

Annual Audit and Inspection Letter

March 2006

Annual Audit and Inspection Letter

Carlisle City Council

Audit 2004/2005

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- 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.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

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Key messages

Governance

- 1 The Council is reminded that under Regulation 19 of the Accounts and Audit Regulations 2003 it is required to publish the Annual Audit and Inspection Letter and to make copies available to the public for purchase. From April 2006 the regulations also require the Council to consider the letter at a committee or meeting of the Council as a whole. The Council did not publish my letter dated December 2004 until February 2006.
- 2 The Council has not taken sufficient action to address weaknesses in the standard of financial reporting and internal control arrangements, including regular bank reconciliations, which were clearly set out in the Annual Audit and Inspection Letter dated December 2004. Assurances that these matters would be addressed have, for a second year, not been adequately delivered.

Section 11 recommendation

- 3 Section 11 of the Audit Commission Act 1998 allows the District Auditor to make a recommendation which the full Council must consider and a response must be agreed by the Council within one month from the date of issue of the recommendation.
- 4 In order to ensure that sufficient action is taken to improve the financial reporting and governance arrangements I recommend that:
 - Carlisle City Council should improve its financial management arrangements and systems of internal controls, in order that that it is able to prepare financial statements which are free from material error and demonstrate proper stewardship of public money.

The accounts

- 5 The accounts opinion has been delayed for a fourth consecutive year to enable the authority to correct accounting errors and provide further evidence to support assertions in the financial statements. Significant weaknesses exist in terms of inadequate supporting working papers, technical errors and lack of support by senior management for the audit process. The council needs to make urgent improvements to performance in this area.

- 6 There was no regular bank reconciliation in place for the 2004/05, following the implementation of the new ledger system in April 2004. The absence of a bank reconciliation throughout the year is a serious control weakness and has led to uncertainty about the accuracy of the year end position. Insufficient action was taken during the year to identify means of establishing a bank reconciliation process which compensated for the difficulties in using the automated bank reconciliation programme.

Financial position

- 7 Despite weakness in financial reporting we believe the authority's overall financial position remains healthy and the Council has sufficient resources to meet all expected and all reasonable unexpected demands on expenditure. However, budgetary control needs to be improved with better analysis of variances and action should be taken to address the level of un-spent resources carried forward at the end of the each year.

Council performance

- 8 During 2005 the Council has continued to make progress in implementing the improvement plan developed following the Comprehensive Performance Review in 2003. The Council has considered its priorities, and has put plans in place to achieve its strategic aims alongside its partner organisations.
- 9 Following the major flooding disaster in January 2005 the Council is successfully working with partner organisations to develop a major regeneration programme for the city area called Carlisle Renaissance. The Council is taking the opportunity arising from the flood to assess the way it provides services and the facilities that support services to identify potential for improvement rather than simply re-instate previous arrangements. Recent surveys have indicated strong resident support for the plans.
- 10 The weaknesses in financial management and improvements required in governance and risk management reported as part of our annual Use of Resources assessment are expected to feed in to the overall performance assessment of the Council as part of proposals for CPA in future years.

Action for Members

- Ensure publication of this Annual Audit and Inspection Letter.
- Consider the section 11 recommendation and formally agree a response to the recommendation within one month of the issue of this letter.
- Consider what further improvements are required in response to the issues identified in this letter.
- Continue to develop the Council's overall improvement programme, building on the good work already achieved in many services areas.

Accounts and governance

We will give an opinion on your accounts following the resolution of outstanding audit adjustments.

Financial stewardship needs to be improved so that the council can prepare Financial Statements which are free from material error. The workload of staff needs to be re-aligned to enable adequate evidence in support of the accounts to be prepared in a timely manner, this includes the monthly preparation of a bank reconciliation.

Governance arrangements need to be strengthened to include further Member involvement in consideration of financial issues, including internal and external audit reports and the arrangements for approval of the Statement of Internal Control.

Audit of 2004/05 accounts

- 11 We are to provide an opinion on the Council's accounts once all outstanding audit matters have been resolved and will provide further reports as appropriate before concluding the audit. Serious weaknesses in audit evidence were again encountered this year, and material adjustments were required to the financial statements to ensure compliance with accounting standards.

