



Legal and Democratic Services

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TO: THE MAYOR AND
MEMBERS OF THE
THE CITY COUNCIL

Please ask for:

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Your ref:

Our ref:

Mr Dixon

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IJD/js

22 November 2004

Dear Sir /Madam

RE: COUNCIL MEETING – 23 NOVEMBER 2004

I refer to the item relating to the Statement of Accounts which is included on the Agenda for the above meeting as Item 18 and now enclose an amended version of the Audit Commission's SAS 610 Report, which is attached as an Appendix to Report FS.39/04 previously circulated. The sections of the report which have been amended from that originally circulated have been highlighted.

I also enclose a copy of the extracts of the minutes of the meeting of the Corporate Resources Overview & Scrutiny Committee held on 22nd November 2004 relating to this item of business.

Yours faithfully

J. M. Egan

Head of Legal and Democratic Services

Enc



INVESTOR IN PEOPLE

Communication concerning financial statements to those charged with governance

Carlisle City Council

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Reference:	Carlisle SAS610 Report
Date:	November 2004

Introduction

Statement of Auditing Standard (SAS) 610 requires auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance':

- expected modifications to the audit report
- unadjusted non-trifling misstatements
- qualitative aspects of accounting practice and financial reporting
- material weaknesses in accounting and internal control systems
- matters required by other auditing standards to be reported to those charged with governance
- other matters that we wish to draw to your attention.

We have agreed with the Authority that the communications required under SAS 610 would be with the Corporate Resources Overview and Scrutiny Committee. This report sets out for members' consideration the matters arising from the audit of the financial statements for 2003/2004 that require reporting under SAS 610.

Status of the audit

Our work on the financial statements is now substantially complete. Should any further matters arise in concluding the outstanding work that requires reporting under SAS 610, we will raise them at the Corporate Resources Overview and Scrutiny Committee.

Subject to the satisfactory conclusion of the work outstanding, we anticipate being able to issue an unqualified opinion by 30 November 2004 (a draft report is attached at Appendix 1).

Matters to be reported to those charged with governance

We have the following matters to draw to the attention of members:

Unadjusted misstatements

Our audit has identified a number of misstatements in the financial statements which management has decided not to adjust. We have included as appendix to this report (Appendix 2) a list of all non trivial unadjusted misstatements. These relate to less significant errors and presentational issues which officers have agreed will be corrected where appropriate in the 2004/2005 financial statements

Qualitative aspects of accounting practices and financial reporting

Our audit identified the following qualitative areas of accounting practices and financial reporting which we should report to you:

Pension liability with Carlisle Housing Association

The pension liability with Carlisle Housing Association has not yet been fully quantified and has been an estimate in the accounts for both 2002/03 and 2003/04 following the stock transfer in December 2002. While we are minded to accept the reasonableness of the estimate based on evidence available to date, it is essential that steps are taken to confirm the accuracy of the estimated liability before the 2004/05 financial statements are prepared as we are unwilling to accept an ongoing estimate for this amount.

Different category

Quality of supporting working papers/audit information

To promote improvement in the audit process, we agreed a managed audit protocol with the authority in April 2004. This document noted that our proposed audit timetable for 2003/2004 was based on the key assumptions that officers would provide good quality working papers and records to support the accounts and that requested information would be provided within agreed timescales and with clear supporting documentation. We appreciate that officers have worked hard to produce audit evidence to a higher standard than in previous years. However, there is still progress to be made in considering accounting issues and providing evidence to support balances in the financial statements. It is essential in order to achieve an economic and efficient audit and for the council to demonstrate effective financial stewardship that all necessary information is available to us at the start of the audit. The Head of Finance has acknowledged the need for improvement in the standard of working papers and audit evidence and the authority is taking steps to address areas of weakness. We therefore would like to draw to members' attention the need to ensure proper compliance with accounting regulations and to provide supporting evidence for material balances in the financial statements in order to avoid any future delays in the certification of the accounts or potential qualification. Members should be aware that the 2004/05 auditing deadlines are to be a month earlier next year and we will work with the authority to achieve the improvements required.

Next steps

We are drawing these matters to members' attention so that you can consider them before the financial statements are approved and certified. In particular, this provides members with the opportunity to amend the financial statements for the unadjusted misstatements identified above. Should you choose not to do so, we are required by SAS 610 to request from you a letter of representation explaining why you are not going to adjust the financial statements. We ask that the letter specifically details the misstatements and/or qualitative aspects of reporting to which it relates, either in the body of the letter or in a document appended to it.

