production of an Annual Audit Plan which needs approval by this Committee.</p>	
<b>Recommendations:</b>	
<p>Members are recommended to approve the plan for 2010-2011.</p>	

**Report**

The Internal Audit function is outsourced to Furness Audit. The Internal Audit function is part of the Borough Treasurer's department.

The head of the service is required to prepare an annual audit plan after consultation with service managers.

The coverage of the internal audit work may vary from year to year depending on the risk factors and needs identified during the planning process.

For the year 2010-2010, it is proposed to carry out the programme shown below.

# BARROW BOROUGH COUNCIL

## INTERNAL AUDIT ANNUAL PLAN 2010/11

Audit	Significance Band	Directorate	Days
<b>ANNUAL AUDITS</b>			
Income Collection	1	Borough Treasurer's	15
Housing and Council Tax Benefits	1	Borough Treasurer's	32
Council Tax	1	Borough Treasurer's	11
Performance Management	1	Corporate Services	10
Business Rates (NNDR)	1	Borough Treasurer's	9
Risk Management (Including Anti Fraud)	1	Borough Treasurer's	8
Financial Information System	1	Borough Treasurer's	9
Budgetary Control	2	Borough Treasurer's	9
Treasury Management	2	Borough Treasurer's	7
Car Park Meter Income	2	Regeneration and Community Services	10
Payroll	2	Borough Treasurer's	15
Accounts Receivable	2	Borough Treasurer's	10
Corporate Control/Governance	2	Corporate Services	7
Periodic Checks	2	Borough Treasurer's	16
Procurement (inc. Ordering)	2	Corporate Services	15
Accounts Payable	2	Borough Treasurer's	10
Housing Rents	2	Regeneration and Community Services	10
Standing Orders and Financial Regulations	2	Corporate Services/Borough Treasurers	5
Housing Maintenance (Day to day repairs)	2	Regeneration and Community Services	20
IT Environment Audits	1		30
Contract Audit	1		45

<b>RISK ASSESSED SYSTEMS</b>			
Licensing	<b>3</b>	<b>Regeneration and Community Services</b>	8
Housing Strategy	<b>3</b>	<b>Regeneration and Community Services</b>	10
Catering Contract	<b>3</b>	<b>Corporate Services</b>	15
Waste Management	<b>4</b>	<b>Regeneration and Community Services</b>	9
Refuse and Recycling Collection	<b>4</b>	<b>Regeneration and Community Services</b>	12
Non Routine Public Buildings Maintenance	<b>4</b>	<b>Corporate Services</b>	7
<b>DESIGNATED ANNUAL AUDIT ACTIVITY</b>			
Other Projects/Cash Floats (Annual)/A/c Working paper reviews/Receipt Book Checks	-		25
Community Organisations (inc. Mayor's Account)	-		20
Fraud Hotline	-		8
Funding Checks/Grant Claims	-		25
NFI Responsibilities	-		20
<b>AUDIT MANAGEMENT</b>			
Implementation Review	-		8
Probity	-		25
Audit Administration/Advice	-		8
Audit Committee	-		6
Audit Management/Planning/Reporting	-		10
External Audit Liaison	-		3
CONTINGENCY	-		8
<b>TOTAL CONTRACT DAYS</b>			<b>530</b>
<b>ADDITIONAL CONTRACTED WORK</b>			
Benefit Certification (estimated)	-		30

- (i) Legal Implications – Not Applicable.
- (ii) Financial Implications – Not Applicable.
- (iii) Health and Safety Implications – Not Applicable.
- (iv) Key Priorities or Corporate Aims – Not Applicable.
- (v) Risk Assessment – Not Applicable.
- (vi) Equality and Diversity – Not Applicable.
- (vii) Health and Well-being Implications – Not Applicable.

Background Papers

Nil

<b>AUDIT COMMITTEE</b>	<b>(D) Agenda Item 14</b>
<b>Date of Meeting: 29th June, 2010</b>	
<b>Reporting Officer: Borough Treasurer</b>	
<b>Title: Internal Audit – Asset Management Position Statement regarding a previous report</b>	
<b>Summary and Conclusions:</b>	
At the previous meeting, members expressed concerns regarding an internal audit report relating to asset management.	
The attached statement updates members on the issues raised previously.	
The Council's Internal Audit Manager will attend the meeting to present the reports to members.	
<b>Recommendations:</b>	
Members are recommended to:	
1. Receive and consider the reports; and	
2. Raise any questions or concerns with the Internal Audit Manager.	

**Report**

The attached report updates members on a previously issued report.

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.

(i) Legal Implications

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

(ii) Financial Implications

Not Applicable.

(iii) Health and Safety Implications

Not Applicable.

(iv) Key Priorities or Corporate Aims

Not Applicable.

(v) Risk Assessment

Not Applicable.

(vi) Equality and Diversity

Not Applicable.

(vii) Health and Well-being Implications

Not Applicable.

Background Papers

Nil

**Confidential**

**MEMORANDUM**

**TO:** Mohamad Saleh  
Borough Treasurer

**Cc:** Sue Roberts  
Deputy Borough Treasurer

**FROM:** Keith Jackson  
Head of Internal Audit

**FILE REF:** BBC/09-23

**DATE:** 13 May 2010

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**SUBJECT: INTERNAL AUDIT POSITION STATEMENT**  
**Internal Audit Report 09-23**  
**Asset Management**

Audit Committee on 9 March 2010 requested that *“the Internal Audit Manager re-visit the issues with regards to Recommendation 5 of the Asset Management report and report back to the meeting in June with assurances that the appropriate documentation had been supplied”*.

The full text of recommendation 5 is attached. The recommendation covered both the freehold acquisition and disposal of assets and the leasing of Council properties; it resulted from the test checking of a sample of property transactions.

The recommendation was rejected, with the response stating that transactions were governed by Financial Regulations/Standing Orders and were considered by Management Team and Executive Committee, while acquisition and disposal records were held by the Borough Treasurer’s Department.

Internal Audit have approached the request from Audit Committee to re-visit Recommendation 5 by preparing an updated position statement, concentrating on the documentation currently available for the original sample of properties.

<b>Ref</b>	<b>Narrative</b>
5	<p>The recommendation stated that:</p> <p><i>The Council should introduce procedures to ensure that a record is made and retained of all discussions, negotiations, agreements reached and instructions issued prior to formally:</i></p> <ul style="list-style-type: none"><li><i>a) acquiring or disposing of assets; and</i></li><li><i>b) leasing out its properties.</i></li></ul> <p><i>(Priority 2)</i></p>

Internal Audit's review identified that the current position on the properties sampled in the original audit was as follows:

**i) Freehold Acquisitions:**

The sample comprised six acquisitions.

- a) All six acquisitions were approved by the Executive Committee;
- b) The Council's interest in all six properties has been registered with the Land Registry;
- c) All six properties have been added to the Council's Asset Register and included in its financial accounts;
- d) The six assets have been added to the Estates section's Technology Forge register with relevant documentation, including title deeds;
- e) All purchases were supported by valuations: in the case of land at Brady's Warehouse for the Link Road Phase 2 scheme, the purchase price was based on uprating the value of a smaller portion of land;
- f) Documentation for the purchase of land at Brady's Warehouse was held in the Regeneration section; and
- g) Invoices connected with the acquisition of the assets were held within the Borough Treasurer's Department

**ii) Freehold Disposals:**

The sample comprised ten freehold disposals, including four right to buy (RTB) sales and a minor land disposal.

- a) Disposals were approved by the Executive Committee where necessary;
- b) The assets have been removed from the Council's Asset Register and accounted for correctly, with the exception of the minor land sale which was de minimis;
- c) The Technology Forge register has been updated for the property disposals;
- d) No valuation could be produced for the disposal of land at Bessemer Way, which was agreed in 2006;
- e) Internal Audit did not test whether valuations had been obtained for the four RTB sales as this is an unavoidable stage of the process, nor for the minor land sale;
- f) Valuations were filed for the remaining four disposals; and
- g) Details of the financial transactions were held within the Borough Treasurer's Department.

**iii) Property Leases:**

The sample comprised nine leases of Council properties and one lease taken out by the Council. The issues raised in recommendation 5 of the audit report relate to documentation which could only be produced at the time of the transaction, so the position remains unchanged from that reviewed at audit, ie:

- a) Six files contained no relevant correspondence or notes relating to the process which resulted in the lease being agreed. Two files contained proposed heads of terms, while a further two files contained some correspondence with the prospective tenants;
- b) Three files did not record that an external solicitor had been appointed to act on behalf of the Council;
- c) Lease agreements have been drawn up in each case and retained on the Technology Forge asset register;
- d) The lease arrangements have been notified to the Borough Treasurer's and Housing Departments as appropriate, together with Liberata;
- e) Rents were being collected per the agreements for those properties managed by the Estates Section; and
- f) Review or renewal dates have been recorded in the Technology Forge Asset Register in order to prompt action.

<b>Recommendation 5</b>	<b>Responsibility: Management Team/Deputy Borough Treasurer</b>	<b>Priority:</b>	<b>2</b>
<p>The Council should introduce procedures to ensure that a record is made and retained of all discussions, negotiations, agreements reached and instructions issued prior to formally:</p> <p>c) acquiring or disposing of assets; and</p> <p>d) leasing out its properties.</p>			
<b>Rationale</b>			
<p>The Internal Audit review highlighted a lack of formal documentation in a number of areas, regarding the management and control of Council assets.</p> <p>a) Acquisitions and Disposals</p> <p>The previous audit review noted that discussions on potential acquisitions and disposals had not been documented comprehensively; and an outstanding recommendation (No 6 from Audit Report 06-14) is incorporated in this recommendation.</p> <p>Internal Audit testing of a sample of 6 property acquisitions demonstrated that the Estates Section held no documentation for the purchase of land at Brady's Warehouse for the Link Road Phase 2, at a total cost of £1,036,126.</p> <p>Further testing of Estates files for a sample of 10 property disposals identified that supporting documentation was not produced for the sale of a piece of land at Bessemer Way, to Furness College for £126,101 (a valuation of the land, instruction to an external solicitor to act for the Council in respect of this transaction and confirmation of legal completion of the sale).</p> <p>b) Property Leases</p> <p>Internal Audit examined a sample of files for 10 new lease agreements. Six files contained no relevant correspondence or notes relating to the process which resulted in the lease being agreed. Two files contained proposed heads of terms, while a further two files contained some correspondence with the prospective tenants.</p> <p>Internal Audit acknowledge that, in the current economic climate, the Council's main concern will be to secure tenants for empty properties, with the level of rent being a secondary issue. However, this should not prevent the reasoning for setting a particular rent level being recorded to demonstrate that it represents good value for the Council.</p> <p>For the same sample of 10 agreements, documentation did not exist on three files to support the engagement of an external solicitor to draw up the resulting lease.</p> <p>To demonstrate transparency, evidence the authority given to solicitors to act for the Council and reduce the risk of subsequent disputes or disagreement, details should be retained of all relevant negotiations, instructions, valuations and agreed heads of terms. These records should be maintained whichever section of the Council deals with the transaction.</p>			

**Management Response**

Asset acquisitions and disposals are governed by the Council's Financial Regulations and Standing Orders. All of this business goes to Management Team and Executive Committee.

Asset acquisition and disposal records are held by the Borough Treasurer's Department; these are all part of the capital programme and each project has a responsible manager.

**Rejected****Implementation Deadline: N/a**

<b>AUDIT COMMITTEE</b>	<b>(D) Agenda Item 15</b>
<b>Date of Meeting: 29th June, 2010</b>	
<b>Reporting Officer: Borough Treasurer</b>	
<b>Title: Internal Audit – Final Reports</b>	
<b>Summary and Conclusions:</b>	
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.	
<b>Recommendations:</b>	
Members are recommended to:	
<ol style="list-style-type: none"><li>1. Receive and consider the reports; and</li><li>2. Raise any questions or concerns with the Internal Audit Manager.</li></ol>	

**Report**

There are 11 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 Public Park	Restricted	3	2	-	-
2	Contract Probity	Restricted	2	3	-	-
3	Code of Connection	Substantial	-	5	-	-
4	Housing Rents	Substantial	-	-	5	2
5	Payroll	Substantial	-	-	-	8
6	Payables	Substantial	-	-	2	3
7	Receipts Book	Substantial	-	1	1	-
8	Council Tax	Substantial	-	-	2	-
9	NNDR	Substantial	-	-	2	-
10	Performance Management	Substantial	-	1	3	-
11	Receivables	Substantial	-	3	1	-

(i) Legal Implications

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

(ii) Financial Implications

Not Applicable.