Matters arising from the final accounts audit

- 12 We have concerns regarding the Council's ability to prepare accounts which are materially correct and which comply with proper accounting practice. As in previous years the audit has uncovered a number of material misstatements and non compliance with basic accounting concepts. Treatment of some technical matters in the financial statements does not accord with accounting standards and the statement of recommended practice.
- 13 We noted a number of serious concerns regarding the final accounts in our report to those Members responsible for governance. These are detailed below.

Report to those with responsibility for governance in the Council

- 14 We are required by professional standards to report to those Members responsible for governance (in this case to the Accounts Committee) certain matters before we give an opinion on the financial statements.
- 15 Our report for the 2003/04 accounts referred to the need to improve the quality of working papers and audit information provided by officers. To promote improvement in the audit process and associated liaison arrangements, we agreed a formal audit protocol with the Authority. This document noted that our proposed audit timetable for 2004/05 was based on the key assumptions that officers would provide appropriate evidence to support the figures in the Accounts in the form of good quality working papers and accounting records.

We also provided full details of the information that we would require to enable us to complete our audit in an economic and efficient manner. We are of the opinion that officers have made little progress in addressing shortcomings in the accounts preparation process and in providing evidence to support the entries in the financial statements.

- 16 We recognise that the flooding had an adverse effect on the task of preparing the 2004/05 financial statements. However, notwithstanding this, we wish to bring to your attention that we have encountered further significant problems this year with regard to incomplete evidence. We have concerns that the task of preparing the financial statements and assisting our audit is not given sufficient priority by senior management and this has led to the fourth year in succession in which we have been unable to give our opinion by the due date.
- 17 The accounts as presented for audit contained a significant number of material errors and misstatements. Finance staff were unable to provide suitably amended accounts without significant additional and extensive consultation from ourselves. This has resulted in an extra audit fee. Our current estimate of the additional cost of this work is £30,000 although the final figure can not be confirmed until the work is complete.
- 18 It is essential that the preparation of the Council's annual financial statements - and support of the audit process - is given a high priority. There is a need for greater co-operation on the part of council staff to engage with the audit process and to take a joint and proactive approach to problem solving.
- 19 There is a clear need for the Council to demonstrate proper stewardship of public funds by ensuring proper compliance with accounting regulations and providing promptly full supporting evidence in support of material balances in the financial statements.
- 20 Material errors identified in the 2003/04 accounts were amended before the opinion was given. A number of further errors which individually were not significant enough to cause us to qualify the accounts were identified during the 2003/04 audit. It was agreed by Members at the Corporate Resources Overview and Scrutiny meeting on 22 November 2005 and with officers that these would be corrected during the preparation of the 2004/05 accounts. However, a number of these adjustments were not made. Failure to carry out agreed audit adjustments has added significantly to the problems in preparing and reconciling the financial statements, as well as our audit of them. All agreed action arising from the audit and all agreed amendments to the accounts should be carried out in future.
- 21 The Accounts deadlines are moving forward a month in 2006 and the Authority needs to ensure that a clear, robust project plan and management arrangements have been established in support of the closedown and audit process. The pressure will intensify as deadlines move forward and Whole of Government Accounts reporting is required. Early planning and thoughtful scheduling of key meetings next year will be necessary.

Financial standing

The Council's financial position, based on the unaudited accounts, appears healthy although balances will face pressures in the coming years.

