

Annual Audit Letter

Carlisle City Council

Audit 2010/11



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Traffic light explanation
Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

Key audit risk	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Audit opinion and financial statements

The Council had to prepare accounts to comply with the International Financial Reporting Standards (IFRS) code for the first time this year. This was a challenging task because of the scale and complexity of the changes needed. The Council also had to restate the comparative figures for the 2009/10 accounts. As a result, a number of amendments were needed to the accounts and related disclosure notes to ensure the financial statements gave a true and fair view and to comply with first year adoption of IFRS.

The key issues from my work on the Council's 2010/11 accounts are:

- I am satisfied the Council accounted for its lease arrangements in accordance with the Code. A significant amount of work was undertaken to confirm the Council's treatment is correct;

- the Council interpreted and applied the new Code incorrectly in several areas leading to amendments in the primary statements and notes.

I issued an unqualified opinion and certificate on 29 September 2011

Objection on the 2009/10 accounts

In September 2011 I determined the objection I received in respect of the 2009/10 accounts. This related to a planning application at Carlisle Airport. My report was considered by the City Council at its meeting on 13 September. I issued the audit certificate to formally close the 2009/10 audit on 29 September 2011.

Value for money

On 29 September 2011 I issued an unqualified value for money conclusion stating the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for 2010/11.

Current and future challenges

The Council's Transformation Programme is expected to deliver recurring saving of £3 million a year leaving a further £2.3 million to be saved by 2014/15. Further savings for 2012/13 have been identified.

However, current projections show the 2011/12 budget to be overspending by £0.5 million. The Council will need to monitor the 2011/12 budget position closely and take corrective action where required.

Financial statements and annual governance statement

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

Overall conclusion from the audit

I issued an unqualified opinion and certificate on 29 September 2011.

The move to International Financial Reporting Standards (IFRS) set all local government bodies the difficult task of reviewing their past accounting policies and accounts to restate them in the format required by IFRS. The 2010/11 accounts also needed to be prepared on the new basis. The Council took a proactive approach to this challenge. Although there were no material errors, a number of amendments were made to the 2010/11 accounts and related disclosure notes to comply with first year adoption of IFRS.

In assessing the quality of your financial statements I considered aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. As in previous years, the accounts and working papers supporting them were prepared to a good standard.

Significant weaknesses in internal control

I did not identify any significant weaknesses in your internal control arrangements.

Objection to the 2009/10 accounts

On 1 September 2011 I determined the objection I received in respect of the 2009/10 accounts. I issued a report on my findings which was considered by the City Council at its meeting on 13 September 2011. I concluded there was no unlawful item of account. However, I believe mistakes were made when the two applications relating to the airport redevelopment were received. Lessons need to be learned for the management of future major planning applications. I made ten recommendations in my report covering:

- separation and transparency of the Council's planning and economic development responsibilities;
- provision of adequate training for Members;
- receipt of appropriate and timely advice to support the decision making process.

The Council has responded positively so far to the issues identified. The Audit Committee is taking a proactive approach to monitoring implementation of the Council's action plan.

I issued the audit certificate to formally close the 2009/10 audit on 29 September 2011.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2010/11: 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>The Council has adequate systems and processes in place to manage its financial risks effectively. This has helped secure a stable financial position that enables the Council to operate for the foreseeable future.</p> <p>The Council produced an updated Medium Term Financial Plan (MTFP) in November 2010. This highlighted uncertainties surrounding revenue streams and the potential impact on the financial position. The Council closely predicted the impact of the Government's Comprehensive Spending Review on 2011/12 and savings plans for 2011/12 were already well advanced as part of the 'Transformation' programme.</p> <p>In 2010/11 the Council has continued to operate within budget and underspent by £2.01 million.</p>

Criterion

Key messages

This was a result of various factors including less than expected demand for concessionary fares, savings made in revenues and benefits before the shared service was introduced and delays in delivering regeneration projects. General Fund and earmarked reserves at 31 March 2011 were £6.46 million (36 per cent of budgeted net expenditure for 2011/12). However, the financial position for 2011/12 and beyond presents a significant challenge which I discuss later in this report.

Improved cashflow forecasting during 2010/11 significantly reduced short term borrowing in the second half of 2010/11. This addressed a previous weakness in the Council's arrangements.

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Council has taken a strategic approach to delivering spending reductions. Prior to the announcement of the Government's spending cuts, the Council had already put in place a Transformation Programme to reduce costs. This reduced the size of the senior management team and is driving ongoing service reviews. Although it has involved the Council in some up-front costs for redundancies, it should deliver financial savings in the medium term.