Status of our reports to the Council

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to members of the Council or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

Draft auditor's report

Auditors' Report to Carlisle City Council

I have audited the statement of accounts on pages 10 to 51 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 10 to 15.

This report is made solely to Carlisle District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Chief Financial Officer and Auditor/Auditors

As described on page 52 the Chief Financial Officer is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2003. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether the statement of accounts presents fairly the financial position of the Council and its income and expenditure for the year,

I review whether the statement on internal control on page 53 reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the authority's corporate governance procedures or its risk and control procedures. My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the council's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion the statement of accounts present fairly the financial position of Carlisle District Council as at 31 March 2004 and its income and expenditure for the year then ended.

Certificate

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

Fiona Daley

District Auditor

Audit Commission

DATE

APPENDIX 2

Summary of Unadjusted Non Trivial Errors

Summary of Unadjusted Non Trivial Errors: - Consolidated Revenue Account and Balance Sheet

Our audit has identified the following misstatements in the financial statements which management have decided not to adjust. The majority of these items relate to presentational items and do not impact on the bottom line.

Error £	Comments
133,265	Fixed assets/Fixed asset restatement reserve Vehicles and plant had been valued too highly in the financial statements.
231,615	Service expenditure analysis/Asset management revenue account The council's services had not been charged enough for depreciation (the cost of fixed assets wearing out) and impairment losses (a decrease in the value of fixed assets that is permanent).
259,639	Asset management revenue account/Service expenditure analysis The charges for interest costs (required only as an accounting entry) to each of the council's service are too high – this has no impact on reserves.
242,678	Asset management revenue account/Service expenditure analysis/Fixed assets/Capital reserves Too much depreciation has been charged to the revenue account for land and buildings.
129,300	Direct service organisation provision/creditors/Service expenditure analysis The provision (amount held in the accounts to pay future costs) was too high in the direct service organisation account.
217,000 175,578	Usable capital receipts/Capital financing reserve/CRA transfers/Housing general fund expenditure These two errors are related. An amount paid out of the housing stock transfer receipt for pension costs was included in last year's accounts based on estimates but has been cancelled out this year due to a updated estimate of the amount owing for pension costs. The other error relates to movements on capital reserves following accounting requirements in respect of the same issue.
120,505	Fixed assets/Capital financing reserve and transfers/ Asset management revenue account /Service expenditure analysis Depreciation in last year's accounts (2002/03) was too high, and this has not been adjusted for in the 2003/04 accounts.
159,735	Trading undertakings /Service expenditure analysis The profit made by the direct service organisation of the council had not been included in individual services as required by accounting rules.

114,928	Trading accounts -Service expenditure analysis/Pension reserve transfers/Non distributable costs The pension costs of the employees of the Direct Service Organisation are too low.
277,468	Service expenditure analysis/Pension reserve transfers/Non distributable costs The employers' cost of employee pensions was too high for discretionary benefits – there is no effect on reserves (presentational entry to comparative 2002/03 figures in the accounts only).
242,000	Collection fund The amount provided as an estimate for non payment of council tax appears too high based on the amount actually collected.
250,000	Fixed assets/Fixed assets restatement reserve Fittings from Tullie House gallery and exhibition space were missed from the valuation of the building in 2002/03 and 2003/04.
126,662	Service expenditure analysis/Fixed assets/Capital reserves Items have been included in fixed assets but should have been written off to the revenue account. There are also associated capital accounting entries.

Overall Summary of unadjusted errors by item of account

('-' = credit)

£

Consolidated Revenue Account	Service Expenditure Analysis	-419,003
	Housing General Fund	-161,540
	Trading Undertakings	274,663
	Appropriation to Capital Reserves	465,417
Fixed Assets	Operational land and buildings/Vehicles and plant	857,061
Debtors	Local Taxpayers (including related bad debt provision)	236,647
Provisions	DSO Provision for Losses	129,300
Reserves	Capital Financing Reserve	-282,720
	Collection Fund Reserve	-242,000
	Fixed Asset Restatement Reserve	-696,312

For clarity, each unadjusted non trivial error has been described above this table in isolation with a heading stating which items of account are affected. Each item has one or more contra entries in the accounts (for example, the purchase of a vehicle would affect both the cash balance and the fixed assets balance) but the error has been described once to avoid duplication or confusion.