General fund spending and balances

- 22 As at 31 March 2005 (unaudited accounts) the Council has reported £12.3 million (2004: £13.5 million) in revenue reserves. This consisted of General Fund of £5.8 million (2004: £7.2 million), Large Projects Pool of £1.2 million (2004: £1.1 million) and other earmarked balances of £5.3 million (2004: £5.2 million). The General Fund balance of £5.8 million (2004: £7.2 million) represents 40 per cent (2004: 50 per cent) of the Council's net revenue budget for 2005/06.
- 23 The Council had a budget underspend of approximately £1.9 million (2004: £1.1 million) resulting in a corresponding reduction in the planned use of general fund reserves in 2004/05. However, as at 31 March 2005, £1.5 million (2004: £1.4 million) was already committed to be spent in 2005/06.
- 24 Action needs to be taken to address the pattern of continual underspends and carry forwards and improvements made to demonstrate consideration of year on year spending patterns when setting budgets. The budget monitoring report provided as at January 2006 shows that the pattern of significant underspends is continuing with an underspend of nearly £1 million on revenue as at November 2005 and an ongoing capital underspend.
- 25 It is important that the Council has a clear financial strategy to accommodate changes anticipated from the Gershon efficiency agenda and to ensure that it can continue to meet local and national priorities and its statutory obligations for the foreseeable future. There is currently a significant shortfall against the council's planned Gershon savings and action needs to be taken to address this issue.

Housing Revenue Account

- 26 At 31 March 2005 HRA balances stood at £3.5 million (2004: £3.3 million). The balance is being transferred to the general fund following formal closure of the HRA with effect from 1 April 2005.

Capital programme

- 27 The Council received significant capital receipts following the housing transfer and there was an expectation that the receipts will be used to develop safer communities and housing strategy issues. Members should ensure that the receipts are used to maximum benefit in developing the Council's corporate priorities. The Council should maintain detailed financial monitoring of progress against budgets for each of the schemes in order that Members and officers can address issues at an early stage. Members should ensure they have an understanding of variances and reasons for underspends on capital projects, which have been significant in previous years, and that this is used to improve future capital budgeting.

Income collection and arrears

- 28 Management of arrears continues to be an important part of financial control. A comparison of collection rates for 2004/05 for council tax and National Non- Domestic Rates (NNDR) showed that Carlisle had a collection rate of 96.8 per cent (97 per cent at 31 March 2004) for council tax which is slightly lower than the average of 97.8 per cent (2004: 97.8 per cent), and a collection rate of 98.3 per cent (99.2 per cent at 31 March 2004) for NNDR compared to an average of 98.7 per cent (2004: 98.6 per cent). The Council should consider and monitor the scope to improve performance in future years.
- 29 At 31 March 2005, the level of NNDR and council tax arrears was £2.59 million at 31 March 2005 compared with £2.27 million in 2004. The Authority has scope for improvement regarding its collection of arrears. Collecting the debt in the year in which it is due is a key factor in debt management. The Authority's approach to anti-poverty is reflected in the collection approach. The Authority will need to continue to monitor the position closely.
- 30 Ensuring that the Council meets its service targets, whilst continuing to improve and develop services, will be a major challenge for the future. Members will need to ensure that robust and flexible financial plans, covering a minimum period of three years, are frequently updated to enable the Council to respond to future challenges.

Systems of internal financial control

We have identified significant weaknesses in the overall control framework, regarding the non-completion of a balanced bank reconciliation through out 2004/05. Our use of resources work highlighted weaknesses in areas including inadequacies in approval of the Statement of Internal Control for 2004/05.

Bank reconciliation

- 31 We reported in our audit letter last year that bank reconciliations had not been completed following the implementation of the new financial system and that it was essential that resources were directed towards addressing all outstanding matters to complete the bank reconciliations to date. However, no balanced bank reconciliations were produced during 2004/05 after the new system was implemented in April 2004. The bank reconciliation is a fundamental control to ensure the integrity of the authority's financial statements and its absence is a fundamental weakness. It is essential that a bank reconciliation in a simple format is put in place immediately and that this reconciliation is prepared shortly after each month end and reviewed by a senior financial officer. Too much reliance is currently being placed on the automated reconciliation within the new ledger system, the accuracy of this reconciliation has not been established.

Risk management

- 32 Progress on updating the risk register has been taking place during the year although there remain a number of developments still to be made including ensuring that all completed risk assessments are prepared to a consistent standard and that risks are linked to strategic priorities and identify mitigating controls in place.
- 33 Work is ongoing to ensure that risk management becomes fully embedded within the business planning and decision making process, particularly to ensure key decisions are made following the completion of appropriate risk assessments.

