

15 September 2010

Members of the Audit Committee
Carlisle City Council
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Carlisle
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Dear Ladies and Gentlemen

Carlisle City Council - Annual Governance Report 2009/10

I am pleased to present the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Assistant Director (Resources) and the Financial Services Manager on 15 September 2010 and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before the Assistant Director (Resources) re-authorises the financial statements for issue (pages 6 to 11);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5);
- Note that I cannot issue an audit closure certificate because I am still considering a formal objection to the Council's accounts.

Yours faithfully

Karen Murray
District Auditor

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Annual Governance Report

Carlisle City Council

Audit 2009/10

Date **September 2010**

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
-

Key messages

This report summarises the findings from the 2009/10 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	Results	Page
Unqualified audit opinion	Yes	6
Financial statements free from material error	Yes	6
Adequate internal control environment	Yes	8
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	12

Audit opinion

- 1 My audit is substantially complete. Subject to the satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements by 30 September 2010. Appendix 1 contains a copy of my draft audit opinion.

Financial statements

- 2 The 2009/10 financial statements approved by the Council in June 2010 did not include any material errors. However, we did identify a number of other errors within the financial statements.

Value for money

- 3 I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft auditor's report.

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.
- 5 Although I will issue my two opinions referred to above for the year ended 31 March 2010, I am unable to issue a certificate in respect of the audit year because I have

received an objection to the Council's accounts. I am currently considering the matters raised by the elector relating to Carlisle airport.

Audit fees

- 6 Since the audit fee was set for 2009/10 I have had to undertake additional work on the Council's new asset register, consider the impact of weakness in IT controls on the financial statements and the accounting for the senior management re-structuring. I am still finalising my work on the audit and will discuss with the Assistant Director (Resources) the need for an additional fee.
 - 7 My work in determining the objection will also lead to an increase in the audit fee.
-

Independence

- 8 I can confirm that there were no relationships giving rise to a threat to independence, objectivity and integrity.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion and value for money conclusion. It includes only the matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

9 I ask the Audit Committee to:

- consider the matters raised in the report before the Assistant Director (Resources) re-authorises the financial statements for issue (pages 6 to 11);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).
- Note that I cannot issue an audit closure certificate because I am still considering a formal objection to the Council's accounts.

Financial statements

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

10 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.

Errors in the financial statements

- 11** The 2009/10 financial statements approved by the Council in June 2010 did not include any material errors. The accounts were prepared to a good standard and were supported by good working papers.
- 12** Although the accounts did not contain any material errors, I identified errors in the financial statements, other than those of a trivial nature. I reported these to management who have agreed to adjust the financial statements for all the errors identified. A summary of those amendments is shown in Appendix 2 with the significant ones outlined below:
- **Exceptional item** - note 5.13 on exceptional items stated there were none for 2009/10. However, FRS 3 on reporting financial performance requires that where there is a significant re-structuring of the organisation in a year that is material and charged to the I&E Account, it should be separately disclosed for the benefit of the reader of the accounts. The Council incurred £1,775k of costs for the Transformation Programme and its associated restructure. This additional disclosure note is therefore required;
 - **Trading operations** - note 5.4 on trading operations discloses the performance of those Council's services that have a significant level of trading with third parties. I identified the following issues:
 - grounds maintenance expenditure of £853k and income of £40k had not been recharged to Cultural, Environmental and Planning services at the net cost of services level;
 - industrial estates surplus was overstated by £245k whilst the corporate properties surplus understated by £245k;
 - greater disclosure of community services trading required to improve transparency of performance of the trading activities in this area.

Financial statements

- **Explanatory Foreword** - this gave a limited explanation of the Council's financial performance for the year and its overall financial position. It also failed to make reference to the Transformation Programme, redundancy costs and the capitalisation direction. Additional disclosures have now been made;
- **Note 23 Financial Instruments** - a number of amendments were required to note 23 on financial instruments.

Recommendation

R1 Ensure that greater consideration is given to compliance with all Financial Reporting Standards in producing the financial statements.