The table above provides a summary by item of account of the overall impact of the unadjusted errors. The items of account reported in the table above include the individual errors and also include trifling errors, which are not required by auditing guidance to be included in this report.

DRAFT

CORPORATE RESOURCES OVERVIEW & SCRUTINY COMMITTEE

22 November 2004

CROS.../04 STATEMENT OF ACCOUNTS – AUDIT ISSUES

Pursuant to Minute C169/04(vii), the Head of Finance reported (FS.39/04) that the Council had on 3rd August 2004 approved the Authority's draft 2003/04 Statement of Accounts subject to audit. She informed Members that the audit had now been completed and she reported on issues which had been raised during the audit. The Head of Finance circulated at the meeting a copy of a revised SAS.610 report from the Audit Commission and detailed the amendments in that report, as compared to the report circulated with the papers for the meeting. The Head of Finance also reminded Members that the role of the Corporate Resources Overview & Scrutiny Committee was to approve the SAS.610 Statement which had to be approved before the auditors would issue their audit certificate and formal opinion on the Council's accounts. The role of the City Council was to approve the original statements for submission to audit with the Head of Finance reporting back any material amendments to Council following the conclusion of the audit. The Head of Finance added that the Statement of Accounts had to be published by the statutory deadline which this year was 30th November 2004.

The Head of Finance set out the details of the unadjusted mis-statements, which the Audit Commission had identified in the final financial statements, which the Council had decided not to adjust, which would be corrected where appropriate in the 2004/05 financial statements. The Head of Finance added that the total impact on reserves of the above would be a credit to the bottom line of £43,961.

Members, in considering the report, noted that the changes in the revised Audit Commission letter which had been circulated at the meeting reflected a change of emphasis, and related to the supporting working papers and audit information.

The Head of Finance commented that the Audit Commission were working towards carrying out an audit of each local Authority's accounts quickly and, in order to be able to achieve that, the information and working papers needed to be presented to the Auditors in a standard way. In response to further questions, the Head of Finance, stated that the Council were making progress in working towards the format which the Audit Commission required but, because of the precise way in which the auditors required the information to be presented, the Council, together with other authorities, were having some difficulty in fully achieving that.

Members further commented that they would have welcomed the opportunity to question a representative from the Audit Commission on their SAS.610 Report and were disappointed that a representative was not present at the

meeting. Members also questioned how the Council might address for future years the difficulties which had been experienced in signing off the accounts in the current year. The Head of Finance reminded Members that the delay in signing off the Authority's 2002/03 accounts had hindered the commencement of the close down of the 2003/04 accounts but, as the Council had complied with the deadline this year, then it should help the Authority to comply with the timetable in 2004/05. She stated, however, that it was a difficult timetable to achieve and she added that the timetable for next year showed that there was a requirement for meetings towards the end of July and end of October and at the present time there were no Council meetings currently scheduled for those dates. She added that she would discuss the matter further with the District Auditor to try and resolve the various issues surrounding the timetable for the closure of accounts.

Members felt that it might be appropriate to identify when the deadlines were for completing the 2004/05 Statement of Accounts at an early stage and schedule meetings in the civic calendar on the latest date which would allow the Head of Finance and District Auditor to meet the statutory dates so that Members were aware at the earliest possible stage of likely meeting dates.

Members also noted that the amended SAS.610 Report of the Audit Commission was one of three reports which had been circulated to Members immediately prior to the meeting and felt that this made it difficult for Members to carry out effective scrutiny of items.

RESOLVED

- (1) That the Audit Commission's SAS.610 Statement (amended) as circulated at the meeting be approved.
- (2) That the adjustments required to the 2003/04 Statement of Accounts as detailed in Appendix 3 to the Audit Commission's SAS.610 Statement, to be reported to full Council on 23rd November 2004, be noted.
- (3) That the Council's Executive Director inform the Audit Commission that the Council's Corporate Resources Overview & Scrutiny Committee were disappointed that a representative of the Audit Commission had not been able to attend the meeting of the Corporate Resources Overview & Scrutiny Committee on 22 November to present their SAS.610 Report and to answer Member's queries on the report.
- (4) That the Head of Finance discuss further with the District Auditor proposals for improving the process for approving the Audit Commission's SAS.610 Statement and the Council's final accounts for 2004/05 including the arranging, if necessary, of planned special meetings of the Corporate Resources Overview & Scrutiny Committee and the City Council to approve the issues requiring approval in order to meet the statutory deadlines for the publication of accounts.