

Annual governance report

Carlisle City Council

Audit 2005-2006

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Authority

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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

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Purpose of this report

- 1** We are required by the Audit Commission's statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from our audit work. For the purposes of this report, the Authority's Audit Committee is considered to fulfil the role of those charged with governance and references to the Audit Committee should be read as such.
- 2** We are also required by professional auditing standards to report to the Audit Committee certain matters before we give our opinion on the financial statements. The section of this report covering the financial statements fulfils this requirement.
- 3** This is our annual governance report covering the audit of the Authority for the year ended 31 March 2006 and is presented by the District Auditor.
- 4** The principle purposes of the report are:
 - to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the Audit Committee;
 - to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
 - to provide the Audit Committee with recommendations for improvement arising from the audit process.
- 5** The Audit Commission has circulated to all audited bodies a Statement of Responsibilities of Auditors and Audited Bodies that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement.

Scope of the report

- 6** In undertaking our audit, we comply with the statutory requirements of the Audit Commission Act 1998 and the Code. Auditors' responsibilities are to review and report on, to the extent required by the relevant legislation and the requirements of the Code:
 - the Authority's financial statements; and
 - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7** Our risk assessment and planned response to the key audit risks was summarised in our audit and inspection plan. A summary of our responsibilities and audit approach is included in Appendix 1. The annual governance report summarises the significant findings, conclusions and recommendations arising from our audit work. The results of our inspection work, and our separate grant claims' certification programme, will be reported in the Relationship Manager Letter later in the year.

- 8** We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 2. Appendix 3 provides information about the fee charged for our audit and Appendix 4 sets out the requirements in respect of independence and objectivity.

Key messages

Financial statements

- 9 Our work on the financial statements is now substantially complete, although there are still a number of outstanding issues to be resolved. Should any further matters arise in concluding the outstanding work that require reporting, we will raise them with the Chair of this committee at the Audit Committee meeting.
- 10 Subject to the satisfactory conclusion of the work outstanding, we anticipate being able to issue an unqualified opinion on the financial statements by 30 September 2006 (a draft report is attached at Appendix 5). Our ability to achieve this deadline is dependent upon the ability of officers to resolve promptly our outstanding queries.

Use of resources

- 11 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is progressing and we are in the process of completing the outstanding elements relating to a review of your overall arrangements in respect of Data Quality, Gershon Savings and Whole of Government Accounts as this information becomes available in line with the individual reporting deadlines for these pieces of work.
- 12 At this stage we anticipate being able to issue our value for money conclusion by the end of September 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 ending 31 March 2006 with two exceptions.
- 13 The first exception has arisen because during 2005/06 the Council did not have arrangements in place to maintain a sound system of internal control. Specifically:
 - members did not review the evidence in support of the Statement of Internal Control or consider it separately from the accounts;
 - work was still in progress to produce procedure notes/manuals in place for those systems identified by the Council as being business-critical; and
 - agreements were not in place for all significant partnerships.

- 14 The second exception has arisen because prior to March 2006 the Council did not put in place arrangements for managing performance against budgets and regularly testing financial systems. In particular, there were;
- serious failings in the bank reconciliation;
 - weaknesses in monitoring of partnerships; and
 - Inadequate arrangements for producing action plans to address budget variances.
- 15 A draft report setting out the proposed wording of our value for money conclusion is attached at Appendix 5.

Financial statements

- 16 We are required to give an opinion on whether the Authority's financial statements present fairly the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

Status of the audit

- 17 Our work on the financial statements is now substantially complete, although there are still some outstanding issues to be resolved. Should any further matters arise in concluding the outstanding work that require reporting, we will raise them with the Chair of this committee at the Audit Committee meeting.

Matters to be reported to the Audit Committee

- 18 We have the following matters to draw to the Audit Committee's attention.
- 19 Our previous report identified a number of matters to be considered by members of the Council's Audit Committee. We would like to update you on these issues.

Expected modifications to the auditor's report

- 20 On the basis of our audit work, subject to the satisfactory conclusion of any work outstanding reported above, we currently propose to issue an unqualified audit report. A draft audit report is attached at Appendix 5.

Uncorrected misstatements

- 21 All non-material items set out in our 2004/05 report were adjusted by the authority. At its meeting last year the Accounts Committee resolved to correct all of the 2004/05 specific non-trifling errors identified by us at the audit regardless of their materiality.
- 22 Management have decided to adjust all non-material misstatements in the 2005/06 financial statements excluding those misstatements that are 'clearly trivial' (as defined in professional auditing standards).
- 23 Following the resolution of final audit queries regarding the uncertainties detailed below, further matters may become material on a cumulative basis and therefore further corrections may be required. Adjustments will be made to the amended Statement of Accounts.