(iii) Health and Safety Implications

Not Applicable.

(iv) Key Priorities or Corporate Aims

Not Applicable.

(v) Risk Assessment

Not Applicable.

(vi) Equality and Diversity

Not Applicable.

(vii) Health and Well-being Implications

Not Applicable.

Background Papers

Nil

**BARROW BOROUGH COUNCIL**

**INTERNAL AUDIT FINAL REPORT CR 47**

**BARROW PUBLIC PARK HERITAGE RESTORATION PROJECT**

**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 Barrow Public Park Heritage Restoration Project was selected for audit due to the high value of the works and funding responsibilities to the Heritage Fund supporting the project.

The work was valued at pre-tender stage at £1,422,133 commensurate with the original grant award. The appointment of a Lead Consultant was completed in compliance with the Council's Contract Standing Orders and European Communities procurement regulations. The request for expressions of interest regarding the appointment in the Official Journal of the European Union (OJEU) generated a reported 33 responses. CAPITA had been engaged to assist in the appointment of a Lead Consultant and selected seven consultancies to be invited to complete a two stage tender exercise, which included quality assessment to determine the final selection. The main contractor for the works was appointed following a formal tendering exercise, and interviews to assess quality and value for money. The appointment had been made in compliance with the Council's Contract Standing Orders.

The contract sum of £1,478,501.25 was varied during the contract period resulting in a Final Account total of £2,175,076.86; an increase of 47%.

It should be noted that Internal Audit were unable to fully reconcile the final account due to the unavailability of prime records, such as priced Architect Instructions.

<b>Key Points</b>
<b>Restricted Assurance</b>
<b>Three major issues</b>
<b>Two important issues</b>

**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 there are weaknesses, particularly regarding the management of the project, which put some of the system objectives at risk. We have made three Priority 1 recommendations, which concern:

- location and retention of tender documentation received from all tenderers;

- supporting evidence for the overall increase to the final account; and
- the need to report any variance greater than 10% between the contract sum and final account.

We have also made two Priority 2 recommendations, which concern:

- claiming for liquidated and ascertained damages from the specified contractor; and
- consistently informing unsuccessful tenderers of contract award decisions.

### **Management Response**

We have received a constructive management response on behalf of the former Director of Regeneration, from Keith Johnson, Community Services Manager, accepting each recommendation.

### **Acknowledgement**

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

<b>Recommendation 1</b>	<b>Responsibility: Director of Regeneration and Community Services</b>	<b>Priority: 1</b>
<p>The Council should attempt to locate necessary documentation to support the tendering exercise for the appointment of the prime contractor for the project; and retain such information on a designated project file.</p>		
<p><b>Rationale</b></p>		
<p>The Council have adopted a satisfactory procedure for the return, opening and recording of sealed tender envelopes. However, it is clear procedures have not always been followed for the retention of all the tender documentation received.</p> <p>Internal Audit were unable, despite requests, to obtain any documentation other than the Council's Tender Opening Register, as evidence of a tendering exercise being satisfactorily completed. The unavailability of such documentation prohibits Internal Audit from providing management with the necessary assurance that the actual tendering process is in compliance with Contract Standing Orders. The tender documents were reported to have been taken into custody following the opening meeting by the Project Co-ordinator (Owen Williams Consultants).</p> <p>Regardless of this, it is the responsibility of managers to ensure that services provided by their appointed consultants are in compliance with Council Contract Standing Orders and that project documentation is returned for safe storage.</p> <p>Additionally, this weakness is of particular importance where external funding is utilised.</p>		
<p><b>Management Response</b></p>		
<p>Accepted – I will contact Owen Williams to attempt to retrieve documentation and will note implications for the future.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>30 June 2010</b>

<b>Recommendation 2</b>	<b>Responsibility: Director of Regeneration and Community Services</b>	<b>Priority: 1</b>
<p>The Council should provide evidence to support the variation to the original contract sum; which resulted in an overall increase of £696,575.61 or 47%.</p>		
<p><b>Rationale</b></p>		
<p>During the delivery of a contract, amendments to the specification may be required due to unforeseen circumstances or changes in client requirements. All such changes require the Architect/Engineer to appraise any changes and formally instruct the contractor of the required changes. Instructions are issued in the form of pre numbered Architect's Instructions; and authorised by the person delegated under the terms of the contract document.</p> <p>Internal Audit obtained a copy of the Final Account statement, in order to perform the necessary reconciliation to supporting documentation. The Final Account includes Additions of £1,140,659.69 and Omissions of £444,084.08. However, despite requests Internal Audit were unable to obtain copies of priced Architects Instructions, supporting the variance to the Contract Sum.</p> <p>Unless variances can be supported by properly completed and signed Architect's Instructions, Council Management cannot be certain that work is only being charged for requested and duly authorised tasks. Furthermore, this weakness is of particular importance where the Council is responsible for the utilisation of external funding.</p>		
<p><b>Management Response</b></p>		
<p>Agreed – control of variations should be dealt with via Standing Orders and Financial Regulations. It is understood that the additional spend related to legitimate improvement activities and was authorised correctly.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>30 June 2010</b>

<b>Recommendation 3</b>	<b>Responsibility: Director of Regeneration and Community Services</b>	<b>Priority: 1</b>
<p>The Council should ensure that officers responsible for incurring expenditure consistently report any variance greater than 10%, between the contract and final account sums, to the Executive Committee; and in this particular case consider retrospective reporting of a significant increase to the contract sum.</p>		
<p><b>Rationale</b></p>		
<p>The Councils Contract Standing Orders 20 – Reporting to Members states:</p> <p>“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>Internal Audit calculated that the contract sum £1,478,501.25 had increased by 47% resulting in a Final Account total of £2,175,076.86. However, Internal Audit were unable to confirm if this had been reported to the Executive Committee.</p> <p>Non compliance with Standing Orders is a significant weakness and is not only the demonstration of breakdown of internal control arrangements, but of concern to the overall transparency of reporting.</p>		
<p><b>Management Response</b></p>		
<p>Agreed – this will be implemented in future; and it is considered that this report, through Audit Committee, will retrospectively deal with the percentage overspend.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>Implemented</b>

<b>Recommendation 4</b>	<b>Responsibility: Director of Regeneration and Community Services</b>	<b>Priority: 2</b>
<p>The Council should ensure that Liquidated and Ascertained damages are claimed against the contractor following a delay in completing the required works; from the date specified for completion, recorded in the Contract Document.</p>		
<p><b>Rationale</b></p>		
<p>In accordance with expected practice the Council and contractor will agree dates for commencement and completion of the required works which are recorded in the Contract Document signed by both parties. Contracts may not always be completed within the contractual timescales due to delays caused by the contractor, Council or external actions. In the event of a delay the circumstances are appraised and a determination of the cause made. Where the Architect considers the delay to be outside the contractor's control he will issue a Certificate amending the Contract Completion date for the period of delay. In the event that the Architect is unable to provide such relief, the contractor would be liable to a penalty calculated at the contractual Liquidated Damages rate for the period of the delay. The contractor retains the right to issue a counter claim against the Council for additional site costs for the extended period of the work. Possible penalties should be taken into account when determining the amount of retention monies to be released to the contractor.</p> <p>Internal Audit obtained the contractual dates and the date of actual completion certified by the Architect. A delay of 6 weeks was identified. (The contractual liquidated and ascertained damages of £500.00 per week should result in a penalty against the contractor of £3,000.00.)</p> <p>However, there was no evidence of a claim for a variation to extend the date for completion, or a deduction for the release of retention monies to the contractor; despite a request being made during the audit to management and acting consultants retained by the Council.</p> <p>Unless contractual arrangements are maintained and required action taken the Council may be at risk of financial loss.</p>		
<p><b>Management Response</b></p>		
<p>It is accepted that the damages should have been claimed back. However, the costs associated with claiming back at this point would be prohibitive.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>No further action</b>

<b>Recommendation 5</b>	<b>Responsibility: Director of Regeneration and Community Services</b>	<b>Priority: 2</b>
<p>The Council should consider consistently informing unsuccessful tenderers of contract award decisions; and retain such information for future reference.</p>		
<p><b>Rationale</b></p>		
<p>Internal Audit could not locate formal notifications relating to the appointment of the successful contractor. The issue of formal notifications of the successful contract award to all tenderers adds transparency to the exercise and also assists contractors when costing future tenders.</p> <p>The Chartered Institute of Public Finance &amp; Accountancy (CIPFA) has in association with the Local Government Task Force, produced a publication on example Contract Procedure Rules. Section 15.6 of the publication suggests that the Council should “debrief in writing all those candidates who submitted a bid”.</p>		
<p><b>Management Response</b></p>		
<p>Noted</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>Implemented</b>

## **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: August 2008 to March 2009

**APPENDIX 2**

**CONTRACT PARTICULARS**

Contract Title:	The Restoration and Enhancement of the Public Park at Abbey Road, 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:	Hugh Massey Architects
Landscape Architect:	Landscape Design Associates
Quantity Surveyor:	Davis Langdon LLP
Planning Supervisor	Owen Williams Consultants
Contract Sum:	£1,478,501.25
Contract Sum Revision:	
Date for Possession:	2 <sup>nd</sup> August 2004
Date for Completion:	5 <sup>th</sup> June 2005
Date of Practical Completion:	15 <sup>th</sup> July 2005
Delay in Completion:	40 days 5.7 Weeks (6 Weeks)
Extension of Time Granted:	Requested
Liquidated and Ascertained Damages provision/paid/received:	£500.00 per week
Minimum Insurance Cover	Employer Liability: £1,000,000
Minimum Bond	Nat West - £147,850 10% of Contract Sum
Retention Amount	5% up to Practical Completion 2.5% to Final Account
Submitted Final Account Sum:	£2,175,076.86
Audited Final Account Sum:	Sum not Verified
Percentage increase / Submitted Final Account against Contract Sum.	47%  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 09-39**  
**CONTRACT PROBITY**

## Executive Summary

### Introduction

The Council's procurement process is controlled through the Contract Standing Orders, Financial Regulations, Procurement Policy and 'guidelines for obtaining quotations'. Internal Audit are required under the Council's Financial Regulations to consider for review all aspects of probity throughout the Council's administration. The Council relies upon the Contract Standing Orders to ensure standard procedures are adhered to in the procurement of goods and services.

The Council has recently introduced e-procurement utilising the CHEST. 'The Chest' e-portal is an electronic quotations and tendering system and has been created with funding from the North West Centre of Excellence, and is a collaboration of the seven District Councils and Cumbria County Council. The CHEST is designed to identify quality suppliers and economies of scale when procuring services, works and goods. Although it should be noted these processes are not reflected within the current regulations.

Internal Audit reviewed a sample of seven projects as follows:

- Health & Safety Rating Inspections – Private Housing.
- Catering Contract.
- Removal of Asbestos from the Market Hall.
- Supply and Installation of boiler and solar panels at Forum 28.
- Fire Protection & Security Ltd.
- Automatic doors & roller shutters service.
- Rooftop car park gulley repairs.

Key Points
Restricted Assurance
Two major issues
Three important issues

### Audit Objectives

The audit objectives were to perform a review of the tendering process for each project in order to identify any non-compliance with the Council's Contract Standing Orders. Details of the audit methodology are provided in Appendix 1.

### Audit Conclusion –*Restricted Assurance*

As a result of the audit we have concluded that weaknesses have been identified in the system of control, which puts the system objectives at risk. We have made two Priority 1 recommendations which concern ensuring:

- all contracts are in writing in accordance with the Council's Contract Standing Orders; and
- tenders are opened in accordance with the Council's Contract Standing Orders.

