

Annual Audit Letter

Carlisle City Council

Audit 2009/10

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.

Contents

Key messages	2
Audit opinion and financial statements	2
Value for money	2
Audit closure certificate	2
Current and future challenges	3
Financial statements and annual governance statement	4
Overall conclusion from the audit	4
Significant weaknesses in internal control	4
Objection on the 2009/10 financial statements	5
Implementation of International Financial Reporting Standards (IFRS)	5
Value for money	6
2009/10 use of resources assessments	6
VFM conclusion	6
Approach to local value for money work from 2010/11	8
National Fraud Initiative	9
Current and future challenges	10
Future developments	10
Closing remarks	11
The Audit Commission	11
Concluding comments	12
Appendix 1 Audit fees	13
Appendix 2 Glossary	14

Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 4 and 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 9).**

Audit opinion and financial statements

1 I issued an audit report including an unqualified opinion on the financial statements on 30 September 2010, within the statutory deadline.

2 The financial statements did not contain any material errors and were prepared to a good standard. I did identify a number of presentational errors and omissions from disclosure notes but these did not impact on the overall financial position of the Council. The financial statements were amended for all identified errors and omissions.

Value for money

3 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I issued an unqualified value for money conclusion on 30 September 2010, stating the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

Audit closure certificate

4 I am required to issue a certificate when I have completed the audit in line with the statutory requirements. This closes the audit of the period covered by the certificate. I have issued my two opinions for the year ended 31 March 2010. However, I am unable to issue a certificate in respect of 2009/10 because I have received an objection to the Council's accounts. I am currently considering the matters raised by the elector about Carlisle airport.

Current and future challenges

5 In common with all public sector organisations, and particularly local government, the Council faces significant financial challenges in 2010/11 and over the following four years. The economic downturn, and the recent Comprehensive Spending Review (CSR) announcement of revenue and capital funding reductions for local government, will place the Council under increased financial pressures.

6 The Council has already started to reduce its costs as part of its Transformation Programme. It has been successfully in securing efficiency savings and has introduced shared services for ICT and revenues and benefits. However, the scale of additional savings now required as a result of the CSR is significant. Members will need to make informed decisions about where revenue and capital savings are to be made. The Council's risk management arrangements provide a useful framework to help assess the impact of these decisions.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September 2010, within the statutory deadline.

Overall conclusion from the audit

7 I issued an audit report including an unqualified opinion on the financial statements on 30 September 2010, within the statutory deadline.

8 The financial statements presented for audit did not contain any material errors. They were prepared to a good standard and supported by good quality working papers. However, I identified a number of presentational errors and omissions from disclosure notes. These errors did not impact on the overall financial position of the Council and management agreed to amend the financial statements for all identified errors and omissions.

9 The Council had a temporary loan for £2 million at 31 March 2010 which was repaid on 1 April 2010. It was needed to cover shortfalls in cashflow management to meet month end commitments. The need to take out short term loans has been common practice throughout the second half of 2009/10 with several loans taken out and repaid either overnight or over a few days. The Council is currently reviewing its cashflow forecasting system to improve future cashflow modelling. This will help lessen the likelihood of any additional costs when interest rates increase.

Significant weaknesses in internal control

10 During 2009/10 the Council underwent the Government Code of Connection challenge process. As part of the process, an ICT Health check was carried out by external network specialists. This included a penetration test of the network. It found a number of weaknesses categorised as high risk. In March 2010 ICT confirmed that all but one of the areas of weakness had been addressed. The outstanding area should be addressed as part of a longer term project through the IT shared service.

11 As a result of the weaknesses identified, I have undertaken additional work to obtain assurance that the Council's financial systems and records were not affected.

Objection on the 2009/10 financial statements

12 I have received a formal objection on the Council's 2009/10 financial statements from a local elector. It relates to expenditure incurred by the Council as costs from court cases in respect of planning permissions granted at Carlisle Airport. I am currently considering the objection.

13 However, until I have determined the objection I am unable to issue an audit closure certificate in accordance with the Audit Commission Act 1998 on the 2009/10 financial statements.

Implementation of International Financial Reporting Standards (IFRS)

14 The Council is required to prepare its 2010/11 accounts under new International Financial Reporting Standards (IFRS). Good progress in preparing for this change during 2010. Much of the preparatory work has been completed, including restatement of the financial position at 1 April 2009 and preparation of skeleton accounts and accounting policies for 2010/11. The Audit Committee has also been provided with updates on progress.

15 The Council couldn't recruit to its Technical Accountant post so used a contractor to fulfil this role. They have been a key factor in enabling the finance team to prepare for the implementation of IFRS. However, the contractor has now left and the challenge for the Council is to complete the restatement of the 2009/10 accounts and implementation of IFRS for 2010/11 within existing resources.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

16 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on Comprehensive Area Assessment would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

17 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

18 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

19 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

20 This is a summary of my findings.

Criteria	Adequate arrangements?
Managing finances	
Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	Yes
Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	Yes
Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	Yes
Governing the business	
Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	Yes
Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	Yes
Does the organisation promote and demonstrate the principles and values of good governance?	Yes
Does the organisation manage its risks and maintain a sound system of internal control?	Yes
Managing resources	
Is the organisation making effective use of natural resources?	Yes

21 I issued an unqualified conclusion on the Council's arrangements. This means I consider that it has satisfactory arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

22 This was the first year that I considered the Council's use of natural resources. My work identified that the Council has a good understanding of its use of natural resources. The Council's Climate Change Strategy shows how it will reduce its own use of natural resources and its impact on the environment. There have been large reductions in carbon emissions through energy and water efficiency and by using renewable resources. The Council engages well with staff and gains their commitment to, and ownership of, its approach.