Internal Audit

- 34 Our review found Internal Audit arrangements to be substantially compliant with standards set out in CIPFA's Code of Practice for Internal Audit and other good practice measures. A number of positive features have been noted, particularly the focus for the coming year on the core financial systems. There is scope for improvement in annual reporting and in-year reporting arrangements to those charged with governance.
- 35 We have been working with Internal Audit in respect of the documentation of the key business critical systems, to ensure that we can comply with the new International Standards on Auditing for our 2005/06 opinion work. We are currently undertaking detailed work in this area and will report our findings shortly.

Other issues

We understand from management that procedures have now been put in place to ensure that the Statement of Internal Control and the supporting evidence for the Statement are considered and approved by Members before it is published. This is an important control to ensure that responsibility for internal control is with Members of the authority.

Standards of financial conduct and the prevention and detection of fraud and corruption

- 36 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption, but our use of resources work highlighted weaknesses in the authority's proactive distribution of fraud and whistleblowing policies to staff and contractors with the authority.

Legality of transactions

- 37 We have not identified any significant weaknesses in the framework established by the council for ensuring the legality of its significant financial transactions.

Use of resources judgements

- 38 The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of the Authority and value for money. It looks at how the financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. We anticipate in future the Use of Resources judgements will form part of the CPA framework.
- 39 Scoring is based on the following scale.

| | |
|---|---|
| 1 | Below minimum requirements – inadequate performance |
| 2 | At minimum requirements – adequate performance |
| 3 | Consistently above minimum requirements – performing well |
| 4 | Well above minimum requirements – performing strongly |

- 40 We have assessed the council's arrangements in five areas.

Table 1 Council's arrangements

| Element | Assessment |
|----------------------|------------|
| Financial reporting | 1 |
| Financial management | 2 |
| Financial standing | 2 |
| Internal control | 2 |
| Value for money | 2 |
| Overall | 2 |

- 41 In reaching these judgements we have drawn on the above work and supplemented this with a review against specified Key Lines of Enquiry. Although we have concluded overall that you have met minimum standards in using public resources, within that judgement there are clear areas for improvement, particularly within financial reporting, financial management and internal control. A separate report has been prepared on this.

- 42 The most significant areas where further development is needed are detailed below.

Financial reporting

- 43 We have covered this area in the above comments on our final accounts audit. We have reported to Members and officers the need for significant improvements in financial reporting, particularly in the consideration and appropriate treatment of accounting issues and the need for high level involvement and support of the audit process by the council.

Financial management

- 44 Although on balance minimum were achieved overall for financial management our assessment was that improvement is required to ensure that action plans are developed for all material variances, the authority needs to regularly test financial systems to ensure they are secure and improvement in monitoring of financial performance of partnerships is required.

Internal control

- 45 Improvements are required in risk management, approval of the Statement of Internal Control by Members and in fraud awareness.

Council performance

- 46 Since the CPA report, the Council has continued to develop its priorities for improvement and we have been working with the Council as it seeks to improve further.

Developments in strategic plans

- 47 Following the major flooding disaster in January 2005 the Council has moved from a position of securing initial recovery to developing a major regeneration programme for the city area, 'Carlisle Renaissance'. The office of the Deputy Prime Minister (ODPM) and the Government Office for the North West (GONW) are leading the government's support to a task group of local regional and national agencies formulating the long term regeneration plan. Recent surveys have indicated strong resident support for the plans.
- 48 The Council is taking the opportunity arising from the flood disaster to assess its assets and facilities that support services to identify potential for improvement rather than just re-instatement.
- 49 The joint local strategic partnership (LSP) for Carlisle and Eden districts has been dissolved and a new Carlisle LSP has been established building upon the City Vision Partnership.
- 50 High priority is allocated to the creation of a 'Learning City' for Carlisle to address some of the economic, social and cultural issues for the local area, supporting wider plans for the establishment of a university for Cumbria connecting a number of further education establishments.
- 51 Joint strategic work with other councils and partners has progressed over the last year. The Council already has an approved housing strategy but a key outcome of joint work with councils and social landlords is expected to be a Cumbria wide housing strategy being submitted for approval by Government Office North West (GONW) in July 2006, this could be the first one of its kind in the country. The Cumbria wide strategic waste partnership has demonstrated recent improvement in partnership working and the co-ordination of individual council plans.