In addition, we have made three Priority 2 recommendations which relate to ensuring:

- contracts are consistently forwarded to Legal Services immediately on completion.
- standard terms and conditions are compliant with the Council's Contract Standing Orders; and
- formalisation of the processes for obtaining tenders throughout the Authority.

### **Management Response**

We have received a constructive management response from Richard Hennah, Technical Support Unit Manager, accepting each of the recommendations; and in addition stating -

Please note that responses provided by the Technical Support Manager relate to the following contracts only.

- Supply & installation of boilers and solar panels at Forum 28.
- Fire & Protection Security.
- Removal of asbestos from Market Hall.
- Automatic Doors and roller shutters.
- Roof top car park gulley repairs.

The other audited contracts; namely Health & Safety Rating inspections – Private Housing and Catering contract where procured by other managers. The collective adoption of the chest e-portal by Councils across the North West and as funded by the North West Centre of Excellence has introduced significant changes compared to Barrow Borough Council's historical policies and procedures. To this end the use of the chest by the Technical Support unit was undertaken on a pilot period as approved by the Contract and Procurement Group (CPG) Chaired by the Council Solicitor, Corporate Services Director.

Procedures introduced via the chest will greatly improve transparency for open competition of opportunities in Barrow Borough Council and also help coordinate departments involved in devolved procurement around one central register.

The Weaknesses identified in this report generally relate to the delay in formalising policies and procedures with supporting training to adopt this new model of best practice in procurement.

### **Acknowledgement**

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

<b>Recommendation 1</b>	<b>Responsibility: Director of Corporate Services &amp; Technical Support Unit Manager</b>	<b>Priority: 1</b>	<b>1</b>
<p>The Council should ensure all contracts are in writing in accordance with the Council's Contract Standing Orders.</p>			
<p><b>Rationale</b></p>			
<p>Internal Audit selected a sample of seven projects to establish if a formal contract had been completed and signed/dated by the contractor and representatives of the Council.</p> <p>The review identified that on three occasions a draft contract had been produced; however each draft contract had yet to be finalised and signed/dated by the Contractor and the Council. For the remaining four projects there was no evidence of a contract being drawn up by the Council. Although, on the four occasions where work had been tendered through The Chest, each tenderer had accepted the Council's Standard Terms &amp; Conditions of Contract.</p> <p>The Council's Contract Standing Orders section 14.1 states that "Subject to Order 3 every contract shall be in writing in a form approved by Legal Services."</p> <p>In addition, on several occasions the required work appears to have been completed by the contractor, without the required formal contract being in place; in one particular instance work involved the removal of asbestos.</p> <p>These weaknesses reduce the control over the Council's contract management arrangements, and do not demonstrate compliance; and potentially place the Council at risk in the event of a dispute or claim from a contractor.</p> <p>The above weaknesses relate to the following:</p> <ul style="list-style-type: none"> <li>• Health &amp; Safety Rating inspections – Private Housing</li> <li>• Catering contract</li> <li>• Supply &amp; installation of boilers and solar panels at Forum 28</li> <li>• Fire &amp; Protection Security</li> <li>• Removal of asbestos from Market Hall</li> <li>• Automatic Doors and roller shutters</li> <li>• Roof top car park gulley repairs</li> </ul>			
<p><b>Management Response</b></p>			

Contracts procured via the chest have the use of the Councils Terms and Conditions as a mandatory field. All contractors tendering must accept these to successfully return a quotation. The terms and conditions, quotation, Pre Qualification questionnaire, return of tender and any written variations are all recorded electronically on the chest and so form a written contract that suppliers have proved happy to abide by.

This has been tested by successfully terminating a contract and also enforcing improvement of service.

For internal preference reasons and to reduce reliance on the chest the following procedure has now been agreed with the Borough Solicitor and Borough Treasurer. All of the contract documents will be submitted to legal in a zipped electronic folder. Hard Copy of all documents along with an attestation is then required for seal for contracts of a value over £25,000. Contracts below this level are required to have contract particulars, reference to the other documents and attestation in hard copy only. The remaining documents will still be held electronically by legal.

This change is part of a proposed procurement policy and is expected to be implemented in June 2010 once the required amendments to contract standing orders have been approved by full Council.

**Accepted**

**Implementation Deadline: 30 June 2010**

<b>Recommendation 2</b>	<b>Responsibility: Director of Corporate Services &amp; Technical Support Unit Manager</b>	<b>Priority: 1</b>
<p>The Council should ensure that tenders are opened in accordance with the Council's Contract Standing Orders.</p>		
<p><b>Rationale</b></p>		
<p>Internal Audit selected a sample of seven projects; of these three were estimated to have a contract value greater than £100,000 and are therefore required to be tendered in accordance with the Council's Contract Standing Orders section 4.1 whereby 'tenders shall be invited where the contract sum is estimated to exceed £100,000'.</p> <p>However, the review identified that the receipt of the tenders had not (for the three contracts in question) been recorded in the Council's 'Tender Opening Register' maintained by Committee Administration. The Council's Contract Standing Orders section 11.2 states "the Chief Executive shall prepare and maintain a register of tenders received and shall record in that register the following particulars ."</p> <p>It was noted that two projects (Removal of asbestos from Market Hall and Rooftop car park gulley repairs) were tendered electronically through 'The Chest'. However, the Council's Contract Standing Orders do not at present refer to the use of electronic tendering.</p> <p>Section 11.1.2 of the Council's Contract Standing Orders details the methodology for the opening and recording of tenders; specifically who should be present; namely "the Chairman or Vice-Chairman of the Executive Committee or such other Member as they nominate at the time, together with the Chief Executive and the appropriate Director or other such Officer".</p> <p>As an example Internal Audit viewed on The Chest the 'Audit History' for the rooftop car park gulley repairs. On this occasion it would appear that the electronic return of tenders had been opened by the Technical Support Unit Manager and the 'verification seal' has also been removed by the Technical Support Unit Manager.</p> <p>The above weaknesses do not demonstrate compliance with the Council's Contract Standing Orders.</p>		
<p><b>Management Response</b></p>		
<p>These weakness were managed as part of the pilot period of using the chest by returning the tender schedule to CPG and confirming award of contract with the Corporate Services Director.</p> <p>Errors with the role of verification for formal tenders have been made as a part of the learning process but the risks have been mitigated by ensuring transparency of the</p>		

tender process. This has been done by sharing information of the chest and independent log ins with all members of CPG, The Chief Executive, Corporate Services Director, the Borough Treasurer Legal Services and Internal Audit. Copies of appropriate CPG minutes have been attached with this reply with relevant comments highlighted.

The new procurement policy includes clarification of verification roles and this can now be carried out electronically by management team with the involvement of democratic services and the leader of the Council. These changes will again be rolled out in June 2010 subject to the constitution changes being accepted by Full Council.

<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>30 June 2010</b>
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<b>Recommendation 3</b>	<b>Responsibility: Director of Corporate Services &amp; Technical Support Unit Manager</b>	<b>Priority: 2</b>	
<p>The Council should ensure that formal contracts are consistently prepared and forwarded to Legal Services immediately on completion for inclusion within the Contract Register.</p>			
<p><b>Rationale</b></p>			
<p>For the sample of projects reviewed, Internal Audit, attempted to identify if sequential numbers had been allocated within the Council's electronic contract register. Each contract should be assigned a unique sequential number and entered in the Council's electronic contract register.</p> <p>However, the review identified that on each occasion the contract had yet to be assigned a unique entry reference number; we were informed that this was because contracts (both draft and final) had not been forwarded to Legal Services; or had not been prepared.</p>			
<p><b>Management Response</b></p>			
<p>In all cases of the above the Borough Solicitor as chair of the CPG and manager of legal services was aware of contracts being tendered. Furthermore logins to the chest have been created and shared with at least one member of legal services. Zipped files of all salient information forming a draft contract was forwarded to legal services and the Borough solicitor in October 2009. (see below embedded documents).</p> <p>The Chest automatically assigns a contract number and retains all legally required information from the creation of the contract. Internal procedures have been reviewed to define who is responsible. Again once the Procurement policy is adopted in June a review of training to engage all departments involved will be carried out. This includes assigning outsourced admin time to compile the hard copies of contracts as mentioned in recommendation one.</p> <p>All tenders awarded via the chest are also located on the Vault and legal services have been briefed on its existence and role.</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>30 June 2010</b>	

<b>Recommendation 4</b>	<b>Responsibility: Director of Corporate Services &amp; Technical Support Unit Manager</b>	<b>Priority: 2</b>	
<p>The Council should ensure the Standard Terms &amp; Conditions, introduced through the use of electronic tendering activity, are not relied upon as a substitute for the requirement to have a formal contract in place.</p> <p>Additionally, the Council may wish to ensure these Standard Terms of Contract are relevant to the Council's own requirements for the actual works/services being purchased.</p>			
<b>Rationale</b>			
<p>During the review Internal Audit accessed the electronic tender process followed on the 'Chest', with a view to ascertaining whether any terms of contract had been acknowledged by the successful contractor.</p> <p>Internal Audit identified that the Car Park Gulley and Asbestos Removal Barrow Market Hall had the "Standard Terms &amp; Conditions of Contract for the Purchase of Services" acknowledged as being attributable to the works; while the Fire Protection &amp; Security Equipment servicing and the Automatic Doors and Roller Shutters works had been assigned a "Professional Services Contract". Additionally it was noted that the existence of a "general consultants agreement" appeared to have been utilised on the Chest, but not within the sample selected by Internal Audit. It also appears standard Terms &amp; Conditions for 'Works' activity do not exist, as 'Service' based versions are utilised; which would therefore not be a substitute for. For example JCT or minor works conditions. Overall the Council's current Contract Standing Orders do not cater for the above arrangements; additionally there is a risk in assigning such general terms in place of specific contracts, as definitive requirements can be over-looked and attention to detail maybe lost through over reliance on 'off the shelf' documentation.</p>			
<b>Management Response</b>			
<p>Standard Terms and conditions have been used from standard templates issued by the North West Centre of Excellence and The Borough Solicitor. These cover goods and services. The services T's and C's has also been used for works. An attempt to edit these for each contract was trailed and this has as identified caused some confusion. The intention now is to reduce the number of templates to one general for each heading of services, works and goods. The Request for quotation and Invitation to tender specification will then provide the required bespoke information.</p> <p>The use of JCT minor works or standard T's and C's is still to be decided. Either will work for contractors because they will see either our standard document prior to tender and agree to it or they are familiar with JCT. CPG and the Borough Solicitor will be making the final recommendation. In the meantime bespoke editing of the standard T's and C's has been stopped and the general document circulated.</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>31 August 2010.</b>	

<b>Recommendation 5</b>	<b>Responsibility: Director of Corporate Services &amp; Technical Support Unit Manager</b>	<b>Priority: 2</b>	
<p>The Council should formalise the processes for obtaining tenders throughout the Authority; specifically regarding the use of the Chest or electronic methods and traditional tendering requirements as specified within the Contract Standing Orders.</p>			
<p><b>Rationale</b></p>			
<p>During the audit review, and through subsequent further work, it has been identified that contracts are being let/tendered through various methodologies. For example electronic procurement via the 'Chest' has been introduced; however, where this occurs for works/services in excess of £100,000 compliance with Contract Standing Orders is not achieved, i.e. opening and recording of tenders received.</p> <p>Currently the Council appear to be utilising various approaches, some of which are compliant, some of which are not compliant with current rules. In order to ensure actions are within approved powers the Council needs to urgently standardise and formalise the correct approach.</p>			
<p><b>Management Response</b></p>			
<p>During this period of change and subsequent roll out it has not yet been finalised whether a one size fits all method of procurement ie solely via e tendering is viable. It is hoped that this will be the case and this will simplify and help coordinate a central oversight and monitoring of our devolved procurement. There will however need to be a period of training to allow managers to adapt from paper based systems.</p> <p>The more immediate need is updating standing orders so that e-tendering and the associated procedures can be adopted. It is worth noting that both systems can deliver compliant procurement in terms of transparent, open competition with accountability to members and in fact e-procurement offers a significant improvement to compliance once embedded in Barrow Borough Council policy, procedure and practise.</p> <p>In addition the Council also expects to utilise more framework agreements tendered by Effective Procurement in Cumbria (EPiC), Office of Government and Commerce (OGC), The North West Construction Hub and GM Procure. Provision for this is made in the new draft procurement policy. (Please see attached).</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>31 August 2010</b>	

## APPENDIX 1

### AUDIT FRAMEWORK

#### Audit Coverage

The review covered the following areas:

- compliance with Contract Standing Orders.