Key areas of judgement and audit risk

13 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Weaknesses in the IT controls environment for part of 2009/10 mean that there is a risk of unauthorised access to the Council's financial systems and records.	I have undertaken additional work to provide assurance that the Council's financial systems and records have not been affected.
<p>The Council is implementing a new Fixed Asset register called 'REAL'. There are two risks:</p> <ul style="list-style-type: none">• the closing balances on the old system will not be accurately transferred to the new system;• in year transactions recorded within the new asset register are not in accordance with requirements.	<p>My initial work on the transfer of balances to the new asset register identified problems with the past treatment of impairments which required at £90k adjustment during 2009/10.</p> <p>Substantive testing of fixed asset entries confirmed that they were in accordance with requirements.</p>

Issue or risk	Finding
<p>The challenging economic climate may affect the values of the Council's assets.</p> <p>It is also likely to affect the collectability of debts.</p>	<p>The Council undertook a full revaluation in 2008/09 and specific valuations in 2009/10 which has mitigated this risk.</p> <p>Appropriate arrangements are in place for the estimation of bad debts and the provision required.</p>
<p>The Council is required to produce statements that comply with professional standards. This includes compliance with the Statement of Recommended Practice (SORP).</p>	<p>Additional disclosures were required for the following to ensure compliance with current SORP requirements:</p> <ul style="list-style-type: none"> • Foreword; • related party transactions; • leases; • provisions.
<p>The Council has re-structured its senior management during 2009/10. This led to a number of redundancies and early granting of pensions. The Council has also got a Capitalisation Direction for the statutory part of the redundancy payments and the pension costs.</p>	<p>I am satisfied that the Council has correctly accounted for the redundancy payments and pension costs. It has applied the correct treatment to the Capitalisation Direction.</p>

Recommendation

R2 Ensure that the 2010/11 financial statements are fully compliant with the new International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounting (the Code).

Weaknesses in internal control

14 As part of my normal audit processes I consider the key internal controls operating within the Council's financial systems and any significant issues identified by Internal Audit. As part of my work I also review the Information Technology (IT) controls in operation within the Council. There are two issues I want to bring to your attention.

IT security

- 15 Last year I reported my concerns about the fundamental weaknesses identified by Internal Audit in its report 'Audit of ICT Security Policy and Annexes'. A detailed action plan was agreed with the implementation date for many recommendations being November 2009. On 15 January 2010 Internal Audit reported that progress was being made to implement the recommendations.
- 16 I am also aware that 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 in August 2009 by external network specialists. These processes provide good evidence about the standard of the Council's network controls. In August 2009 ICT health check undertaken was an actual penetration test of the network. It found a number of weaknesses that the testers categorised as high risk. They concluded "Overall, your on-site security level represents a high risk". They defined High Risk as "Allows unauthorised external users to obtain system access. The vulnerability is widely known and actively exploited by hackers". In our discussions in March 2010 IT confirmed that all but one of the areas of weakness had been addressed and that the outstanding area would need to be part of a longer term project through the IT shared service.

Internal Audit

- 17 As part of the Council's Transformation Programme the Head of Audit Services post was deleted. The postholder was made redundant in mid December 2009. At this time, an experienced Principal Auditor undertook the role of Head of Audit Services whilst at the same time working as part of the Council's Transformation Programme team. This reduced the independence of internal audit.
- 18 New arrangements have been put in place from May 2010 with the Internal Audit function having been managed by Cumbria County Council's Management Audit Unit (MAU). It is expected that this arrangement will be formalised into a shared service agreement in November 2010.

Accounting practice and financial reporting

19 I consider the non-numeric content of your financial reporting. Table 2 contains the issues I want to raise with you.

Table 2

Issue or risk	Finding
Failing to correctly advertise the public inspection of the accounts.	<p>The Authority failed to comply with the period for the notification of the public inspection of the accounts. It only gave 7 days notice of the accounts going on deposit and not 14 days as required by s16 of the Accounts and Audit Regulations 2003.</p> <p>The audit had to be re-advertised in order to ensure that members of the public were able to exercise their statutory rights.</p>
Cashflow management and the need to take out short term loans.	<p>The Authority had a temporary loan for £2m at 31 March 2010 which was repaid on 1 April 2010. It was needed to cover shortfalls in cash flow management to meet month end commitments.</p> <p>This has been common practice throughout the second half of 2009/10 with several loans of varying amounts being taken out and repaid either overnight or over a few days.</p> <p>The handwritten cashflow forecasting system operated by the Authority should be reviewed to ensure it is sufficient and helps to minimise the need for short term borrowing whilst at the same time having short term investments.</p>

Recommendation

- R3** Ensure that when advertising the audit the correct period of notification of the public inspection of the accounts is given so as to comply with the 14 days notice required by s16 of the Accounts and Audit Regulations 2003.
- R4** Review the cashflow forecasting system to minimise the need for short term borrowing whilst at the same time having short term investments.