Key achievements and areas for further improvement

- 52 The floods had a significant impact on the local area and placed huge pressure on the Council to divert resources to support recovery and to sustain services in very difficult circumstances. A review of the emergency response confirmed that the multi agency response worked well in the face of large scale evacuations and damage.
- 53 There have been over 1,000 job losses at major local employers in 2005, some of which were initiated by flood damage. Economic renewal activity has provided targeted training packages for those made redundant, skills and training events, business grant schemes, improved business support networks, the enterprise centre and women's enterprise programme.

- 54 Street cleaning has been an area that has performed well in recent years, supported through relatively high expenditure, achieving good resident satisfaction feedback. The Council is aiming to enhance this service through changing the way in which it is organised. Area based teams have been established to provide an integrated service covering grounds maintenance, street cleaning, street lighting and some highways services for neighbourhood areas. This is supported by local resident and councillor networks to inform the area teams of priority problems for the teams to respond to. The opportunity for teams to work with local police teams, to co-ordinate the response to low level nuisance and damage that affects the quality of life in local areas, is being explored.
- 55 The revenues and benefits services showed improvements in the speed of processing claims in 2004/05 and have been testing new flexible working methods in recent months, which are reporting improvements in productivity.
- 56 Key weaknesses in the financial management and governance arrangements have been reported to the Council and are covered in detail in other parts of the annual audit and inspection letter. In future years these weaknesses may feature more prominently in the Council's overall CPA score.
- 57 The impact of the disruption on the performance of Council services during the year cannot be directly assessed. Some services have been faced with immediate and ongoing impact on their operations, for example, housing, whereas others faced more temporary impact on their improvement plans. The Council has identified excellence in the delivery of its core services as a priority. Progress against this priority may be more clearly assessed in 2005/06, but there are key features of performance in 2004/05 where attention could be focussed.
- The Council has been identified as a 'standards authority' for failing to meet national standards for the processing of major planning applications in the period June 2004 - July 2005. In comparison to other district council performance in 2004/05 planning service performance is weak in a number of other aspects:
 - processing 'other' planning applications - worst quartile and just fails to meet the national target;
 - processing 'minor' applications – third quartile and just fails to meet the national target;
 - checklist for the quality of the planning service – worst quartile; and
 - the building of new homes on previously used land – third quartile.
 - The environmental health service score against the service good practice checklist remained in the worst quartile in 2004-05. Arrangements for the enforcement of health and safety requirements have also been identified as an area requiring improvement.

- The Council views the active promotion of equality and diversity as a key priority within its community leadership role. Performance against a number of national measures (relative to the local population) is mixed:
 - level 0 on the equality standard for local government - the lowest level;
 - a race equality scheme is in place, 63 per cent score for progress in promoting race equality;
 - the ratio of top 5 per cent earners that are women – worst quartile/amongst the worst 25 per cent of authorities;
 - the ratio of top 5 per cent earners from BME groups – worst quartile;
 - the ratio of staff from minority ethnic groups – second quartile;
 - the ration of staff with disabilities - second quartile; and
 - the proportion of buildings accessible to people with disabilities – second quartile.
- A GONW assessment of the Carlisle and Eden CDRP in autumn 2005 identified performance as 'fair to poor', and there was a risk the Crime and Disorder Reduction Partnership (CDRP) would not meet 2005/06 milestone targets unless there was a focus on key crime categories such as violent crime.
- The city area continues to generate high levels of waste and for 2004/05 the amount generated increased and remained in the worst quartile of performance. Recycling and composting performance has continued to improve sharply and current progress indicates that the statutory target of a 30 per cent recycling rate in 2005/06 should be achieved. Improvements in recycling contributed to less waste going to landfill in 2004/05.
- Staff absence rates showed little improvement in 2004/05 and remain in the worst quartile, restricting the capacity of the organisation.