#### Methodology

The review covered the following key stages:

- determine specific management objectives for each area under review; and
- report findings, with relevant and practical recommendations for improvement.

#### Performance

Auditors: Keith Jackson, Claire Jackson and Ifor Jones

The fieldwork was performed: December 2009 to March 2010

***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 IT 41**  
**Code of Connection**

## **Executive Summary**

### **Introduction**

In accordance with the 2009/10 Audit Plan, an IT review of the Authority's approach to and progress in meeting the requirements for the connection to the Government Connect Secure Extranet (GCSX) was undertaken between November 2009 and January 2010.

Originally, GCSX was used exclusively by the Home Civil Service to enable secure email communication. This connection has been extended to enable communication between Central and Local Government bodies, on areas such as Benefits. In order to obtain the connection, Local Authorities were required to satisfy Central Government that they met the necessary information security and communication protocols as specified in the Code of Connection (CoCo).

The Authority has agreed a return with the Code of Connection Government advisors, which identifies Code of Connection requirements, action taken and action still outstanding.

### **Audit Objectives**

Discussions with the IT Manager identified the audit of the Code of Connection as a key and timely review area, which forms part of the 2009/2010 Audit coverage. The main objective of the audit was to review the current position in terms of meeting CoCo requirements and assess the evidence demonstrating the effectiveness of changes made to meet the requirements, suggesting any areas where additional work would be beneficial. The objectives of the audit was discussed and agreed with Mick McKinnell, the IT Manager.

<b>Key Points</b>
<b>Substantial Assurance</b>
<b>Five important issues</b>

The approach adopted for this audit was for the Computer Auditor to work through the Code of Connection return with IT Services Management, reviewing the return against the standards and requirements, review the changes that had been made and the implementation schedule to deliver any additional controls. Details of the audit methodology are provided in Appendix 1 attached.

### **Audit Conclusion – Substantial Assurance**

As the result of the audit we have concluded that considerable progress has been made in meeting CoCo requirements and many of the requirements have been met. There is a reasonable system of control in place, with weaknesses, which may put the system objectives at risk.

We have raised five important issues, which concern:

- approval and issue of the updated Information Security Policy;
- obtaining some additional HMG Infosec standards;
- completion of schedule of required actions;
- cross-referencing the return to the Information Security Policy; and
- completion of outstanding actions. Those identified during the audit are provided as an Appendix 3 of this report

### **Management Response**

We have received a constructive management response from Mick McKinnell, IT Manager, accepting each of our recommendations.

### **Acknowledgement**

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

<b>Recommendation 1</b>	<b>Responsibility: IT Manager</b>	<b>Priority: 2</b>
<p>The IT Manager should present the Draft Information Security Policy for approval and issue as soon as possible.</p>		
<p><b>Rationale</b></p>		
<p>The Council's Information Security Policy has been updated to accommodate Code of Connection requirements; a copy of the updated draft was provided to Internal Audit.</p> <p>In order to reflect the Code's requirements this policy needs to be approved and issued as soon as possible.</p>		
<p><b>Management Response</b></p>		
<p>Agreed. The policy has been updated, approved by our Management Board and published.</p> <p>A further revision is planned to consolidate the policy into a single document rather than separate versions for Managers, Users and IT, with a target date June 2010.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>Implemented</b>

<b>Recommendation 2</b>	<b>Responsibility: IT Manager</b>	<b>Priority: 2</b>
<p>IT Services should obtain copies of HMG Infosec Standards 1 and 2 for review to ensure that practices have been followed, and confirm this to the Council's Section 151 Officer.</p>		
<p><b>Rationale</b></p>		
<p>GSI Code of Connection for GCSX Version 3.2 requires the Section 151 Officer to confirm that HMG Infosec Standards 1 and 2 have been used.</p> <p>We were informed by the IT Manager that he did not believe these had been obtained and he did not have copies. It is important that the Council can demonstrate that they have in their possession, key documents to which they are committed to use, and that they can confirm to the Section 151 Officer that requirements have been met.</p>		
<p><b>Management Response</b></p>		
<p>Agreed. These documents will be obtained. Target March 2010.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>31 March 2010</b>

<b>Recommendation 3</b>	<b>Responsibility: IT Manager</b>	<b>Priority: 2</b>
<p>IT Services should produce a schedule of outstanding actions that need to be completed to support commitments made within the Code of Connection Return.</p>		
<p><b>Rationale</b></p>		
<p>Section 2.1 and other sections of the Code of Connection return indicate that at the time of submission (19 March 2009) there were outstanding actions which were indicated as 'in programme and on target'.</p> <p>However, we were informed that there is no schedule established for completion of outstanding actions. Such a schedule would both support implementation of outstanding actions and facilitate monitoring.</p>		
<p><b>Management Response</b></p>		
<p>Agreed. Schedule has been prepared but is not complete. This will now be updated.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>31 March 2010</b>

<b>Recommendation 4</b>	<b>Responsibility: IT Manager</b>	<b>Priority: 2</b>
<p>The CoCo returns references to IS Policies should be cross-referenced showing where in the Policy the relevant section can be found.</p>		
<p><b>Rationale</b></p>		
<p>Reference is made in the Code of Connection return to the Council's Information Security Policy as addressing a required action, e.g. 2.3 Current Policy... and 2.3.1 'Our IS Policy...'</p> <p>However, these are not cross-referenced to the actual section in the IS Policy or other policies. Such cross-referencing facilitates checks to confirm compliance.</p>		
<p><b>Management Response</b></p>		
<p>Agreed. This has been partially completed but will now be finalised.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>31 March 2010</b>

<b>Recommendation 5</b>	<b>Responsibility: IT Manager</b>	<b>Priority: 2</b>
<p>Outstanding actions required to fully meet Code of Connection commitments, including those identified in Appendix 3 of the Audit Report, should be completed as soon as possible.</p>		
<p><b>Rationale</b></p>		
<p>In the Code of Connection Return the Council has provided assurance that certain actions have been completed to meet the requirements. However, the review identified that some of these actions are outstanding. Failure to complete the actions may result in a penalty and/or may compromise security.</p>		
<p><b>Management Response</b></p>		
<p>Agreed. A schedule will be prepared with completion dates for all outstanding actions. Target March 2010.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>31 March 2010</b>

## APPENDIX 1

### AUDIT FRAMEWORK

#### Coverage

The audit involved the review of the Code of Connection return with members of IT Management and identification of any outstanding actions.

#### Methodology

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

- determine requirements of the Code of Connection;
- assess whether key requirements have been action;
- evaluate controls supporting actions;
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

#### Performance

Auditor: David Widger

The fieldwork was performed: November 2009 to January 2010

**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 09-18**  
**HOUSING RENTS**

## **Executive Summary**

### **Introduction**

The Council currently owns and manages 2,717 dwellings and 484 garages. The figures are relatively static as Right to Buy sales of homes have declined in recent years. The Housing Department is responsible for the monitoring and maintenance of the Council's Housing Rent Account for these properties.

The annual rent debit is approximately £8.6m. As at 31 March 2010, the Rent Account recorded current tenant arrears of £175,000, which equates to approximately 2.0% of the gross annual debit, and former tenant arrears of £124,000, equivalent to approximately 1.4% of the debit.

### **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 Housing Rents system. The scope and objectives of the audit were discussed and agreed in advance with Michelle Hartley, Senior Accounts Officer.

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**

**Five minor issues**

**Two previous recommendations**

### **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. (Several of these are likely to be attributable to vacancies and staff absence through sickness during the year, which should be remedied when the Section is at full strength.)

We have made five Priority 3 recommendations relating to:

- ensuring that former tenant arrears reports are reviewed promptly;
- introducing a formal procedure for periodically producing and reviewing standard reports of current tenants' accounts in credit;
- ensuring that uncollectable former tenant rent arrears are written off and reported at the end of each quarter;
- ensuring that all weekly rent debit reconciliations are reviewed on a timely basis; and

- reviewing the Housing Accounts Section's procedures.

In addition, Internal Audit reviewed the six recommendations made in Audit Report 08-26, dated July 2009. Two recommendations have been implemented in full, one has been overtaken by events and a further one has been incorporated into a new recommendation arising from this review. Two recommendations therefore remain outstanding, concerning:

- reconciling the number of annual rent increase letters due to be sent to tenants and the number of actual letters posted; and
- reconciling promptly the amount of Housing Benefit payments posted to the Rent Accounts each week.

### **Management Response**

We have received a constructive management response from Colin Garnett, Housing Manager, accepting each of our recommendations.

### **Acknowledgement**

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

<b>Recommendation 1</b>	<b>Responsibility: Housing Manager</b>	<b>Priority:</b>	<b>3</b>
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The Council should ensure that former tenant arrears reports are reviewed promptly and that appropriate action is taken on a timely basis.

**Rationale**

This recommendation supersedes an earlier recommendation relating to the issue of standard arrears letters to former tenants.

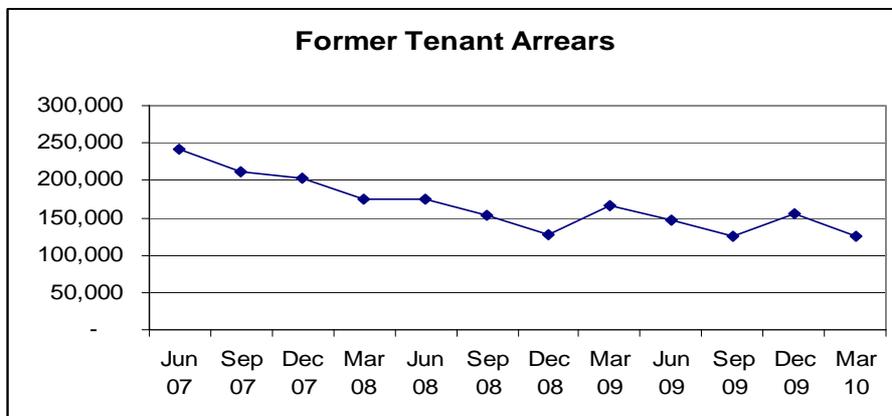
A weekly report of all former tenant arrears balances is generated from the Housing Rents System. The report is reviewed by the responsible Accounts Officer who takes appropriate action and notes this on the report.

Internal Audit examined the full 2009/10 year's reports of former tenant arrears. For the first 34 weeks of the year to 20 November 2009, the reports had been reviewed on all but 3 occasions, 2 of which were holiday weeks. Unfortunately the Accounts Officer responsible for the reviews has been absent through sickness since that date and reviews have only been possible when other staff have had capacity. As a result, the arrears reports were only reviewed in 7 of the final 18 weeks.

Internal Audit also reviewed a small sample of former tenants' accounts to establish whether the correct recovery action had been taken promptly. In one case, a second arrears letter had been issued after 7 weeks rather than the expected 3-4 weeks.

We appreciate that it is difficult to cover staff absences, particularly when there have also been changes and vacancies at senior manager level, however unless action to collect outstanding balances is appropriate and timely the risk of not recovering may increase.

On a positive note, the total of arrears fell from £166,452 at the beginning of the year to £124,158 at the end, suggesting that the emphasis placed on these arrears in earlier periods has been effective. This is supported by the trend in former tenant arrears over the past three years:



(Figures provided by Council's Housing Department.)

**Management Response**

The lack of consistency over the period was due to an extended absence due to illness of the post holder. It would not be practical to cover on a week-by-week basis when such instances occur.