Financial statements

Objection on the 2009/10 financial statements

- 20** I have received a formal objection on Carlisle City Council's 2009/10 financial statements from a local elector. It relates to expenditure incurred by the Authority's as costs from court cases in respect of planning permissions granted at Carlisle Airport.
- 21** I am currently considering the objection at this time.
- 22** I am satisfied that the amounts involved are not material to the 2009/10 financial statements and that I can therefore issue my opinion on the 2009/10 financial statements. However, until I have determined the objection I am unable to issue an audit closure certificate on the 2009/10 financial statements.
-

Letter of representation

- 23** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

Value for money conclusion

- 24** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 4.
- 25** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.
- 26** I have outlined below the summary of my findings on the three areas shown in Appendix 4.

Managing finances

- 27** There is clear corporate ownership of financial management. The Council's five year MTFS is robust and is reviewed annually and sets out the framework for managing its financial resources and linking to corporate priorities. There is a strong focus on maintaining reserves at a prudent level and actions have been identified to ensure this happens. The impact of the recession has been taken into account in financial projections since 2009/10.
- 28** The Council has developed a good understanding about its costs, including transactional and unit costs, and now makes better use of them in decision making. Examples include benchmarking data on creditors, debtors and payroll to make changes. Cost analysis influenced the decision to divest of the trade waste service and in agreeing the new contract for collecting recyclables.
- 29** The Council made efficiency savings of £0.9 million in 2009/10. Work is now in progress to identify opportunities for further savings up to 2014/15.
- 30** Timely monthly financial monitoring reports are produced for revenue and capital including variance analysis. Quarterly reports to Members set out the links between service performance and the financial position.
- 31** The Council is trying to improve the way its capital programme is managed and monitored. However, even though it reduced its 2009/10 capital programme by £6.4m in February 2010 it was still £1.5m (8.6%) underspent at the end of March 2010.
- 32** The accounts presented for audit contained no material errors. Published accounts and annual audit letter are available either in hardcopy or on the Council's website and available in a number of formats.

Value for money

33 Suggested area for further improvement:

- compare costs, outputs and outcomes for services over time to show improving value for money.

Governing the business

- 34** The new Procurement & Commissioning Strategy 2010-2012 sets out the Council's strategic approach to commissioning (with more emphasis on engaging with stakeholders), procurement and value for money within sustainable development principles. The Council has started work on identifying alternative ways of providing front-line and support services. This work aims to improve the cost-effectiveness of those services or provide greater reassurance the existing services deliver value for money.
- 35** The Council has strengthened its arrangements for data security. It has achieved the Code of Connection compliance for Government Connect.
- 36** It continues to produce relevant and reliable data and has updated its Data Quality Policy to reflect good practice. Members and officers continue to receive fit-for-purpose and robust information to support decision making. The Council makes good use of geographical data to identify where it can improve services and, for example, to address fly-tipping and anti-social behaviour. Effective arrangements are in place for monitoring performance against priorities.
- 37** There are appropriate governance arrangements in place. Working relationships between officers and members are good. All significant partnerships are reviewed annually for objectives and governance arrangements but improvements still required to governance and risk management arrangements at Cumbria Strategic Partnership. Policies and procedures for ethical governance are sound and workshop held March 2010.
- 38** Risk management arrangements are effective with risk registers linked to Covalent performance management system.
- 39** Counter fraud and corruption arrangements are in place but weaknesses in recruitment procedures allowed a fraudster to be employed. The Council responded positively to NFI.
- 40** The Audit Committee is well established and actively involved in challenging officers on financial, governance and internal control issues.
- 41** Suggested area for further improvement:
- complete options appraisals across all services to confirm the Council delivers them in the most cost-effective and efficient way.