58 The capacity to improve continues to be enhanced through partnership working in a number of areas:

- North West Centre of Excellence support to analyse procurement spend and explore opportunities for further joint procurement;
- a programme to assess areas with potential for joint service provision supported by the ACE 2 capacity building programme and Connected Cumbria Partnership; and
- exploring joint procurement of HR and payroll software with Allerdale BC.

59 The Council commissioned an evaluation of its overview and scrutiny arrangements by an independent expert, who reported; 'key strengths include a particularly effective Community O&S Committee, some good in-depth policy review work, the creation of a non-partisan environment and a knowledgeable and skilled direct officer support unit. The key weaknesses include: uneven chairing, maintaining a committee mode of working, a problematic relationship to the executive and the need to develop a more outward focus for the work of the committee'.

An action plan to address the further strengthening of overview and scrutiny functions up to 2007 is in place. Further developments are now planned to increase capacity to carry out a programmed review of financial governance issues by establishing an Audit Committee with specific responsibility to look at these matter.

- 60 A local implementation agreement is in place for reviewing the staff pay and grading structures to comply with 'single status' and equal pay requirements, but significant work remains ahead to achieve full implementation. There has been little progress in assessing the future knowledge and skills needs of the Council and its key partners in order that strategic objectives can be achieved over the medium term.
- 61 The new customer contact centre was severely damaged in the floods but it is expected to re-open from April 2006. Improvements to the accessibility of services, through enabling business to be conducted electronically, have continued and the Connected Cumbria projects provide a good platform for the further development of integrated services with partners.

Other performance work

In accordance with our original Audit Plan we have carried out reviews of services for which responsibility falls across a number of public sector organisation in Cumbria including Carlisle City Council. Work involving organisations such as the County Council, Cumbria Police and the NHS bodies has looked at Safer Communities and Waste Management. Detailed reports were issued to the Council during 2004/5 and the key findings are summarised below.

Waste management – follow-up

- 62 During 2005 we assessed the progress made against the strategic waste issues identified as part of the co-ordinated programme of inspections and reviews carried out across Cumbria in 2004. The assessment of progress was co-ordinated with scrutiny reviews across district councils and the county council. The assessment identified that:
- although recycling rates had sharply increased during 2004-5 the amount of municipal waste generated had continued to increase within the district and the county overall (to the highest level for any English county area);
 - the recycling rates achieved had started to reduce the amount of waste going to landfill for the district;
 - partnership working across the districts and with the county council had improved;
 - a framework for a waste strategy had been agreed by most parties but this was not underpinned by clear, resourced plans; and
 - the high levels of waste generated were not being addressed vigorously to minimise the risk of fines for exceeding the landfill allocation.

The latest progress against waste management issues is referred to in the 'direction of travel' section.

Safer Communities, the impact of drug use – follow up

- 63 In September 2004 we carried out a review of the effectiveness of the public sector organisations in Cumbria in tackling the impact of drug use in their communities. The review considered the work of the individual agencies as well as interventions delivered via the formal partnerships of primarily the Drug and Alcohol Action Team (DAAT) and Crime and Disorder Reduction Partnerships (CDRPs). The first part of a two stage review of progress, to assess the extent to which the recommendations have been delivered so far, was carried out in the summer of 2005. A second more detailed stage is planned for 2006. The review concluded:

- progress has been made since 2004 with improved partnership working at a local level through the CDRPs with greater commitment from some of the key agencies;
- the quality of planning in the DAAT and the CDRPs has improved and the
- clarity about objectives and outcomes has helped create a more co-operative and collaborative approach;
- agencies and their partnerships still do not have a picture of need in the county to which they can effectively target efforts and resources to address the weaknesses in equality of access to services; and
- renewed commitment to a revised Cumbria Strategic Partnership (CSP) means that this is seen as the main vehicle for taking forward Cumbria wide aims for safer, strong and more sustainable communities. This offers the potential to provide more leadership and strategic vision around the drug misuse agenda offering a clear route for accountability and service delivery especially for the DAAT and CDRPs.

