

Supplement to the Annual Governance Report

Cumbria County Council

Audit 2006/07

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

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- any third party.

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Introduction

- 1 In our Annual Governance Report presented to those charged with governance on 28 September 2007, we reported that our work was substantially complete but also that further work was being done to finalise the audit before giving the opinion (in particular in relation to the Whole of Government Accounts and the Group Accounts). We went on to say that:

‘should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with the Chair of the Audit Committee’.

This is a supplementary report which summarises issues which have necessitated further amendments to the accounts.

Understatement of gross income and expenditure

- 2 The guidance notes for local authorities recommend that the Whole of Government Accounts (WGA) returns are completed at the same time that the accounts are presented to the Council, ie by the end of June, and they are passed to auditors by the end of August. Guidelines require that the returns should be certified by auditors by 1 October 2007.
- 3 However, the WGA return was not sent to us until Saturday 29 September 2007. Our audit of the WGA return identified that the Council's 2006/07 statement of accounts understated gross income and expenditure by some £44.7 million. The errors affected 5 of the 9 services reported in the Council's Income and Expenditure Account.
- 4 Further investigation identified the source of the error to have arisen as a result of the incorrect extraction of gross income figures from the Council's ledger to support the statement of accounts. In fact, several sources of external income to the Council had been netted off expenditure, including £34 million of income from fees and charges paid in respect of residential and nursing home care. The impact of these errors on the accounts - and the adjustments which the Council has agreed to make in response - are summarised in Table 1 below.

Table 1 Amendments to the statement of accounts arising from issues identified at review of WGA

The I&E account and cash flow statement were amended

Income and expenditure	Revised accounts £000	Final amended accounts £000	Difference £000	% increase
Central services to the public - Exp	6,880	11,433	4,553	66%
• Income	832	5,385	4,553	547%
Culture, environment and planning - Exp	54,479	56,397	1,918	4%
• Income	8,069	9,987	1,918	34%
Education - Exp	409,047	412,661	3,614	1%
• Income	43,876	46,605	2,729	6%
Highways, roads and transport - Exp	27,783	28,338	555	2%
• Income	2,104	2,659	555	26%
Adult Social services Exp	148,622	182,676	34,054	23%
• Income	22,325	56,379	34,054	152%
Other services exp	70,584	70,584	0	0
• Income	3,613	3,613	0	0
Gross Expenditure	717,395	762,089	+44,694	6%
Gross Income	80,818	124,627	+43,809	54%
Net Service costs	273,272	274,157	+885	0.3%
Interest and investment income	5,397	6,282	+885	16%
Cash Flow Statement				
Other operating costs	286,767	331,461	+44,694	16%
Other income	80,818	124,627	+43,809	54%
Interest received	4,633	5,518	+885	19%

County Council's accounts

- 5 These further adjustments had no effect on the Council's net operating expenditure of £296.845 million, or on the net worth of the Council.
- 6 The Council's reporting arrangements are currently focused on net expenditure. Although this is understandable in the context of projecting and monitoring the sums of money required to be raised from Council tax payers, there are drawbacks in not considering income and expenditure on a gross basis.
- 7 The Council's current Financial Regulations allow trading account budget holders to incur additional expenditure in the year if the income exceeds budget. For non trading account budgets, increased expenditure is limited to £100,000 or the amount of the extra income generated, whichever is lower.
- 8 The Council may wish to reconsider the appropriateness of these regulations in a situation where a trading operation is in fact obtaining most of its income from other County Council departments. Increased income to the trading operation could well lead to increased expenditure for the County as a whole.
- 9 It will be important to ensure that the 2007/08 accounts properly reflect gross expenditure and all expected income streams.
- 10 The adjustments shown in Tables 1 and 2 reflect only those made after the submission of our Annual Governance Report to the Audit Committee on 28 September 2007. All other changes to the original accounts are recorded in our Annual Governance Report.

Group accounts

- 11 The Group accounts are prepared to include the accounts of:
 - Cumbria Waste Management group;
 - Cumbria Capital Fund;
 - Invest in Cumbria Ltd; and
 - Traveline Cumbria Ltd.
- 12 Our audit identified that the group accounts had not been consolidated correctly. CIPFA's statement of recommended practice (SORP) requires that the accounting requirements of the 'parent' organisation take precedence. In other words, the local authority accounting rules apply rather than the limited company accounting rules which apply to the other members of the Group. The resulting changes affected the balance sheet reserves but there was no effect on the Group's net worth.
- 13 We also found that the analysis of grant income over service lines in the Group I&E account did not reflect the analysis in the single entity accounts.
- 14 Although these errors had been corrected by the time of our original Annual Governance Report we were not able to report them to the Audit Committee because of the timing of preparing our report for the meeting on 28 September 2007.

- 15 Table 2 below shows the changes that were required to the Group Accounts.

Table 2 Amendments required to the Group Accounts

The Group Account Balance Sheet was amended

Balance Sheet	Revised accounts £000	Final Amended accounts £000	Difference £000
Capital financing account	104,173	97,063	-7,110
Pensions reserve	(383,164)	(399,742)	-16,578
Earmarked balances	41,264	49,856	8,592
General balances	(1,176)	13,920	15,096
Net effect			0
I&E account - grant income			
Central Services to the Public	0	4,913	+4,913
Adult Social Care	26,576	22,229	-4,347
Children's Social Care	133	4,347	+4,214
Fire and Rescue Services	0	133	+133
Corporate and Democratic Core	6,451	1,537	-4,914
Net effect			0
Balance on general fund b/f	9,656	This line removed as not required..	
Balance on general fund c/f	(1,176)	This line removed as not required	

Cumbria County Council's accounts