

# Annual governance report

Carlisle City Council

Audit 2011/12



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# Key messages

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**This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

## **Financial statements**

As at 13 September 2012 I expect to issue an unqualified audit opinion.

The accounts were produced and submitted for audit on time and were supported by good quality working papers.

My work on the Council's 2011/12 accounts identified one material error in the accounts relating to netting off of assets and liabilities in respect of cash and cash equivalents in the balance sheet. A number of other audit adjustments were required to the notes to the accounts to ensure compliance with the Code.

## **Value for money (VFM)**

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

## **Certificate**

I expect to complete the outstanding work and report my findings to management by 26 September 2012. I plan to issue my certificate by 28 September 2012.

# Before I give my opinion and conclusion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.**

## **Independence**

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

## **I ask the Audit Committee to:**

- take note of the adjustments to the financial statements included in this report (appendices 2 and 3);
- approve the letter of representation (appendix 4), on behalf of the Authority before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 6).

# Financial statements

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**The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

## **Opinion on the financial statements**

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

## **Corrected errors**

Appendix 2 summarises the one material error which has been amended in the revised set of accounts. I also identified several other errors in the primary statements and a number of omissions in the required disclosures which have also been amended and these are also summarised at Appendix 2. Table 1 shows the significant corrected errors and the reasons for them.

Table 1: **Significant corrected errors**

Issue	Finding
Cash and cash equivalents	<p>The Council has correctly identified the items which should be included within its cash and cash equivalents. The Council's cash and cash equivalent is made up of:</p> <ul style="list-style-type: none"> <li>■ an overdrawn cashbook position of £2,128,187;</li> <li>■ money in a deposit account of £1,791,570.</li> </ul> <p>These two amounts have been netted off in the balance sheet to show a cash and cash equivalent liability of £336,617. The Council has no legal right of set off on these balances and these should have been shown as a separate cash and cash equivalent asset and liability. As well as this being a material error in the balance sheet it was also an error in note 4.37 on financial instruments.</p>
Reconciling items in the bank reconciliation.	<p>The Council's bank reconciliation at 31 March 2012 included two large reconciling items. The first for £1,203,297.17 was a valid reconciling item and related to a creditor payments run on 29 March 2012 with the BACS payment processed on 30 March 2012. The second was for £1,245,081.61 relating to a housing benefits payment run on 30 March 2012. However, the BACS payment processing date was specified as 4 April 2012 and should therefore have been a creditor at the year end rather than shown as paid and a reconciling item in the bank reconciliation.</p>

## Recommendations

- R1** Ensure cash and cash equivalents are shown as a separate asset and liability in the balance sheet when there is no legal right of set off.
- R2** Ensure that potentially large reconciling items on the bank reconciliation are considered in detailed to assess whether they are valid.

## Uncorrected error

Appendix 3 shows the one unadjusted error which management has decided not to amend. You will need to confirm your acceptance of and the reasons for this decision in your letter of representation to me.

## Significant risks and my findings

I reported to you in my December 2011 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 2 I report to you my findings against each of these risks.

Table 2: **Risks and findings**

Risk	Finding
<p>The 2011/12 Code adopted the requirements of FRS 30 Heritage Assets. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities held and maintained principally for its contribution to knowledge and culture. For the Council this included your assets and artefacts at Tullie House Museum. In your 2010/11 accounts the Council disclosed it had nearly £16 million of heritage assets at 1 April 2010. There risk was the Council would be unable to identify and account for all heritage assets due to the volume of assets and artefacts and the complexity of the valuations.</p>	<p>I reviewed the arrangements that management put in place to identify all heritage assets. These arrangements involved a wide range of staff and detailed consideration of the relevant guidance. I am satisfied that a comprehensive exercise had been undertaken to minimise the risk of incomplete disclosure of heritage assets.</p> <p>Most heritage assets are valued at insurance valuation in the balance sheet. The Roman Gateway public realm is carried at historic cost. Both of these measurement bases are permitted by the Code.</p> <p>My testing has confirmed the Council has accounted for heritage assets in accordance with FRS30 and the Code and the financial statements are materially correct.</p>

## Risk

The Council is required to ensure the value of its investment properties reflects market conditions at the balance sheet date. The value of the Council investment properties at 31 March 2011 was around £102 million but a number of assets, valued at over £81 million, had not been re-valued since 31 March 2009. Risk was the value reported in the 2011/12 financial statements would be materially misstated due to changing market conditions.