Road safety review

- 64 A review of the effectiveness of partnership working to tackle the number of people killed and seriously injured on Cumbrian roads is currently being reported to all partner bodies. Review findings of particular relevance to the Council include the need to improve the co-ordination of activity and to establish more effective engagement with local communities through developing an area based approach in conjunction with existing community networks and forums, including parish and district councils and their representatives.

Additional voluntary improvement work

ICT vulnerability testing'

- 65 Additional voluntary improvement work was undertaken in the year on vulnerability testing of the council's computerised systems. Our work found that the Council has taken steps to prevent unauthorised access from external sources by 'hardening' its public facing devices by strengthening firewalls. Our review has focused on the internal network and found that the network could be better placed to fend off attacks from hackers. The technical findings are broadly similar to other local government bodies of a similar size and nature. We have identified several high risk vulnerabilities which have been reported to managements and should addressed without delay. In addition, we found many medium and lower risk weaknesses which need to be addressed in order to improve the general security of the network.
- 66 The council has responded to our action plan and is reviewing its actions in response to our findings. The Council may wish to consider how best to integrate these actions with other improvement plans relating to security or internal control arrangements. We will review progress against the issues raised through audit monitoring arrangements. Protecting systems and networks is an ongoing process. New methods of attack against networks are appearing at an ever-increasing rate. Our review has identified a number of high risks within the sample on the day of the scan, however new risks will emerge in the future as new opportunities are identified by hackers.

Grant claims

- 67 In accordance with Strategic Regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have reduced our audit of these claims but our ability to reduce further depends on the adequacy of the Council's control environment.
- 68 As reported in our audit letter last year, the Council's arrangements for managing and quality assuring grant claims submitted for audit require further improvement, particularly in terms of:
- reviewing the appropriateness of inclusion of items in grant claims in line with offer conditions, to limit revisions to grant claims during the audit process;
 - ensuring grant claims and working papers are submitted for audit by the required deadline; and
 - improving supporting working papers for grant claims to evidence eligibility and accuracy of amounts claimed.

National Fraud Initiative

- 69 In 2004/05, the local authority took part in the Audit Commission's National Fraud Initiative. The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as, new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000.

Our review of the authority's response to the 2004/05 NFI exercise showed that good progress had been made. The council has provided the required data for NFI, has notified data subjects of this use of data, and has established a process to follow-up NFI data matches although there is scope to improve the evidencing of work undertaken on matches and provide clarity on how matches relating to non Housing/Council tax Benefit are progressed. The council has effectively identified the key NFI data matches for review from all levels of reports (high, medium and low) and works with other bodies such as the Department of Work and Pensions when following-up data matches from NFI. Risks are followed-up promptly to prevent prolonged exposure.

Looking forwards

Future audit and inspection work

- 70 We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's Annual Letter.
- 71 We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for 2006/07. We will seek to reconsider, with you, your improvement priorities and develop an agreed programme by 31 March 2006.

Revision to the Code of Audit Practice

- 72 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 73 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with the Corporate Resources Overview and Scrutiny Committee in June 2005. The key changes include:
- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
 - a clearer focus on overall financial and performance management arrangements.

A new CPA framework

- 74 The Audit Commission is currently considering the results of the consultation on the proposals for revising the CPA framework for District Councils. The revised framework will be published in the early part of 2006 with implementation from April 2006.

Closing remarks

- 75 This letter has been discussed and agreed with senior officers. A copy of the letter will be presented to full Council in April 2006.
- 76 Arrangements are being established for monthly monitoring meetings with the Chief Executive to ensure a positive and constructive dialogue on audit issues throughout the year. The Audit Commission remain committed to helping the authority address the issues identified in this letter.

Availability of this letter

- 77 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.