Managing resource

- 42** 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. Other plans such as for carbon and green travel contain actions to support the strategy. The Council engages well with staff and gains their commitment to, and ownership of, its approach.

- 43** The Council manages performance well to reduce its environmental impact. Actions have resulted in large reductions in carbon emissions through energy and water efficiency and by using renewable resources. Outcomes include:
- an overall decrease of 216 tonnes of CO2 emissions (3.5 per cent);
 - a 9 per cent fall in water consumption;
 - one-third less waste at the Civic Centre; and
 - a 12 per cent drop in business mileage.
- 44** Green flag awards show how the Council addresses biodiversity and sustainability in its parks and open spaces, including on-site composting. The cemetery received the first award for Environmental Awareness from the Institute of Cemetery and Crematorium Management. The Council manages habitats to increase biodiversity and checks local wildlife and the changes that climate change is having on local flora and fauna.
- 45** An environmental management system, based on ISO 14001, is in place. The Council has achieved a gold award which reflects its approach to measuring and monitoring carbon emissions. It updates site registers yearly with energy data. It has the Carbon Trust Standard certificate that provides evidence of robust carbon management and a decrease in emissions.
- 46** Specifications for refurbishments of buildings include less carbon emissions in design, construction and use. The Council considers the environmental impact of its suppliers of goods and services within its commissioning and procurement decisions.

Glossary

Annual governance statement

- 47** 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.
- 48** It comprises the systems and processes, and 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.
- 49** 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 closure certificate

- 50** A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.
-

Audit opinion

- 51** 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;
 - whether they have been prepared properly, following the relevant accounting rules; and
 - for local probation boards and trusts, on the regularity of their spending and income.
-

Qualified

- 52** The auditor has some reservations or concerns.
-

Unqualified

- 53** The auditor does not have any reservations.
-

Value for money conclusion

- 54** 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 resources.

Appendix 1 – Independent auditor’s report to Members of Carlisle City Council

Opinion on the accounting statements

I have audited the Authority accounting statements and related notes of Carlisle City Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Responsible Financial Officer and auditor

The Responsible Financial Officer’s responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA / SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA / SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

Appendix 1 – Independent auditor’s report to Members of Carlisle City Council

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Foreword. I am not required to consider, nor have I considered, information regarding future projections included within Note 5.31(b). I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s Responsibilities

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 regularly to review the adequacy and effectiveness of these arrangements.

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority 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 in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and

Appendix 1 – Independent auditor’s report to Members of Carlisle City Council

published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. 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.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Carlisle City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Karen Murray
District Auditor

xx September 2010

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Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 3

Description of error	Accounts effected	Value of error £'000
Within the Income and Expenditure (I&E) Account expenditure of £853k and income of £40k, relating to grounds maintenance, was shown within trading operations. However, these items were not recharged back to services. Therefore, gross income and expenditure for Cultural, Environmental and Planning services, at the net cost of services level, is understated.	Within the I&E Account Cultural, Environmental and Planning services expenditure understated by £853k and income understated by £40k. Surplus / (deficit) from trading undertakings understated by £813k (net position). Note 5.4 also amended. No impact on I&E deficit for the year.	853 (expenditure) 40 (income)
Raffles development land had an opening Net Book Value (NBV) in the Authority's Fixed Asset balance of £2,875k, and an opening balance on the Revaluation Reserve of £935k. A disposal of £255k NBV was made in year but no transfer was made from the revaluation reserve to reflect this as is required by the SORP.	The Revaluation Reserve was overstated by £83k with a corresponding understatement on the Capital Adjustment Account.	83
A debt of £105k in respect of rent arrears is being paid in instalments over 6.5 years. This debt was all disclosed within current assets despite the fact that the greater part of it is not recoverable within a year.	Debtors (under one year) were overstated by £91k with a corresponding understatement of Long Term Debtors.	91