The Council is required to produce Whole of Government Accounts (WGA) which are consistent with its main financial statements. As last year, the risk is your WGA will double count gross income and gross expenditure meaning that your WGA will be materially misstated.

## Finding

The Council's investment property portfolio was valued at £98.27 million at 31 March 2012. The Council re-valued most of its investment properties in 2011/12 with only £2.14 million not re-valued within the last year. Those properties not formally re-valued were subject to desktop review to determine if there was likely to be any movement in value.

I am satisfied that the revaluation exercise carried out by the Council means that the risk of changes in market conditions leading to material misstatement has been addressed.

The Council carried out a fundamental review of central recharges in 2011/12. This included checking ledger detail codes for internal recharges to ensure these were properly netted off in the financial statements and easily identified in the WGA exercise.

The Council has been able to provide a full reconciliation between the financial statements and the WGA for 2011/12. This indicates that the risk of material misstatement from incorrect treatment of recharges has been addressed.

## Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA / SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have not identified any significant weaknesses in internal control that are relevant to preparing the financial statements.



## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Other audit matters of governance interest.

These are the issues I want to raise with you.

Table 3: **Other matters**

Issue	Finding
Valuation reports	The Council's non current assets were valued by an external Valuer. My testing identified that development land at Junction 44 was included within Investment Properties at £3 million. However the certificate provided by the external valuer gave the value as £300,000. Clarification was sought and a revised valuation certificate of £3 million was provided. Although there was no impact on the figures in the accounts there could have been. There is a need for the Council to quality check, and where considered necessary, challenge information supplied by experts on which it is to rely on for entries in its accounts.
Reconciliation of present value of pension schemes assets and liabilities.	The Council provides estimates of gross pay and eligibility for lump sums to the local government pension scheme administering authority. This information is then sent to the actuary in order for the actuary to assess year end assets and liabilities. The estimate for pension lump sums paid in 2011/12 was different by £152,573. I accept this would have a minimal impact on the overall net deficit of £35.7 million and simply be a disclosure note issue. The Council should assess the impact of any differences between information provided to the actuary on lump sums, the actual year end position obtained from the pension fund administering authority and the information used by the actuary in their IAS19 calculations.

Issue	Finding
Contingent liabilities - Municipal Mutual Insurance Ltd (MMI).	Note 4.52(b) disclosed MMI as a contingent liability. MMI was the Council's insurers but is currently being wound up and there is a risk it may not be able to meet the cost of all of outstanding claims. It is clear from MMI's latest accounts (year ending 30 June 2011) that it will need to clawback a percentage of the value of claims settled on behalf of authorities since 1993. The position should become clear in 2012/13 and the Authority will need to re-assess whether a provision is required as part of the production of its 2012/13 accounts.

## Recommendations

- R3** Ensure information supplied by experts, and on which the Council is to rely on for entries in its accounts, is quality checked and where considered necessary challenged.
- R4** Ensure the Council assess the impact of any differences between information provided to the actuary on lump sums, the actual year end position obtained from the pension fund administering authority and the information used by the actuary in their IAS19 calculations.
- R5** Ensure the Council re-assess whether a provision is required for Municipal Mutual Insurance Ltd (MMI) as part of the production of its 2012/13 accounts.

## Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. As at 13 September 2012 I have not completed the procedures specified by the National Audit Office. I expect to complete my report by 28 September 2012.

# Value for money

**I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.**

I assess your arrangements against the two criteria specified by the Commission. In my December 2011 Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 4: **Value for money conclusion criteria and my findings**

Criteria	Risk	Findings
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Council's proposals for cost reduction do not progress as quickly as forecast and savings are not made which reduces the Council's financial resilience.</p>	<p>The Council has adequate systems and processes in place to manage financial risks effectively. This has helped it secure a stable financial position that enables it to continue to operate for the foreseeable future.</p> <p>The Council produced an updated Medium Term Financial Plan (MTFP) in September 2011 with further updates in November and December 2011. These identified savings proposal for 2012/13 to 2016/17. The Council's asset rationalisation programme will generate capital receipts and these will be re-invested in the Council's remaining asset base to support the delivery of the Council's strategic objectives whilst also generating additional revenue income.</p>

**Criteria****Risk****Findings**

In 2011/12 the Council delivered savings of £2.204 million and had a small revenue overspend of £11,500 at the year end. General Fund and earmarked reserves at 31 March 2012 were £5.09 million (39 per cent of budgeted net expenditure for 2012/13).