Fiona Daley
District Auditor/Relationship Manager

March 2006

Appendix 1 – Background to this letter

The purpose of this letter

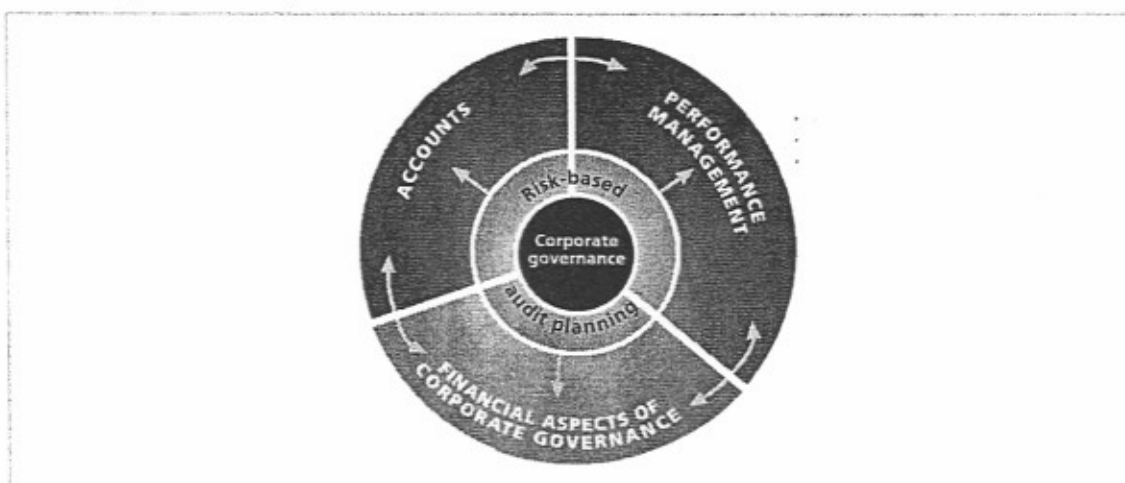
- 1 This is our audit and inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 4 Appendix 3 provides information about the fee charged for our audit and inspections.

Audit objectives

- 5 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.
- 6 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 1.

Figure 1 Code of Audit Practice

Code of practice responsibilities



Accounts

- Opinion.

Financial aspects of corporate governance

- 7 Reviewing how effectively the Council ensures:
- financial standing;
 - systems of internal financial control;
 - standards of financial conduct and the prevention and detection of fraud and corruption; and
 - legality of transactions with significant financial consequences.

Performance management

- Use of resources.
- Performance information.
- Best value performance plan.

Inspection objectives

- 8 Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:
- enable the Council and the public to judge whether best value is being delivered;
 - enable the Council to assess how well it is doing;
 - enable the Government to assess how well its policies are being implemented; and
 - identify failing services where remedial action may be necessary.

Appendix 2 – Audit and inspection reports issued

Table 2

| Report title | Date issued |
|---|----------------|
| Audit Plan | May 2005 |
| Interim memorandum 2004/05 | July 2005 |
| Waste Management - follow up report | September 2005 |
| Final accounts memorandum 2004/05 | November 2005 |
| Safer communities - reducing the impact of drugs. Follow up report stage 1 | November 2005 |
| Report on ICT vulnerability testing | December 2005 |
| Statutory report - BVPP | December 2005 |
| Report on the 2004/05 financial statements to those charged with governance (SAS 610) | February 2006 |
| Use of Resources Judgement | March 2006 |
| Road safety report | March 2006 |
| Final Accounts Opinion | [TBC] 2006 |

Appendix 3 – Audit and inspection fee

Table 3 Audit fee update

| Audit area | Plan 2004/05 | Actual 2004/05 |
|--|--------------|-----------------------|
| Accounts | 36,106 | 66,106 est. see below |
| Financial aspects of corporate governance | 30,943 | 30,943 |
| Performance | 38,051 | 38,051 |
| Total Code of Audit Practice fee | 105,100 | 135,100 |
| | | |
| Additional voluntary work (under section 35) | - | 9,450 |
| Total | 105,100 | 144,550 |

Accounts fee

- 9 As a result of the additional work required to complete the 2004/05 audit - and the additional input required from us to ensure that the adjustments have been put through the accounts correctly - an additional fee will be charged. This will be quantified fully following the completion of the audit and is currently estimated to be in the order of £30,000.

Inspection fee update

The full year inspection fee is £13,180, of which £10,544 was funded by the ODPM. The work reported in this audit and inspection letter has been funded by an element of the fee covering 2004/05 and by an element of the fee covering 2005/06. In both years the actual fee will be in line with that planned.