23 The Council has clear corporate ownership of financial management. It has a robust five-year Medium Term Financial Strategy (MTFS) linking its financial resources to corporate priorities. The MTFS will need to be updated to reflect the revenue and capital impact of the Government's Comprehensive Spending Review (CSR). There is a good understanding of costs, including transactional and unit costs, and the Council makes better use of them in decision making. The Council is trying to improve its management and monitoring of the capital programme. However, even though it reduced its 2009/10 capital programme by £6.4 million in February 2010 it was still underspent by £1.5 million (8.6 per cent) at the end of March 2010.

24 The Council's new Procurement & Commissioning Strategy 2010-2012 sets out its strategic approach to commissioning, procurement and value for money within sustainable development principles. The Council produces relevant and reliable data to support decision making with effective arrangements are in place for monitoring performance against priorities. Appropriate risk management and governance arrangements are in place. The Audit Committee challenges officers on financial, governance and internal control issues. Counter fraud and corruption arrangements are in place but weaknesses in recruitment procedures allowed a fraudster to be employed.

Approach to local value for money work from 2010/11

25 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

26 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on ensuring that the Council has proper arrangements in place to:

- secure financial resilience; and
- challenge how its secures economy, efficiency and effectiveness.

27 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

National Fraud Initiative

28 The National Fraud Initiative is a computerised data matching exercise designed to identify overpayments to suppliers and benefit claimants and to detect fraud perpetrated on public bodies. The referrals from the current exercise were released to participating bodies in February 2009.

29 The Council has made effective use of the NFI reports to identify and appropriately review data matches. From the current exercise the Council has identified savings in benefits of approximately £52,000 and just over £40,000 from single person council tax discounts.

Current and future challenges

Future developments

30 In common with all public sector organisations, and particularly local government, the Council faces significant financial challenges in 2010/11 and over the following four years. The impact of the economic downturn, and the recent Comprehensive Spending Review (CSR) announcement of revenue funding reductions for local government of approximately 7 per cent, per year over the period 2011 to 2015, increases the pressures on public spending. Capital funding for local government has been reduced by 45 per cent over the next four years. Members will need to make difficult decision between competing demands in the Council's capital programme. The Council will need to consider how its uses available capital resources to meet its statutory responsibilities, for example strategic housing role, whilst investing and maintaining its other assets. The Council also knows the North West Development Agency (NWDA) will now no longer provide funding towards the proposed redevelopment of the Council Sands Centre.

31 The funding reductions in local government will place the Council under unprecedented financial pressures. The Council had already started to reduce its costs as part of its Transformation Programme. In 2009/10 it successfully secured efficiency savings of £1.1 million with a further £1.37 million planned for 2010/11. In 2009/10 it introduced shared services for ICT and in 2010/11 shared services for revenues and benefits and consideration is being given to other shared services. However, the scale of additional savings now required as a result of the CSR is significant. The Council had already reduced reserves in 2009/10 and this is likely to continue in 2010/11. The Council will need to make difficult decisions, such as the level of discretionary services provided, to address the funding shortfall and ensure that the Council is financially viable over the medium term. The Council's risk management arrangements provide a useful framework to help assess the impact of these decisions.

Closing remarks

32 I have discussed and agreed this letter with the Chief Executive, Deputy Chief Executive and Strategic Director and the Assistant Director (Resources). I will present this letter at the Audit Committee on 30 November 2010 and will provide copies to all Council members.

33 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Annual audit fee 2009/10 letter	23 April 2009
Opinion audit plan	June 2010
Annual governance report	September 2010
Auditor's report giving an opinion on the financial statements	30 September 2010
Value for money conclusion	30 September 2010
Auditor's assurance statement on whole of government accounts (WGA)	1 October 2010
Annual audit letter	November 2010

The Audit Commission

34 The Secretary of State for Communities and Local Government has announced the proposed abolition of the Audit Commission and the transfer of its audit practice to the private sector. This will be from 2012/13 at the earliest and is subject to legislation.

35 Our priority is to ensure our professional standards and commitment will be maintained. You will see no deterioration in customer service and audit quality.

36 We are working to develop an independent audit practice to continue beyond the abolition of the Audit Commission, including the option of a potential mutualisation or buy-out. Whatever model we adopt, we will remain committed to providing excellent service to our existing clients.

Concluding comments

37 The Council has taken a positive and helpful approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Karen Murray
District Auditor

November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	89,654	81,869	7,785
Value for money	41,206	41,206	0
Total audit fees	130,860	123,075	7,785
Non-audit work	0	0	0
Total	130,860	123,075	7,785

Since the audit fee was set for 2009/10 in April 2009 I have had to undertake additional work. This has included work on the Council's new asset register, consideration of the impact of weakness in IT controls on the financial statements, reviewing the accounting for the senior management re-structuring and additional work on whole of government accounts. The extra fee agreed with the Assistant Director (Resources) is £7,785.

I have also received a formal objection on Carlisle City Council's 2009/10 financial statements from a local elector. It relates to expenditure incurred by the Council as costs from court cases in respect of planning permissions granted at Carlisle Airport. I am currently considering the objection at this time. My work in determining the objection will also lead to an increase in the audit fee.

Appendix 2 Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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