The Council made significant improvements to its cashflow forecasting arrangements in 2010/11. However, during 2011/12 the Council took out £5.31 million of short term borrowing to cover shortfalls in cash flow and to meet its commitments. There were several reasons for this including some higher than expected value of creditor payment runs during the year, short notification of a £1.68 million adjustment for previous years benefits subsidy in June 2011 and payments for two properties purchased in January 2012. Although the cost of the borrowing is small, being able to manage the Council cash resources is an important part of financial management. The Council needs to continue to seek to minimise short term borrowing.

Criteria	Risk	Findings
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p><b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b></p> <p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>		<p>The Council's 'Transformation Programme' has provided a good basis for its strategic approach to delivering spending reductions. The Council's Commissioning and Procurement Strategy 2010-2012 stresses the need to consider different forms of service delivery. An example of this is Tullie House operating as a charitable Trust from 5 May 2011. The Council Asset Management Plan (AMP) considers what assets the Council will need to deliver future services. As part of the AMP a four year disposal programme has been developed to generate capital receipts which will be reinvested in new assets yielding a better income return. Some benchmarking has taken place at a high level against the historic cities group. The Council's performance monitoring has focused upon corporate plan objectives but now starting to consider and develop service delivery standards.</p>

**Recommendation**

**R6** Ensure the Council minimises the need to take out short term loans to cover short falls in cash flow and to meet its commitments.

# Fees

## I reported my planned audit fee in the December 2011 Audit Plan.

I will complete the audit within the planned fee.

Table 5: Fees

	Original scale fee (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	116,921	116,921	116,921
Claims and returns		34,447	34,447
Non-audit work		0	0
<b>Total</b>		<b>151,368</b>	<b>151,368</b>

The Audit Commission has paid a rebate of £9,354 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £107,567.

# Appendix 1 – Draft independent auditor’s report

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## INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF CARLISLE CITY COUNCIL

### Opinion on the Authority financial statements

I have audited the financial statements of Carlisle City Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Carlisle City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### Respective responsibilities of the Chief Financial Officer and Auditor

As explained more fully in the Statement of the Chief Financial Officer’s Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Carlisle City Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

## **Opinion on other matters**

In my opinion, the information given in the foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which I report by exception**

I report to you if

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA / SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects



## **Respective responsibilities of the Authority and the Auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Carlisle City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

## **Certificate**

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

Jackie Bellard

September 2012

District Auditor

Audit Commission

2nd Floor Aspinall House

Aspinall Close

Middlebrook

Bolton

BL6 6QQ

# Appendix 2 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

		Balance Sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s
Cash and cash equivalent (Asset)	Within the Council's cash and cash equivalent figure money market investments of £1,791,570 have been netted off the overdrawn cashbook position of £2,128,187. The Council has no legal right of set off on these balances and these should have been shown as a separate cash and cash equivalent asset and liability.	1,792	
Cash and cash equivalent (Liability)			1,792
Cash and cash equivalent (Liability)	A benefits payment run for £1,245,081.61 was wrongly included as a reconciling item in the Council's bank reconciliation at 31 March 2012. This should have been a creditor at the year end rather than shown as paid and a reconciling item in the bank reconciliation.	1,245	
Creditors			1,245

		Cash Flow statement	
Item of account	Nature of error	Dr £'000s	Cr £'000s
Adjustment to net surplus or deficit on the provision of services for non cash movements	The above adjustment to cash and cash equivalent (Liability) and creditors has to be reflected in the Cashflow Statement. This has no impact on the General Fund balance.		1,245
Cash and cash equivalents at the end of the reporting period		1,245	