Consideration of how best to provide services is ongoing. Shared services were introduced in 2010/11 for revenues and benefits, ICT and internal audit.

The Council's performance monitoring is now focused upon corporate plan objectives. However, it is important the Council establishes service standards and measures performance against them. This will help the Council to judge whether service standards and performance are being maintained or improved as planned efficiency savings are being made.

Current and future challenges

This is a period of challenge for the public sector. The following outline some of the key challenges faced by the Council over the next few years.

Challenge	Action needed
<p>Economic downturn and pressure on the public sector</p> <p>The economic downturn is placing increasing pressure on the public sector as a whole. Following the Comprehensive Spending Review settlement the Council faced a budget gap of £5.3 million by the end of 2014/15. The Council had already started to reduce its costs as part of its Transformation Programme which is expected to deliver recurring saving of £3 million a year.</p> <p>However, the Council's budget monitoring report for 2011/12 shows that, at the end of September 2011, the Council was overspent by £0.7 million. It predicts a £0.5 million overspend by the year-end. Much of the overspend relates to:</p> <ul style="list-style-type: none">■ a fall in rental income from the Lanes shopping centre;■ reduced income from car parking; and■ staff turnover being lower than expected. <p>The 2011/12 budget resolution requires the Council to identify additional savings during the current year which will have a full year effect of £1m in 2012/13. By October 2011 the Council had proposals to deliver £600,000 of the savings from April 2012 onwards.</p> <p>The Council had total revenue backed reserves of £6.46 million at 31 March 2011 (£2.74 million currently earmarked for specific projects). Current projections are that these will decrease to £4.15 million by 31 March 2012. These will decrease further if there is overspending in 2012.</p>	<p>Although the Council does not have a history of overspending, Members will need to monitor the 2011/12 budget position closely and take robust corrective action where required.</p> <p>Further work is required to identify savings and to ensure they are implemented in time to achieve the 2012/13 financial plan. The Council needs to improve its understanding of the cost and income drivers for each service it delivers to ensure savings and efficiencies are sustainable.</p>

Challenge

Partnership working

The ongoing need to find savings is becoming increasingly difficult for the Council to achieve on its own. This increases the need for more partnership working. Members will be faced with the task of deciding on the service areas the Council wants to deliver and how best to deliver them in the future. There are a variety of options available such as:

- basic partnership working;
- shared commissioning of services;
- shared services with other public sector bodies including consideration of who should be the lead authority;
- outsourcing.

Action needed

The Council should consider what services it wants to provide and assess how best to procure them in the future. In developing its strategy on service procurement all options should be considered and evaluated.

Closing remarks

I have discussed and agreed this letter with the Town Clerk and Chief Executive and Assistant Director (Resources). I will present this letter at the Audit Committee on 13 January 2012 and will provide copies to all Council members.

Further detailed findings, conclusions and recommendations in areas covered by our audit are included in reports issued to the Council during the year.

Report	Date issued
2010/11 audit fee letter	27 April 2010
Opinion Audit Plan 2010/11	December 2010
Review of financial systems	April 2011
IFRS re-statement of 2009/10 accounts	June 2011
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	29 September 2011
Value for money conclusion	29 September 2011
Auditor's assurance statement on whole of government accounts (WGA)	30 September 2011
Annual audit letter	November 2011

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

Karen Murray, District Auditor

November 2011

Appendix 1 - Fees

	Actual (£)	Proposed (£)	Variance (£)
Scale fee	134,675	123,075	11,600
Non-audit work	0	0	0
Total	134,675	123,075	11,600

The Audit Commission has paid a rebate of £8,788 to you.

Since the audit fee was set for 2010/11 in April 2010 I have had to undertake additional work. This has included work on the Council's IFRS re-statement and specifically on the Council's consideration and accounting treatment of its complex leases arrangements. Issues with double counting of income and expenditure meant additional work was required on the Council's Whole of Government (WGA) Accounts. The extra fee agreed with the Assistant Director (Resources) is £11,600.

In September 2011 I determined the formal objection on Carlisle City Council's 2009/10 financial statements from a local elector. It relates to expenditure incurred by the Council as costs from court cases in respect of planning permissions granted at Carlisle Airport. The fee for my work in determining the objection was £76,130.

Appendix 2 - Glossary

Annual governance statement

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

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

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

Audit closure certificate

A certificate that I have completed the audit. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

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

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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