We will, however, ensure if periods of extended absence do re-occur that the checks are made on a 'monthly' basis until the officer returns.

**Accepted****Implementation Deadline:****31 May 2010**

<b>Recommendation 2</b>	<b>Responsibility: Housing Manager</b>	<b>Priority:</b>	<b>3</b>
<p>The Council should</p> <p>a) introduce a procedure for periodically producing and reviewing standard reports of current tenants' accounts in credit and taking appropriate action, similar to the process adopted for former tenant accounts; and</p> <p>b) retain all reports for the financial year of accounts in credit, for both former and current tenants, as evidence that a review has taken place.</p>			
<b>Rationale</b>			
<p>Internal Audit reviewed the process for identifying and, where appropriate, refunding or transferring credit balances on tenants' rent accounts.</p> <p>a) No specific reports of current credit balances are produced for review by either Tenancy Services or Housing Accounts staff. Tenancy Services staff occasionally extract details of current rent accounts in credit via on-line enquiries, usually when they have time available, however there is no formal review of these accounts.</p> <p>A periodic review process similar to that for former tenants would ensure that standard reports of current tenant accounts in credit are produced and reviewed on a consistent basis.</p> <p>b) Reports of former tenant credit balances are produced and reviewed weekly; in view of the small number of cases involved, the Council may wish to consider reducing the frequency, say to monthly reviews.</p> <p>Additionally, only the final report of the year is retained. When a review process is in place for current tenant accounts, we would suggest that all reports are retained for the financial year as evidence that they have been reviewed.</p>			
<b>Management Response</b>			
<p>Procedures will be amended to reflect the recommendations. We will complete both checks on a monthly basis.</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>		<b>31 May 2010</b>

<b>Recommendation 3</b>	<b>Responsibility: Housing Manager</b>	<b>Priority:</b>	<b>3</b>
<p>The Council should ensure that uncollectable former tenant rent arrears are written off at the end of each quarter and reported to the Housing Management Forum.</p>			
<b>Rationale</b>			
<p>Housing Department procedures require uncollectable rent arrears from former tenancies to be submitted for write off at the end of each quarter. Normally approval is given and the entries posted to the accounts in the final weeks of the quarter.</p> <p>Internal Audit examined the schedules of write offs for 2009/10 when the cases for the December 2009 quarter were not approved until 18 January 2010. As a result, the report to Housing Management Forum on 25 February 2010 did not include these write offs in its summary of performance information to 3 January 2010. While this is technically correct, it provides a potentially misleading position as Forum Members would expect the quarter's transactions to be included within the report.</p>			
<b>Management Response</b>			
<p>It is our 'normal' practice to present 'write offs' within our 'Performance Report' which goes to Housing Management Forum. Unfortunately, it is not practical to create the Performance Report for the quarter up to the end of December as there is little time (approximately five days) to pull the information together and validate it before the reports have to be produced.</p> <p>Traditionally the purpose of a January meeting is to agree Housing Management Forum. We will, however, endeavour to provide information at the closest Housing Management Forum following end of quarter other than for the January meeting.</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>31 May 2010</b>	

<b>Recommendation 4</b>	<b>Responsibility: Housing Manager</b>	<b>Priority:</b>	<b>3</b>
<p>The Council should ensure that all weekly rent debit reconciliations are reviewed on a timely basis by the Section Manager; until this currently vacant post is filled, an independent officer should review the reconciliation.</p>			
<b>Rationale</b>			
<p>Internal Audit examined a sample of ten weeks' rent debit reconciliations, which should be subject to review at monthly intervals. All had been completed promptly by the Senior Accounts Officer but only three had been reviewed by the Housing Accounts Manager, and two of those reviews were six and ten weeks after the selected weeks.</p> <p>The Housing Accounts Section has seen changes in its Manager and the post has been, and currently is, vacant. Until an appointment is made, we suggest that the debit reconciliations should be reviewed each week by an independent Accounts Officer, after which the new manager should take over responsibility.</p> <p>Without this check being consistently performed, the Council does not have adequate assurance over the performance of related internal control arrangements.</p>			
<b>Management Response</b>			
<p>We will implement the recommendations.</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>31 May 2010</b>	

<b>Recommendation 5</b>	<b>Responsibility: Housing Manager</b>	<b>Priority:</b>	<b>3</b>
<p>The Housing Department should review the written procedures for Housing Accounts functions to reflect changes in staff and responsibilities.</p>			
<p><b>Rationale</b></p>			
<p>Internal Audit reviewed the Housing Accounts Section's files containing written procedures relevant to differing staff's responsibilities. The procedures are comprehensive and include instructions and sample forms/letters for each housing management topic; however some minor updating of staff names is needed.</p> <p>While this would be expected in view of the vacancy in the Housing Accounts Manager post, the Section's procedures should be reviewed after an appointment to the post is made, both to record name changes and to reflect any consequent re-allocation of responsibilities.</p>			
<p><b>Management Response</b></p>			
<p>Will implement the recommendation on the appointment of a Business Support Manager (previous title Housing Accounts Manager).</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>30 June 2010</b>	

<b>Previous Recommendations</b>	<b>Responsibility: Housing Manager</b>	
<p>The Council should implement the agreed outstanding recommendations from Audit Report 08-26, dated July 2009, namely:</p> <ol style="list-style-type: none"> <li>1. The Council should reconcile the number of annual rent increase letters due to be sent to tenants and the number of actual letters posted. (Priority 3)</li> <li>2. The Council should ensure that the weekly reconciliations of Housing Benefit payments posted to the Rent Accounts are reviewed promptly, with cover being provided for staff absences. (Priority 3)</li> </ol>		
<b>Rationale</b>		
<ol style="list-style-type: none"> <li>1. It was apparent during this audit review that a reconciliation of the April 2010 rent increase letters had not been undertaken, although a record of the total number printed had been retained.  Housing Department staff are reminded that this recommendation should be implemented for the April 2011 rent increase.</li> <li>2. Internal Audit examined ten weeks' reconciliations of the Control Sheet re Housing Benefit to Rents.  All reconciliations had been carried out on the day that the control sheet was produced. For eight of the selected weeks the reconciliation had also been reviewed promptly, but the delays in the other two weeks were eleven and twelve days.</li> </ol>		
<b>Management Response</b>		
We will implement the recommendations.		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>30 May 2010</b>

**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;
- accounts in credit;
- 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: March to April 2010

***All final Internal Audit reports are 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 09-13**  
**PAYROLL**

## Executive Summary

### Introduction

Salaries and expenses of Council Officers and Member's allowances and expenses, are processed within the Borough Treasurer's Department. The overall payroll is processed using a package supplied by Selima Software Ltd.

During the period of the audit there were 190 full time, 115 part time and 63 casual staff employed by the Council, with a gross salary at 31 December 2009 of £4.8m. In addition, there are 37 Borough Councillors included on the system for the payment of attendance allowance, travelling expenses and the reimbursement of costs.

### 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 Payroll 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
<b>Substantial Assurance</b>
<b>Eight Previous Recommendations</b>

### 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, seven of the nine recommendations made in our previous audit report 08-21, dated February 2009, remain outstanding, which concern:

- changes to standing data are input and reviewed by independent officers;
- the calculation of final pay for leavers is independently checked for accuracy;
- the Payroll Officer returns incorrect or incomplete mileage forms to the claimant;
- ensuring that subsistence claims are accompanied by supporting receipts;
- ensuring that Officer's expense forms are initialled to confirm they have been checked for accuracy by the Payroll Officer;

- considering introducing a pro-forma to document the calculation of pay for new starters; and
- ensuring current versions of Officers and Members claim forms are available on the Council's Intranet facility.

Internal Audit also reviewed the two outstanding recommendations made in Audit Report 07-17, dated December 2007. One of the recommendations has been implemented, however one recommendation remains outstanding and concerns ensuring overtime and subsistence claims are processed on the correct forms.

### **Management Response**

We have received a constructive management response from Sue Roberts, Deputy Borough Treasurer, 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.

<b>Previous Recommendations</b>	<b>Responsibility: Deputy Borough Treasurer</b>	
<p>The Council should implement the outstanding recommendations from the previous audit report 08-21, dated February 2009, namely:</p> <ol style="list-style-type: none"> <li>1) The Council should ensure that changes to the Payroll system for employee standing data are input and checked by separate officers. (Priority 2)</li> <li>2) The Council should ensure that the calculation of the final pay for leavers is checked by a second officer to confirm accuracy. (Priority 2)</li> </ol>		
<b>Rationale</b>		
<ol style="list-style-type: none"> <li>1) Employee details/amendments are received by the Payroll Officer from the Personnel Department, employees or outside agencies. Employee personal details such as bank account numbers and home addresses are input when the employee commences work. The details are entered onto the system by the Accounts Officer, who following completion generates a data input report. The data input report and forms are returned to the Payroll Officer who checks the accuracy of the posting. Internal Audit selected a sample of fifteen amendments to standing data from the 'Employee Changes Audit' Report and identified that on each occasion the input documents had been initialled by the processing officer; however there was no evidence of checking by a separate officer.</li> <li>2) Departmental managers are responsible for confirming the leaving date of their staff. The Personnel Department provide the Payroll Officer with details of the proposed resignation. In addition, the Payroll Officer receives an "Exit Checklist" from the Personnel Department, which provides details of any holiday, overtime or other sums owing. The final payment is calculated by the Payroll Officer, including deductions and any credits; these details are added to data entry forms and input accordingly. Internal Audit were informed that generally, data is entered by the Accounts Officer; and the Payroll Officer performs an input/output report review. The documents are marked to confirm input (certain reports indicate the ID of the input officer).</li> </ol> <p>However, testing could not confirm that the input and review had been performed by different officers. Specifically, sample testing of ten final pay calculations identified that on each occasion a check by a second officer had not been recorded.</p>		
<b>Management Response</b>		
<p>Agreed, we need to ensure consistency with signing and dating.</p>		
<b>Revised Implementation Deadline</b>		<b>Immediate</b>

<b>Previous Recommendations</b>	<b>Responsibility: Deputy Borough Treasurer</b>	
<p>The Council should implement the outstanding recommendations from the previous audit report 08-21, dated February 2009, namely:</p> <ol style="list-style-type: none"> <li>1) The Payroll Officer should return claim forms received from employees where the form has not been completed correctly. (Priority 2)</li> <li>2) The Council should ensure that subsistence claims are consistently accompanied by supporting receipts. (Priority 3)</li> <li>3) The Council should ensure that Officers' expense claims are initialled to confirm they have been checked for accuracy by the Payroll Officer. (Priority 3)</li> </ol>		
<b>Rationale</b>		
<ol style="list-style-type: none"> <li>1) Internal Audit selected a sample of twenty employees who had been credited with additional pay for overtime worked. The sample covered the period April to September 2009. The review identified the following: <ul style="list-style-type: none"> <li>• Six forms had not been signed by the claimant</li> <li>• One form had not been certified</li> <li>• Three forms had been certified by staff not included on the authorised signatory list</li> </ul> </li> <li>2) Employees are required to submit claims for expenditure incurred on Council Business at agreed and statutory rates, which are set nationally by Government. Expenses are to be submitted on the relevant expense claim form, and must reach the Payroll Officer by the 3<sup>rd</sup> day of each month to facilitate payment on the pay date of the 15th of each month. <p>Internal Audit selected a sample of 15 Officers and 5 Members travel and subsistence claims submitted between April and September 2009. Since 1<sup>st</sup> August 2009, staff have been requested to provide a fuel VAT receipt for council related business mileage. However, the review identified that receipts for fuel have not been produced (from August 2009) for seven of the sample.</p> </li> <li>3) A sample of fifteen Officers' expense claims and five Members expense claims were selected from the period April to September 2009. Internal Audit identified that claims were not annotated by the Payroll Officer on a consistent basis as confirmation and assurance that the claims had been checked.</li> </ol>		
<b>Management Response</b>		
<p>Agreed, we need to make sure we return incomplete claims and be consistent with signing and dating.</p>		
<b>Revised Implementation Deadline</b>		<b>Immediate</b>