		Comprehensive income and expenditure statement	
Item of account	Nature of error	Dr £'000s	Cr £'000s
Non distributed costs (NDC) CIES – Service expenditure lines except NDC	Some IAS19 costs were included in the Council's ledger as non distributed costs (NDC) for budgeting and monitoring purposes. However, for the financial statements these should have been re-allocated across services lines in the CIES.	630	630
CIES 2010/11 – Concessionary Fares (Income)	Responsibility for the administration of concessionary fares transferred from district councils to county councils on 1 April 2011.		596
CIES 2010/11 – Highways and Transport Services (Income)	The Code requires authorities, if the amounts are material, to present concessionary fares separately in the Comprehensive Income and Expenditure Statement. The 2010/11 comparative figures in the CIES were amended to show concessionary fares on a separate line.	596	
CIES 2010/11 – Concessionary Fares (Expenditure)		2,745	
CIES 2010/11 – Highways and Transport Services (Expenditure)			2,745

## Notes to the accounts and other disclosure issues

Issue	Findings and outcomes
<p><b>General</b></p> <p>I reviewed the Council’s accounts to ensure that disclosure in the financial statements complied with the requirements of the relevant and applicable accounting standards and the requirements of the Code.</p>	<p>Some amendments were made to the statements to increase clarity and ensure compliance with Code requirements. These included:</p> <ul style="list-style-type: none"> <li>■ insertion of prior year comparative figures in several notes;</li> <li>■ minor changes to Foreword and accounting policy notes;</li> <li>■ restatement of narrative in some notes to improve clarity; and</li> <li>■ correction of minor addition and cross-referencing errors.</li> </ul>
<p><b>Note 4.3 - Material items of income and expense.</b></p> <p>The note did not include details of all the Council’s material items of income and expenditure.</p>	<p>The note was expanded to include further material items including</p> <ul style="list-style-type: none"> <li>■ rental income £(4,454,000);</li> <li>■ change in fair value of investment properties £3,295,000.</li> </ul>
<p><b>Note 4.19 – Grant Income</b></p> <p>The note incorrectly included some capital receipts and reserves income.</p>	<p>The Revenue expenditure financed by capital under statute figure was reduced by £163,000 to £1,594,000. The total shown in the note reduced by the same amount to £36,659,000.</p>

Issue	Findings and outcomes
<p><b>Note 4.37 - Financial instruments</b></p> <p>The Financial Instrument note did not correctly disclose the financial assets and liabilities relating to cash and cash equivalents.</p>	<p>The Financial Instrument note incorrectly netted off an overdrawn cashbook balance of £2,128,187 and money in a deposit account of £1,791,570 to disclose a net liability of £336,617 within loans and receivables held at amortised cost.</p> <p>The note was amended to show:</p> <ul style="list-style-type: none"> <li>■ money in a deposit account of £1,791,570 as a financial asset – Loans and receivables held at amortised cost, and;</li> <li>■ overdrawn cashbook balance of £2,128,187 as a financial liability held at amortised cost. This figure was reduced by £1.245 million to reflect the fact this amount should have been a creditor in the balance sheet.</li> </ul>
<p><b>Note 4.48 - Leases</b></p> <p>The note did not correctly disclose the total of future minimum lease payments under non-cancellable operating leases.</p>	<p>The narrative in the table referred to annual commitment under operating leases rather than future minimum lease payments and the figures for some of the leases had been incorrectly derived. The note was amended.</p>
<p><b>Note 4.52 – Contingent liabilities</b></p> <p>A contingent liability relating to potential liabilities relating to land contamination was not disclosed in the accounts.</p>	<p>An additional contingent liability was included in the accounts relating to land contamination.</p>

# Appendix 3 – Uncorrected error

I identified the following error during the audit which management has not addressed in the revised financial statements.

Item of account	Nature of error	Statement of comprehensive income and expenditure		Balance sheet	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Capital Adjustment Account 2009/10	Capital values of works to West Walls and Dixons Chimney should have been written down to zero.			76	
Heritage Assets 2009/10					76
Capital Adjustment Account 2010/11				38	
Heritage Assets 2011/12					38

# Appendix 4 – Draft letter of management representation

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**Jackie Bellard**

**District Auditor**

**Audit Commission**

**Aspinall Close**

**Middlebrook**

**Horwich**

**Bolton**

**BL6 6QQ**

**Dear Mrs Bellard**

**Carlisle City Council - Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Directors and other officers of Carlisle City Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012.

**Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.



## **Uncorrected misstatement**

The effect of the uncorrected financial statements misstatement is not material to the financial statements.

The misstatement has been discussed with those charged with governance within the Council. The reasons for not correcting this item are that it is not material, has no impact on Council tax of General Fund Balance, the value and accounting treatment at 31 March 2012 is correct and the amount of work involved to make the correction would outweigh the benefit to the reader of the accounts.

## **Supporting records**

I have made available all relevant information and access to persons within the Council for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Council.

## **Internal control**

I have communicated to you all deficiencies in internal control of which I am aware.

## **Irregularities**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

## **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

For all accounting estimate, I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council, where relevant to the accounting estimates and disclosures;
- the disclosures relating to the accounting estimate are complete and appropriate under the Code; and
- that no subsequent event requires the Council to adjust the accounting estimate and related disclosures included in the financial statements.

### **Related party transactions**

I confirm that I have disclosed the identity of the Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

### **Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Carlisle City Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 26 September 2012.

Signed

Name	Peter Mason
Position	Director of Resources
Date	September 2012

# Appendix 5 – Glossary

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## **Annual Audit Letter**

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion and conclusion.

## **Annual Governance Statement**

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Financial statements**

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

**Group accounts**

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

**Internal control**

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

## **Significance**

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

## **Those charged with governance**

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

## **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

# Appendix 6 – Action plan

## Recommendations

### Recommendation 1

Ensure cash and cash equivalents are shown as a separate asset and liability in the balance sheet when there is no legal right of set off.

<b>Responsibility</b>	Financial Services Manager
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<b>Priority</b>	Medium
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<b>Date</b>	June 2013
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<b>Comments</b>	Despite ambiguous CIPFA guidance, I accept that there is no legal right to set off the asset and liability and these will be disclosed separately in the accounts.
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### Recommendation 2

Ensure that potentially large reconciling items on the bank reconciliation are considered in detailed to assess whether they are valid.

<b>Responsibility</b>	Financial Services Manager
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<b>Priority</b>	High
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<b>Date</b>	June 2013
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<b>Comments</b>	Year end procedures will be revised to ensure that all significant items on the bank reconciliation are subject to an independent review to determine the correct accounting treatment on the balance sheet.
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## Recommendations

### Recommendation 3

Ensure information supplied by experts, and on which the Council is to rely on for entries in its accounts, is quality checked and where considered necessary challenged

<b>Responsibility</b>	Financial Services Manager
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<b>Priority</b>	Medium
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<b>Date</b>	June 2013
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<b>Comments</b>	Quality checks of external information will be subject to more stringent reviews.
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### Recommendation 4

Ensure the Council assess the impact of any differences between information provided to the actuary on lump sums, the actual year end position obtained from the pension fund administering authority and the information used by the actuary in their IAS19 calculations.

<b>Responsibility</b>	Financial Services Manager
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<b>Priority</b>	Medium
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<b>Date</b>	February – June 2013
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<b>Comments</b>	Consideration will be given to any differences between actual costs incurred and estimations techniques used, and the resulting impact on the accounts as part of the 2012/13 final accounts process. Depending upon the material nature of the difference, further discussions may be required with the County Council and the Actuary at the year end.
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## Recommendations

### Recommendation 5

Ensure the Council re-assess whether a provision is required for Municipal Mutual Insurance Ltd (MMI) as part of the production of its 2012/13 accounts.

<b>Responsibility</b>	Financial Services Manager
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<b>Priority</b>	Medium
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<b>Date</b>	June 2013
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<b>Comments</b>	This will be considered as part of the 2012/13 final accounts process and during the 2013/14 budget process as and when additional information becomes available.
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### Recommendation 6

Ensure the Council minimises the need to take out short term loans to cover short falls in cash flow and to meet its commitments.

<b>Responsibility</b>	Financial Services Manager
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<b>Priority</b>	High
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<b>Date</b>	Ongoing
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<b>Comments</b>	The existing cashflow monitoring process has been subject to a fundamental review over the last 18 months which has resulted in improved forecasts in cash movements and reduced considerably the need to take out short term loans for treasury management purposes; however consideration will continue to be given to reconciling the timing of any borrowing and investment to known Council commitments.
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