Appendix 2 – Amendments to the draft accounts

Description of error	Accounts effected	Value of error £'000
The Foreword should give an understandable guide to the most significant matters reported in the accounts, but it made no reference to the Transformation Programme including the fact that a capital direction has been obtained for redundancy costs of £1,198k and that £1,479k has been set aside for future Transformation costs.	The Foreword was expanded to include details of the costs of the Transformation Programme.	N/A
The Foreword gave only a limited explanation of the Authority's overall financial position, and the major influences on income, expenditure and cash flow.	The Foreword was expanded to give greater detail of the Authority's financial performance in the year and its overall financial position.	N/A
FRS3 requires that the costs of a fundamental restructuring be treated as an exceptional item. The Authority's Transformation Programme costs were not treated as an exceptional item in the I&E Account.	A note was added to the accounts disclosing £1,775k of Transformation Programme costs as an exceptional item.	N/A
The Statements did not include an explanation of the significance of the Statement of Movement on the General Fund Balance for the year for local taxation and the resources available to fund the Authority's services.	Note 5.2 expanded to include an explanation of the significance of the Statement of Movement on the General Fund Balance.	N/A
Note 5.4 on Trading Operations showed the costs relating to the £245k impairment of Durranshill in the wrong line.	In the analysis in Note 5.4, £245k was transferred from Corporate Properties to Industrial Estates. This is a disclosure issue only and does not impact on the financial statements.	N/A

Appendix 2 – Amendments to the draft accounts

Description of error	Accounts effected	Value of error £'000
Note 5.4 on trading operations disclosed the performance of several of the Council's services with a significant level of trading with third parties. The Community Services trading line covers a number of areas including grounds maintenance, highways and building maintenance. However, because these are not separately disclosed it is difficult to assess performance of these areas.	Note 5.4, has been expanded to provide greater disclosure of community services trading to improve transparency of performance of the trading activities in this area.	N/A
Note 5.7 on Officers' Remuneration excluded honorarium payments of £6k made to the Head of Planning and Housing. This meant his total remuneration was understated by £6k, and he appeared in the wrong remuneration banding.	The individual remuneration details for the Head of Planning and Housing was amended to include the honorarium payments. This resulted in an amendment to the disclosure of employees earning > £50k – this employee moved from the £65,000 - £69,999 banding to the £75,000 - £79,999 banding.	N/A
Note 5.7 on Officers' Remuneration included figures for Benefits in Kind (e.g. car allowance). However, these were based on the 2008/09 returns rather than 2009/10.	The note was updated to include 2009/10 figures. Largest amendment was £3k.	N/A
Note 5.9 on Related Party Transactions did not give any details of balances outstanding with related parties at 31st March 2010 nor, if applicable, of any doubtful debt provision or amounts written off. The note also failed to disclose the value of transactions with Carlisle Leisure Limited.	Note amended to include the required information for related parties at 31 March 2010.	N/A

Appendix 2 – Amendments to the draft accounts

Description of error	Accounts effected	Value of error £'000
The statements include two notes on leases: Note 5.14 and 5.20. Note 5.14 did not make clear that the Authority has no finance leases, and Note 5.20 which gives details of lease rentals paid, did not include comparative figures for 2008/09.	Confirmation that all leases were operating leases and comparative figures for 2008/09 were added to the notes.	N/A
Note 5.19 showed the financing of capital expenditure but the split between capital expenditure on operational assets and non-operational assets was incorrect.	The note was amended to increase expenditure on operational assets by £1,341k and reduce expenditure on non-operational assets by the same amount.	N/A
Note 5.23 b on Financial Instruments quoted a figure for operational debtors (gross) of £4,210. This figure was actually net of bad debt provision.	Note 5.23 b was amended to show that the operational debtor figure was net of bad debt provision.	N/A
<p>Note 5.23 f(i) on Financial Instruments credit risk contained a number of inaccuracies including:</p> <ul style="list-style-type: none"> • figures for year-end bad debt provision and the contribution to bad debt provision in year were interchanged; • credit risk calculation was carried out on debt net of bad debt provision rather than gross debt and the note referred to year end debt of £8.065m although this figure included debts which were not financial instruments; • the note also indicated that no debt was greater than six months old which is incorrect 	The figures for year end bad debt provision and the contribution to bad debt provision in year were corrected and the credit risk calculation amended accordingly. The figure for debt outstanding at year end quoted in the note was amended to £4.210m which was the balance of the outstanding financial instruments. The age analysis of debt was amended to show the correct analysis. This is a disclosure issue only and does not impact on the statements.	N/A