<b>Previous Recommendations</b>	<b>Responsibility: Deputy Borough Treasurer</b>
<p>The Council should implement the outstanding recommendations from the previous audit report 08-21, dated February 2009, namely:</p> <ol style="list-style-type: none"> <li>1) The Council should consider introducing a standard proforma to document the calculation of pay for new starters. (Priority 3)</li> <li>2) The Council should review the current versions of employee and Member claim forms available on the Council's Intranet facility. (Priority 3)</li> </ol>	
<b>Rationale</b>	
<ol style="list-style-type: none"> <li>1) Where employees start their employment during the month the Payroll Officer is required to apportion the monthly pay. Internal Audit selected a sample of ten new employees from the 'New Starters – Employee Details' reports in 2009/10. The review identified that the calculation continues to be documented on a non specific piece of paper, not a formal document.</li> <li>2) Testing and observation of twenty claim forms, included in selected samples, indicated that claimants are not always using the most recent forms and in some cases using photocopies, which do not always include guidance or declaration information. This may potentially weaken any intended internal control arrangements.</li> </ol> <p>The availability of up to date forms specifically on the Intranet would allow version control and ensure the consistent use of standard forms.</p>	
<b>Management Response</b>	
<p>Agreed, we are starting to work through our forms with the IT Department. This is something we highlighted ourselves and are keen to progress, but we have had to wait for available resources.</p>	
<b>Revised Implementation Deadline</b>	<b>30 September 2010</b>

<b>Previous Recommendation</b>	<b>Responsibility: Deputy Borough Treasurer</b>
<p>The Council should implement the outstanding recommendation from the previous audit report 07-17, dated December 2007, namely:</p> <p>The Council should:</p> <ul style="list-style-type: none"> <li>a) ensure that claims for expenses are processed using the correct 'claim for overtime and subsistence allowance' form; and</li> <li>b) consider revising the form to include a standard declaration regarding validity/responsibility for expenses claimed.</li> </ul> <p>(Priority 3)</p>	
<b>Rationale</b>	
<p>Testing and observation of twenty claim forms included in selected samples indicated that the correct version of expense claims is not being used on a consistent basis.</p> <p>Furthermore there was no evidence that the forms have been revised to include a standard declaration regarding validity/responsibility for expenses claimed.</p>	
<b>Management Response</b>	
<p>Agreed, this will be addressed by the form review in the previous recommendation.</p>	
<b>Revised Implementation Deadline</b>	<b>30 September 2010</b>

## APPENDIX 1

### AUDIT FRAMEWORK

#### Coverage

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

- payroll procedures;
- data input;
- payment procedures;
- new starters;
- processing of expenses;
- outputs and returns; and
- leaver's 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

Auditor: Claire Jackson and Ifor Jones

The fieldwork was performed: December 2009 to March 2010

## 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 09-16**  
**PAYABLES**

## Executive Summary

### Introduction

Accounts Payable is a module of the Council's Oracle Financial system. During 2009/10 the Council ceased to make payment by cheque; all payments are now by BACS. There are approximately 24,000 transactions each year with a value of £29m. Up to the 2<sup>nd</sup> February 2010, payments processed during the financial year related to Suppliers (approximately £22m, relating to 4,295 transactions), Rent Allowances (approximately £6.3m, relating to 17,016 transactions), Council Tax refunds (approximately £228,000, relating to 976 transactions) and National Non Domestic Rates refunds (approximately £344,000, relating to 214 transactions).

### 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 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
<b>Substantial Assurance</b>
<b>Two minor issues.</b>

### 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 the 'Direct Debit Schedule' relating to recurring payments is updated on a timely basis; and
- considering the production of procedural guidance specifically relating to the processing of rejected BACS payments.

Internal Audit also reviewed the two agreed recommendations made in Audit Report 08-24, dated September 2009. Both of the recommendations have been fully implemented. In addition, Internal Audit reviewed the one outstanding recommendation from Audit Report 07-22, dated May 2008, this recommendation has also been implemented.

## **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.

<b>Recommendation 1</b>	<b>Responsibility: Deputy Borough Treasurer</b>	<b>Priority: 3</b>
<p>Management should ensure the 'Direct Debit Schedule' relating to recurring payments is updated on a timely basis.</p>		
<p><b>Rationale</b></p>		
<p>A 'Direct Debit Schedule' relating to recurring payments is maintained by the Service Accountant; the schedule provides details relating to the beneficiary, nature of supply, frequency and amount of each direct debit. The schedule is periodically issued to managers who confirm the accuracy of the schedule. However, the review identified that the current schedule is dated 16 September 2008.</p> <p>Without a regular and formal review of direct debits there is an increased risk to the accuracy of payments made through the Council's finance system.</p>		
<p><b>Management Response</b></p>		
<p>This review was performed after Internal Audit requested it, but will be carried out without a prompt next time.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>Immediate</b>

<b>Recommendation 2</b>	<b>Responsibility: Deputy Borough Treasurer</b>	<b>Priority: 3</b>
<p>The Council should consider producing procedural guidance specifically relating to the processing of rejected BACS payments.</p>		
<p><b>Rationale</b></p>		
<p>Since October 2009 the Council ceased to make payment by cheque; all payments are now made by BACS. Payments may be rejected for a number of reasons including incorrect bank account or sort code number. In applicable circumstances the Council receives a rejected BACS report – ‘List of unapplied automated credits’ which is downloaded by the Accounts Officer. The rejected BACS payments are coded to the suspense account and the repayment is made.</p> <p>However, Internal Audit identified that a documented procedure does not exist for this process. The introduction of formal procedural guidance would support the process; provide a point of reference during staff absence; and aid consistency and compliance.</p>		
<p><b>Management Response</b></p>		
<p>This procedure has been followed in the past, but was deployed by email rather than a separate document in the procedure library. This has now been implemented.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>Implemented</b>

## 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 Ifor Jones

The fieldwork was performed: February to April 2010

***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 09-28**  
**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 2009/10 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.

<b>Key Points</b>
<b>Substantial Assurance</b>
<b>One Important Issue</b>
<b>One Minor Issue</b>
<b>Three Previous Recommendations</b>

## **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 which concerns marking all Paying-in Sheets with the relevant sealed bag reference.

In addition, we have made one Priority 3 recommendation which relates to reviewing the Paying-in Sheets completed by Council departments to ensure they are consistent and contain the necessary fields in which to record all required information.

Internal Audit reviewed the one recommendation from the previous audit report 08-06, dated May 2009. The recommendation has been implemented.

Internal Audit also reviewed the four outstanding recommendations from Audit report 07-37, dated April 2008. One recommendation has been implemented and three recommendations remain outstanding and relate to:

- 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 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	2
<p>The Council should ensure all Paying-in Sheets are marked with the relevant sealed bag reference.</p>			
<p><b>Rationale</b></p>			
<p>Where banking of Council income is performed using manual receipts, a Paying-in Sheet is completed detailing the amount of the Pay in, receipt numbers included and the signature of the two responsible officers. In addition, the sealed bag reference used in the banking should be recorded on the Paying-in Sheet. For a random sample of 42 bankings selected from completed receipt books within 2009/10, Internal Audit identified the sealed bag reference had not been recorded on 18 occasions. (This related to bankings performed by CRM.)</p>			
<p><b>Management Response</b></p>			
<p>The Departments concerned will be contacted and instructed in the proper procedure immediately. To try to remove future errors surrounding the receipting and paying in books, we aim to implement a solution using forms on our Intranet. This will not be available immediately, but will be developed as soon as possible.</p>			
<p><b>Accepted</b></p>	<p><b>Implementation Deadline:</b></p>		<p><b>31 October 2010</b></p>

<b>Recommendation 2</b>	<b>Responsibility: Deputy Borough Treasurer</b>	<b>Priority</b>	<b>3</b>
<p>The Council should review the Paying-in Sheets used by individual Council departments to ensure they are consistent and contain the necessary fields in which to record all required information.</p>			
<p><b>Rationale</b></p>			
<p>During the audit review, Internal Audit identified that the Market Paying-in Sheets had been amended to include an area to record the sealed bag reference for the banking. However, CRM Paying-in Sheets do not currently include this field.</p> <p>Additionally, the area on the Market Paying-in Sheets to record receipt numbers included within the banking has been removed.</p>			
<p><b>Management Response</b></p>			
<p>The proposed forms on the Intranet would ensure consistency and after checking, most Departments have a stock of books, so we will instruct them in the proper procedure until we can develop the solution.</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>31 October 2010</b>	

<b>Previous Recommendations</b>	<b>Responsibility: Deputy Borough Treasurer</b>
<p>The Council should implement the agreed recommendations from audit report 07-37, dated April 2008, namely:</p> <ol style="list-style-type: none"> <li>1. The Council should ensure that all carbonated copies within receipt books are legible and complete. (Priority 2)</li> <li>2. The Council should ensure that the correct procedure is followed for cancelling receipts. (Priority 2)</li> <li>3. 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)</li> </ol>	
<b>Rationale</b>	
<ol style="list-style-type: none"> <li>1. 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.'</li> </ol> <p>Internal Audit testing identified 2 receipts, within the 14 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 11 instances where the receipt had been incorrectly dated, or not at all. A further 62 receipts had been partially completed in pen directly onto the carbon copy.</p> <p>In addition, the payment method was not marked on 111 receipts within the books reviewed. This related to all CRM and the Market receipt books.</p> <p>Finally, Internal Audit testing of receipt books also identified four receipts which had not been signed by the issuing officer. This related to CRM and the Market.</p> <ol style="list-style-type: none"> <li>2. 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'.</li> </ol> <p>However, Internal Audit testing of fourteen completed receipt books identified nineteen instances where this procedure had not been followed. This related to receipt books from CRM and the Market.</p>	

3. 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:

Not Dated	Amount not recorded	Not Countersigned
10	176	47

### Management Response

The Departments concerned will be contacted and instructed in the proper procedure immediately. The web form solution will address these issues.

	<b>Revised Implementation Deadline:</b>	<b>31 October 2010</b>
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**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**

<b>Receipt Book Number</b>	<b>Responsible Department</b>
17-28	CRM
134, 137	Market

**Performance**

Auditors: Sarah Williams, Ifor Jones and Sarah Cullen

The fieldwork was performed: 2009-2010

***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 09-06**  
**COUNCIL TAX**

## **Executive Summary**

### **Introduction**

The provision of the Authority's Council Tax service is carried out by Liberata utilising the Northgate Iworld system, as part of a long term contract awarded in 1998. The gross liability for 2009/10 is approximately £39m, which relates to 33,202 properties.

### **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 Council Tax system. The scope and objectives of the audit were discussed and agreed in advance with Lesley Wood, Senior Revenues Technician.

<b>Key Points</b>
<b>Substantial Assurance</b>
<b>Two minor issues</b>

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 two Priority 3 recommendations, which concern:

- reconciling the number of refunds processed to the Main Accounting System and Council Tax system on a monthly basis; and
- the signing, dating and returning a copy of the write off summary prepared by Liberata, as evidence of his approval.

Internal Audit reviewed the two recommendations made in Audit Report 08-13, dated February 2009. One recommendation has been fully implemented and one recommendation remains outstanding and concerns promptly clearing items from suspense.

### **Management Response**

We have received a constructive management response from Lesley Wood, Senior Revenues Technician and Mohamad Saleh, Borough Treasurer, accepting each of the recommendations.