Appendix 2 – Amendments to the draft accounts

Description of error	Accounts effected	Value of error £'000
Note 5.25 on provisions did not include in all cases a brief description of the provision, the expected timing of any outflows, and an indication of the uncertainties surrounding the timing of outflows.	Note 5.25 expanded to include the required information for all provisions.	N/A
Note 5.31b on Pensions included an estimate of £1.299m in respect of expected employer contributions to the Local Government Pension Scheme in 2010/11. This figure excluded contributions that the Authority is required to make for added years granted in previous years.	The figure quoted in Note 5.31b was amended to £2,590m. This is a disclosure error only and does not impact on the financial statements.	N/A
Note 5.34 stated that there were no events after the balance sheet date that required disclosure. However, the Chancellor's announcement on 22 June that public service pensions are in future to rise in line with the consumer price index rather than the retail price index has a significant effect on the Authority's future pension liabilities.	The post balance sheet note has been amended to reflect this announcement. The impact is estimated to reduce FRS17 benefit obligations by between 5% and 8%. The precise financial effect will be taken into account in the FRS17 figures for 2010/11.	N/A

Appendix 3 – Draft letter of representation

Karen Murray
District Auditor
Audit Commission
Aspinall Close
Middlebrook
Horwich
Bolton
BL6 6QQ

Dear Mrs Murray

Carlisle City Council - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of 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 2010. All representations cover the Council's accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which gives a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

Corrected misstatements

I confirm that we have corrected all the identified misstatements in the financial statements and discussed them with those charged with governance within the Council.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Irregularities

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

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

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; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For the financial instruments and the pension scheme assets and liabilities assumptions, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- subsequent events which do not require adjustment to the fair value measurement.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;

Appendix 3 – Draft letter of representation

- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note 5.21(a) to the financial statements we have no other lines of credit arrangements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

In his budget statement on 22 June, the Chancellor announced that the government would start to increase public service pensions in line with the consumer price index (CPI) rather than the retail price index (RPI), which has been the practice in the past. As a result, future pension increases under the Cumbria Local Government Pension Scheme are expected to be slightly lower, on average, than would have been the case if this change had not been made. This change is estimated to reduce the FRS17 benefit obligations by between 5% and 8% for most employers. The precise financial effect will be taken into account in the FRS17 figures for the financial year ending 31 March 2011.

Since the date of approval of the financial statements by the Council on 29th June, no other additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements. The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Signed on behalf of Carlisle City Council.

I confirm that the this letter has been discussed and agreed by the Council's Audit Committee on 24 September 2010

Signed

Name: Peter Mason

Position: Assistant Director (Resources)

Date: XX September 2010

Appendix 4 – Value for money criteria

KLOE	Met
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

Appendix 5 – Action plan

Page no.	Recommendation	Priority 1=Low 2=Med 3=High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2009/10 - Recommendations						
7	R1 Ensure that greater consideration is given to compliance with all Financial Reporting Standards in producing the financial statements.	3	Financial Services Manager	Yes	Further improvements have been made in 2009/10 and we will continue to review the requirements of the Financial Reporting Standards.	Ongoing
8	R2 Ensure that the 2010/11 financial statements are fully compliant with the new International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounting (the Code).	3	Financial Services Manager	Yes	The 2008/09 balance sheet has been restated and skeleton IFRS accounts have been drafted. The Council is on track to meet the CIPFA suggested deadline of December 2010 for the restatement of the 2009/10 accounts to an IFRS basis.	Ongoing

Appendix 5 – Action plan

Page no.	Recommendation	Priority 1=Low 2=Med 3=High	Responsibility	Agreed	Comments	Date
10	R3 Ensure that when advertising the audit the correct period of notification of the public inspection of the accounts is given so as to comply with the 14 days notice required by s16 of the Accounts and Audit Regulations 2003.	2	Financial Services Manager	Yes	Procedures will be put in place to ensure that the correct period of notification of the public inspection of the accounts is given to comply with the 14 days notice required for future years.	June 2011
10	R4 Review the cashflow forecasting system to minimise the need for short term borrowing whilst at the same time having short term investments.	3	Financial Services Manager	Yes	The cashflow forecasting systems are currently under review especially the use of electronic systems to improve future cashflow modelling. Consideration is always given to reconciling the timing and risk of any investment and borrowing to known Council commitments.	Ongoing

The Audit Commission

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.

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