## **Acknowledgement**

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

<b>Recommendation 1</b>	<b>Responsibility: Senior Revenues Technician</b>	<b>Priority: 3</b>
<p>The Council should ensure that the number of refunds processed is reconciled to the Main Accounting System and Council Tax system on a monthly basis by Liberata.</p>		
<p><b>Rationale</b></p>		
<p>Council Tax refunds processed on the lworld revenues system are reconciled to the Council's Oracle Finance System on a monthly basis by Liberata's nominated Technical Officer. Each month a control sheet is completed, which is supported by reports from lworld and the Oracle Finance system.</p> <p>Examination of the 'Council Tax refunds' file identified a reconciliation had been performed on a monthly basis between April and July 2009. However, at the time of the audit review, a reconciliation had not occurred since August 2009. Internal Audit were informed that this was due to a delay in obtaining access to the new Oracle Financial System for the Technical Officer; which has now been rectified and the monthly reconciliations are subsequently being performed.</p>		
<p><b>Management Response</b></p>		
<p>The refund reconciliations are now up to date and Liberata will ensure that they are reviewed and reconciled monthly.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>Implemented</b>

<b>Recommendation 2</b>	<b>Responsibility: Borough Treasurer</b>	<b>Priority: 3</b>
<p>The Borough Treasurer should consider signing, dating and returning a copy of the write off summary prepared by Liberata, as evidence of his approval to the writing off of irrecoverable Council Tax debts less than £10,000.</p>		
<p><b>Rationale</b></p>		
<p>The Borough Treasurer has delegated authority to write off irrecoverable Council Tax debts less than £10,000; above this figure, Member approval is required.</p> <p>Twice each financial year, Liberata prepare a summary of proposed write offs below £10,000 from the lworld system and submit this, together with supporting reports, to the Borough Treasurer for approval. The amount written off is subsequently reported to Executive Committee for information purposes.</p> <p>Internal Audit reviewed a sample of write offs below £10,000 processed in the first half of 2009/10. Although these had all been authorised by the Borough Treasurer, there was no documentary evidence to record his approval.</p>		
<p><b>Management Response</b></p>		
<p>This will be done from 2010-2011.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>Immediate</b>

<b>Previous Recommendation</b>	<b>Responsibility: Deputy Borough Treasurer &amp; Senior Revenues Technician</b>
<p>The Council should implement the agreed outstanding recommendation from Audit Report 08-13, dated February 2009, namely:</p> <p>Liberata should ensure that items are promptly and consistently cleared from the Council Tax Suspense Account.</p> <p>(Priority 3)</p>	
<b>Rationale</b>	
<p>The Council Tax Suspense Account is reviewed and reconciled by Liberata's nominated Technical Officer. Examination of the 'suspense account file' identified reconciliations had been performed in July and September 2009.</p> <p>Internal Audit selected a sample of five items posted to suspense during 2009/10. For the sample, each item had been corrected within one month. However, at the time of the audit review there were 98 items over one month old which remain in the Suspense Account. Internal Audit were informed this was due to a problem printing one batch of bills with incorrect barcodes earlier in the year, and consequently there was an increase in the number of items in suspense whilst the problem was rectified.</p>	
<b>Management Response</b>	
<p>Liberata will ensure that the Suspense Account is reviewed and reconciled on a monthly basis. Liberata will also ensure that any amount identified during the month will be correctly allocated as soon as possible.</p> <p>The problem concerning incorrect barcodes has been rectified and any transactions remaining in the Suspense Account are present because they can not be identified at this time.</p>	
<b>Revised Implementation Deadline:</b>	<b>Immediate</b>

**APPENDIX 1****AUDIT FRAMEWORK****Coverage**

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

- Maintenance of the Council Tax database;
- Exemptions/Discounts;
- Billing;
- Collection;
- Refunds;
- Recovery; 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;
- 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, Sarah Williams and Jack Jones

The fieldwork was performed: November 2009 to January 2010.

***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 09-07**  
**NATIONAL NON DOMESTIC RATES**

## Executive Summary

### Introduction

The provision of the Council's National Non Domestic Rates service is performed by Liberata, as part of a long term contract awarded in 1998. The total rateable value for NNDR properties within the Borough for 2009/10 is approximately £48.6m with a gross liability of £23.6m, which relates to 2,273 properties.

### Audit Objectives

An audit of this system forms part of the agreed 2009/10 programme. The audit objectives were to review the internal controls over the National Non Domestic Rates system. The scope and objectives of the audit were discussed and agreed in advance with Lesley Wood, Senior Revenues Technician.

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
No important issues
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 concern:

- reconciling the number of refunds processed on Iworld to the Main Accounting System on a monthly basis; and
- considering the Borough Treasurer signing, dating and returning a copy of the write off summary prepared by Liberata, as evidence of his approval to the writing off of irrecoverable NNDR debts less than £10,000.

Internal Audit reviewed the agreed recommendation made in audit report 08-14, dated January 2009 and confirmed the recommendation had been implemented.

In addition, Internal Audit reviewed the outstanding recommendation made in Audit Report 07-11, dated March 2008. The recommendation has been fully implemented.

### Management Response

We have received a constructive management response from Lesley Wood, Senior Revenues Technician, and Mohamad Saleh, Borough Treasurer, accepting each of the recommendations.

## **Acknowledgement**

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

<b>Recommendation 1</b>	<b>Responsibility: Senior Revenues Technician</b>	<b>Priority: 3</b>
<p>The Council should ensure that the number of refunds processed is reconciled to the Main Accounting System and NNDR system on a monthly basis by Liberata.</p>		
<p><b>Rationale</b></p>		
<p>NNDR refunds processed on the Iworld revenues system are reconciled to the Council's Oracle Finance System on a monthly basis by Liberata's nominated Technical Officer. Each month a control sheet is completed, which is supported by reports from Iworld and the Oracle Finance system.</p> <p>Examination of the 'NNDR refunds' file identified a reconciliation had been performed on a monthly basis between April and July 2009. However, at the time of the audit review, a reconciliation had not occurred since August 2009. Internal Audit were informed that this was due to a delay in obtaining access to the new Oracle Financial System for the Technical Officer; which has now been rectified and the monthly reconciliations are subsequently being performed.</p>		
<p><b>Management Response</b></p>		
<p>The refund reconciliations are now up to date and Liberata will ensure that they are reviewed and reconciled monthly.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>Implemented</b>

<b>Recommendation 2</b>	<b>Responsibility: Borough Treasurer</b>	<b>Priority: 3</b>
<p>The Borough Treasurer should consider signing, dating and returning a copy of the write off summary prepared by Liberata, as evidence of his approval to the writing off of irrecoverable NNDR debts less than £10,000.</p>		
<p><b>Rationale</b></p>		
<p>The Borough Treasurer has delegated authority to write off irrecoverable NNDR debts less than £10,000; above this figure, Member approval is required.</p> <p>Twice each financial year, Liberata prepare a summary of proposed write offs below £10,000 from the Iworld system and submit this, together with supporting reports, to the Borough Treasurer for approval. The amount written off is subsequently reported to Executive Committee for information purposes.</p> <p>Internal Audit reviewed a sample of write offs below £10,000 processed in the first half of 2009/10. Although these had all been authorised by the Borough Treasurer, there was no documentary evidence to record his approval.</p>		
<p><b>Management Response</b></p>		
<p>This will be done from 2010-2011.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>Immediate</b>

## APPENDIX 1

### AUDIT FRAMEWORK

#### Coverage

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

- Maintenance of the NNDR database;
- Reliefs/Exemptions;
- Billing;
- Collection;
- Refunds;
- Recovery of Arrears; 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;
- 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, Sarah Williams and Jack Jones.

The fieldwork was performed: November 2009 to January 2010.

***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 09-01**  
**PERFORMANCE MANAGEMENT**

## **Executive Summary**

### **Introduction**

Best Value was a statutory requirement for all local councils from April 2000 and is defined in the Local Government Act 1999 as “a duty to deliver services to clear standards – covering both quality and cost – by most effective means available”. Performance management of Local Authorities, from 2008/09, forms part of the Comprehensive Area Assessment undertaken by the Audit Commission.

Barrow Borough Council has nominated departmental officers (‘owners’) to report their performance against defined Local and National Performance Indicators. This information is either obtained directly by ‘owners’, or from officers within their department. In addition to the monitoring of 29 National Indicators (not including Place Survey indicators) the Council have adopted a further two Local Indicators (some of which are old BVPIs) to form the basis for their performance monitoring framework.

It should be noted that recommendations identified relating to Housing and Council Tax Benefit National Indicators 180 and 181 are addressed within the Audit Commission’s Housing and Council Tax Benefit re-inspection work and as a result have not been repeated within this report.

### **Audit Objectives**

An audit of this system forms part of the agreed 2009/10 programme. The audit objectives were to review the internal controls for specified Best Value Indicators. The scope and objectives of the audit were discussed and agreed in advance with John Penfold, Policy Review Officer.

Details of the audit methodology are provided in Appendix 1.

<b>Key Points</b>
<b>Substantial Assurance</b>
<b>One important issue.</b>
<b>Three minor issues.</b>

### **Audit Conclusion – Substantial Assurance**

As a result of the audit we have concluded that there are weaknesses which may put some of the system objectives at risk. We have made one Priority 2 recommendation, which concerns ensuring that National Indicator 155 – Number of Affordable Homes delivered (gross), is calculated on an accurate basis that correctly reflects the indicator definition of property completions.

We have also made three Priority 3 recommendations which relate to:

- revising the performance information on the Council’s Intranet site to include links to national indicator definitions and guidance and, provide up to date indicator data;

- introducing a formal and documented review of NI 155 – Number of Affordable Homes delivered (gross), and NI 156 – Number of households living in temporary accommodation, before the submission and publication of indicator values; and
- providing a summary of the data extracted for NI 155 – Number of Affordable Homes delivered (gross), and NI 156 – Number of households living in temporary accommodation, to the Policy Officer for retention as supporting documentation.

### **Management Response**

We have received a constructive management response from John Penfold, Policy Review Officer, 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: Policy Review Officer	Priority: 2						
<p>The Council should ensure that NI 155 – Number of Affordable Homes delivered (gross), is calculated on an accurate basis that correctly reflects the indicator definition of property completions.</p>								
<p><b>Rationale</b></p>								
<p>The Council has produced three different values of NI 155 for the financial year 2008/09:</p> <table data-bbox="199 611 1189 772"> <tr> <td>Local Development Framework (LDF) Annual Monitoring Report</td> <td>1</td> </tr> <tr> <td>Housing Investment Programme (HIP) Return</td> <td>6</td> </tr> <tr> <td>Cumbria Local Strategic Partnership (LSP)</td> <td>10</td> </tr> </table> <p>Internal Audit reviewed the processes used to produce the LDF and HIP figures. The LDF and HIP values relate to the same properties, one in St Vincent Street and six in Exmouth Street, Barrow. These have been correctly identified as affordable homes; however the difference in the reported figures arises from the interpretation of when a property has been completed. The LDF Officer explained to Internal Audit that properties are included on the basis of completions determined by Building Control. However, Accent Foundation supply the HIP Return figures, basing completion on the date the keys for a property are handed over to the Association.</p> <p>The key for 53 St Vincent Street was handed over on 27 March 2008, so Accent recorded this as a 2007/08 completion. Building Control signed off the property on 6 May 2008, so the LDF Team recorded it as the reported 2008/09 completion. It would appear appropriate for the Council to decide whether this is a 2007/08 or a 2008/09 completion.</p> <p>Keys for the Exmouth Street properties were handed over on 19 February 2009, so Accent recorded these as 2008/09 completions. Building Control signed off the properties on 11 February 2009, however the LDF Team plans to record the properties as 2009/10 completions. Council Tax records show that all of the Exmouth Street homes had been added to the Valuation List and occupied by 2 March 2009, suggesting that they were 2008/09 completions as per the HIP Return.</p> <p>On this basis, the 2008/09 indicator value should be either 6 or 7, depending on the interpretation of 53 St Vincent Street.</p> <p>The electronic service delivery (esd) website provides information supporting the indicator definition. It classifies new build completions as the date that the homes become ready for occupation. The Council may feel that the approach taken by Accent appears to more closely match this definition, as the Association has an active interest in the properties and should be aware of their physical condition.</p>			Local Development Framework (LDF) Annual Monitoring Report	1	Housing Investment Programme (HIP) Return	6	Cumbria Local Strategic Partnership (LSP)	10
Local Development Framework (LDF) Annual Monitoring Report	1							
Housing Investment Programme (HIP) Return	6							
Cumbria Local Strategic Partnership (LSP)	10							
<p><b>Management Response</b></p>								
<p><b>Accepted</b></p>	<p><b>Implementation Deadline:</b></p>	<p><b>30 September 2010</b></p>						

<b>Recommendation 2</b>	<b>Responsibility: Policy Review Officer</b>	<b>Priority: 3</b>
<p>The Council should revise the performance information section on its Intranet site to:</p> <ol style="list-style-type: none"> <li>a) include links to national indicator definitions and guidance; and</li> <li>b) provide up to date indicator data.</li> </ol>		
<b>Rationale</b>		
<p>The Council's Intranet site contains performance information under the heading "Performance Management". This largely relates to the delivery of key priorities, with some national indicator values. A separate section, "Management", contains three items under the sub-heading "Performance Indicators", however all of these are out of date, as follows:</p> <ul style="list-style-type: none"> <li>• The link to Audit Commission guidance on indicators relates to 2007/08;</li> <li>• BVPI outturns are shown for 2006/07 only;</li> <li>• There is a link to the 2005/06 consultation on PIs.</li> </ul> <p>Further, there appear to be no links on the Intranet to the source of NI definitions.</p> <p>The usefulness of this section could be improved as a reference tool if it was kept up to date as a source of relevant and accurate indicator information. Alternatively, the information could be included in the "Performance Management" section.</p>		
<b>Management Response</b>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>30 September 2010</b>

<b>Recommendation 3</b>	<b>Responsibility: Policy Review Officer</b>	<b>Priority: 3</b>
<p>The Council should introduce a formal and documented review of NI 155 – Number of Affordable Homes delivered (gross), and NI 156 – Number of households living in temporary accommodation, before the submission and publication of indicator values.</p>		
<p><b>Rationale</b></p>		
<p>Internal Audit examined the processes used to compile data for National Indicators 155 Number of Affordable Homes delivered (gross), and NI 156 – Number of households living in temporary accommodation.</p> <p>The Housing Department co-ordinates the submission of the values for the above two indicators to Communities and Local Government (CLG) on separate returns. The data is extracted and the indicators calculated before the returns are subject to an overview for reasonableness by a Senior Housing Officer. This does not, however, represent a formal review of the process of preparing the indicators, nor has it prevented the production of differing figures for NI 155. A simple examination and “sign off” procedure would provide substantiation of indicator values.</p>		
<p><b>Management Response</b></p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>30 September 2010</b>

<b>Recommendation 4</b>	<b>Responsibility: Policy Review Officer</b>	<b>Priority: 3</b>
<p>The Council should arrange for a summary of the data extracted for NI 155 – Number of Affordable Homes delivered (gross), and NI 156 – Number of households living in temporary accommodation to be provided to the Policy Officer for retention as supporting documentation.</p>		
<p><b>Rationale</b></p>		
<p>During the Internal Audit review, the Council's Policy Officer was able to identify reports in which the NI 155 and NI 156 values for 2008/09 were quoted, but did not have supplementary information to substantiate the figures.</p> <p>In each case, the retention centrally of a simple one-page summary of data would provide suitable supporting documentation.</p>		
<p><b>Management Response</b></p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>30 September 2010</b>

## APPENDIX 1

### AUDIT FRAMEWORK

#### Coverage

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

- NI 180 – Number of Change of Circumstances which affect customers' Housing Benefit/Council Tax Benefit entitlement within the year;
- NI 181 – Time taken to process Housing Benefit/Council Tax Benefit new claims and change events;
- NI 155 – Number of affordable homes delivered (gross); and
- NI 156 – Number of households living in temporary accommodation.

#### 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;
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

#### Performance

Auditors: Sarah Williams and Jack Jones

The fieldwork was performed: October 2009 to February 2010

***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 09-14**  
**RECEIVABLES**

## Executive Summary

### Introduction

The Council's accounts receivables 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 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 4,000 invoices with a value of approximately £4.5million annually.

### 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 accounts receivable 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.

### 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 three Priority 2 recommendations, which relate to ensuring:

- recovery action is performed in accordance with the Council's Accounts Receivable Recovery Process;
- debts are referred to Crutes on a timely basis; and
- accounts are presented for write off on a timely basis.

In addition, we have made one Priority 3 recommendation which relates to issuing the 'Outstanding Invoices' report on a monthly basis.

Internal Audit reviewed the four recommendations made in our previous audit report 07-18, dated May 2008. Three recommendations have been implemented; however one recommendation remains outstanding and relates to updating the corporate debt recovery policy.

Key Points
<b>Substantial Assurance</b>
<b>Three important issues</b>
<b>One minor issue</b>
<b>One previous recommendation</b>

Internal Audit also reviewed the two outstanding agreed recommendations made in audit report 05-30, dated May 2006. Both recommendations have been implemented.

Finally, Internal Audit reviewed the one outstanding recommendation made in audit report 04-41, dated May 2005. The recommendation has been implemented.

### **Management Response**

We have received a constructive management response from Sue Roberts, Deputy Borough Treasurer, accepting each of our recommendations.

### **Acknowledgement**

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

<b>Recommendation 1</b>	<b>Responsibility: Deputy Borough Treasurer</b>	<b>Priority: 2</b>	
<p>The Council should ensure recovery action is performed in accordance with the Council's Accounts Receivable Recovery Process procedure.</p>			
<p><b>Rationale</b></p>			
<p>The process for the recovery of outstanding debts is documented and explained within the 'Accounts Receivable Recovery Process' document. The procedure states that a reminder is sent 14 days after the invoice date, a final reminder is issued 7 days after the first reminder. If payment is not received following the reminder process the debt is referred to Crutes for recovery.</p>			
<p><b>Former Oracle System</b></p>			
<p>Internal Audit selected a sample of five accounts in arrears raised between April and July 2009 from a report generated by the Trainee Technical Accountant. On one occasion a reminder had been issued on the 'old system', however for the remaining four within the sample a reminder had not been issued. A Final reminder had been issued for each of the five invoices on the new system on the 25<sup>th</sup> January 2010.</p>			
<p>Internal Audit were informed that due to problems with the new Oracle system the Council were unable to issue reminders prior to this date; furthermore they are unable to issue any further reminders at present due to system problems. For three of the sample no payments have been received since the issue of the invoice and subsequent reminders.</p>			
<p><b>Replacement Oracle System</b></p>			
<p>Internal Audit selected a sample of ten accounts in arrears raised between August and December 2009 from a report generated by the Trainee Technical Accountant. Final reminders had been issued on the 24/25 January 2010 for nine of the sample. However, there was one occasion where a reminder has not been issued (Strauss Gala Productions, invoice 176467). The invoice was raised on 13 October 2009. We were later informed that Strauss Gala Productions has not been set up on the system correctly.</p>			
<p>Payments have been or are being made for eight of the debts selected; however for the remaining two, payments have not been made.</p>			
<p><b>Management Response</b></p>			
<p>Reminders are now issued regularly, there were problems when the system was upgraded, but these have been addressed.</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>		<b>31 May 2010</b>

<b>Recommendation 2</b>	<b>Responsibility: Deputy Borough Treasurer</b>	<b>Priority: 2</b>	<b>2</b>
<p>The Council should ensure that unrecovered debts are referred to Crutes on a timely basis.</p>			
<p><b>Rationale</b></p>			
<p>The 'Accounts Receivable Recovery Process' states that after a final reminder is issued the debt is referred to Crutes for recovery (where the debt is greater than £50).</p> <p>The review identified the last referral to Crutes was issued in June 2009. Internal Audit were informed by the Recovery Officer that no new referrals have been issued to Crutes since this date.</p> <p>This weakness appears not to follow the Council procedure and additionally if referrals are not made on a regular basis, recovery action will not progress on a timely basis, which may result in a loss of income to the Council.</p>			
<p><b>Management Response</b></p>			
<p>Referral for debt recovery is currently under review as it is an expensive process at present. Reminders are now being sent regularly and so the referral stage will recommence, but this may not be to Crutes.</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>30 June 2010</b>	

<b>Recommendation 3</b>	<b>Responsibility: Deputy Borough Treasurer</b>	<b>Priority: 2</b>	
<p>The Council should ensure that irrecoverable accounts are consistently presented for write off on a timely basis throughout the year.</p>			
<p><b>Rationale</b></p>			
<p>Internal Audit were informed that there have been no irrecoverable debtor account write offs performed during 2009/10; however accounts will be prepared for write off for the financial year end. This is confirmed in the Quarter 3 Council Finances report which is presented to Executive Committee. It should be noted that we were informed that during 2010-11 it is intended to perform write offs on a monthly basis.</p>			
<p><b>Management Response</b></p>			
<p>Write offs were done at the end of 2009-2010 (March 2010). Write offs follow on from reminders and referral for legal action, so will also recommence as the end of the process. However, this will be done quarterly rather than monthly as previously stated.</p>			
<b>Accepted</b>	<b>Implementation Deadline:</b>		<b>31 July 2010</b>

<b>Recommendation 4</b>	<b>Responsibility: Deputy Borough Treasurer</b>	<b>Priority: 3</b>
<p>Borough Treasurers should ensure that the 'Outstanding Invoices' report is produced and issued to relevant officers on a monthly basis.</p>		
<p><b>Rationale</b></p> <p>The Council's Recovery Officer generates the 'Outstanding Invoices' report on a monthly basis; the reports are emailed to appropriate managers in order to provide an update on invoices outstanding. Internal Audit selected a sample of six months since April 2009. For three of the months selected a report had been run. Additionally, Internal Audit were informed that a report had not been produced in August 2009 due to the introduction of the new Oracle system.</p> <p>Following further review, we were informed that a report had not been issued in January 2010; and the Recovery Officer was unable to locate the report produced in February 2010. The consistent provision of such information would assist in ensuring Council officers are fully aware of the level of arrears within their designated cost centres, and aid overall financial management.</p>		
<p><b>Management Response</b></p> <p>The report is available, although a slightly different layout from the old system. I have instructed the Recovery Officer to issue this report on a more frequent basis. I will advise the Systems and Control Accountant (the supervisor) to ensure this happens.</p>		
<b>Accepted</b>	<b>Implementation Deadline:</b>	<b>31 May 2010</b>

<b>Previous Recommendation</b>	<b>Responsibility: Deputy Borough Treasurer</b>
<p>The Council should implement the agreed outstanding recommendation made in Audit report 07-18, dated May 2008, namely:</p> <p>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)</p>	
<b>Rationale</b>	
<p>We were informed that the Accounts Receivable Recovery Process document is due to be updated. (The procedure was last updated on 30 September 2005.)</p>	
<b>Management Response</b>	
<p>Now that the Systems and Control Accountant is in post, I shall undertake the policy review with the Borough Treasurer and that Accountant will be in a position to implement the policy on behalf of the Council. The policy will be presented to Executive Committee.</p>	
<b>Revised Implementation Deadline:</b>	<b>31 July 2010</b>

**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 Ifor Jones

The fieldwork was performed: March – April 2010

***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.
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## 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.

		<b>Part One</b>
<b>AUDIT COMMITTEE</b>		<b>(D) Agenda Item 16</b>
<b>Date of Meeting: 29th June, 2010</b>		
<b>Reporting Officer: Borough Treasurer</b>		
<p><b>Title: Review of Financial Regulations</b></p> <p><b>Summary and Conclusions:</b></p> <p>The Financial Regulations were last reviewed in March 2008. The regulations should be subject to regular reviews to reflect current requirements.</p> <p>I have reviewed them and there is no need for any amendments at this time.</p> <p><b>Recommendations:</b></p> <p>Members are asked to note that the Financial Regulations have been reviewed and that no amendments are necessary at this time.</p>		

### **Report**

The Financial Regulations have been reviewed and it was concluded that no amendments are necessary at this time.

The regulations are published on the Council's website and are part of the constitution.

(i) **Legal Implications**

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

(ii) **Financial Implications**

Not Applicable.

(iii) **Health and Safety Implications**

Not Applicable.

(iv) **Key Priorities or Corporate Aims**

Not Applicable.

(v) Risk Assessment

Not Applicable.

(vi) Equality and Diversity

Not Applicable.

(vii) Health and Well-being Implications

Not Applicable.

Background Papers

Nil