Adjusted misstatements

- 24 These are items that must be corrected before an unqualified audit opinion can be given because they are material to the understanding of the accounts. Members will need to consider whether they want to amend the accounts in these respects.

- 25** To assist you in fulfilling your governance responsibilities, we are required to consider reporting adjusted misstatements to you where these are material. We therefore draw your attention to the misstatements that management is to adjust in Table 1 below. The items within the table are not all material and/or significant adjustments, but are all adjustments, both significant and non-material, which management have agreed to alter.

Table 1 Adjusted misstatements in the financial statements

- 26** The items within the table are not all material and/or significant adjustments, but are all adjustments, both significant and non-material, which management have agreed to alter.

Issue	Value of misstatement £'000	Impact on surplus/(deficit) £'000
Adjustment to fixed asset note to reflect the capitalisation of costs re Sheepmount project	1,473	nil – note to the accounts
Leases Amounts receivable from leased properties and vehicles (disclosure note required in accounts)	4,249	nil - disclosure note
Deferred charges – grant income Understatement of gross income in the revenue account and corresponding overstatement in appropriations sections of the revenue account	852	nil
Closure of the housing revenue account Disclosure of this matter on the face of the revenue account and in a note to the accounts is required by the Statement of Recommended Practice	3,497	nil
Statement of total movement in reserves A number of adjustments are required to this statement	Various	Nil - note to accounts
Cash flow statement A number of adjustments are required to this statement	Various	Nil - cash flow statement adjustment

Issue	Value of misstatement £'000	Impact on surplus/(deficit) £'000
Government grants deferred account Misposting between the capital financing account and government grants deferred account	406	nil
Leases A lease held on a refuse vehicles should be classified as a finance lease rather than an operating lease	114	Further work required to quantify impact
Correction to disposal adjustment re deposits on Sites at Parkhouse Industrial Estate	232	nil
Reversal of revaluation adjustment on assets carried at historical cost (revaluation not required)	548	nil
Reclassification of fishing rights in the financial statements	335	nil
Transfer costs of bridge strengthening works (works completed)	370	nil
To reverse capitalisation of revenue contribution to Anchor Staying Put/CHA void repairs	88	88 – transfer from capital to revenue
Recognition of capital element of the planning delivery grant	67	15 – transfer from revenue to capital
Application of capital grants regarding Sheepmount	66	nil
Sheepmount – grant receivable Further grant income to be included	105	nil
Correction of error in sample (2005/06 depreciation charge) understatement of depreciation (this issue has been addressed going forward due to the revaluation carried out)	192	nil
Misposting of amortised premia/discounts	83	nil
A number of disclosure adjustments are required to comply with the Statement	Disclosure	Disclosure items

Issue	Value of misstatement £'000	Impact on surplus/(deficit) £'000
of Recommended Practice		

- 27 There is no external audit requirement for those adjustments deemed to be significant or material to be reported back to full Council and this course of action is at the Council's discretion.

Uncertainties

- 28 We still have a number of potentially material uncertainties pending the resolution of outstanding items with officers. These relate principally to the following issues:
- Fixed asset revaluations
 - Potential overstatement of fixed asset additions arising from capitalisation of revenue costs
 - Potential reversal of the disposal of leisure assets transferred to Carlisle Leisure Limited
 - Potential overstatement in the carrying value of community assets
- 29 These issues relate to outstanding queries and matters may be resolved satisfactorily without the need for further adjustment. Following discussion with officers and identification of any significant amendments adjustments will be made to the amended Statement of Accounts.

Recommendation

R1 Improve year end and qualitative processes for producing the financial statements to ensure the accounts presented for approval are free from significant errors and supported by a robust set of working papers.

Qualitative aspects of accounting practices and financial reporting

- 30 Our audit includes consideration of the qualitative aspects of the financial reporting process, including matters that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. We wish to report the following matters to you.
- 31 In our 2004/05 report we brought to your attention our concerns about the Council's inability to prepare accounts which are materially correct and which comply with proper accounting practice.

- 32 We have seen improvements this year in respect of detailed working papers to support the Statement of Accounts. We have also noted that officers have been increasingly cooperative in supporting the audit process and a higher priority has been given to the resolution of audit matters. However we have again noted a number of errors and uncertainties and a number of audit issues have arisen where further information has been required to determine appropriate audit treatment. There remains a need for more prompt and detailed responses to audit queries. Improvements are also required in evidencing compliance with accounting standards to ensure that the audit is carried out efficiently and in line with required deadlines. We have agreed with the authority that further progress is required in these areas and will work with officers to achieve ongoing improvements for the 2006/07 audit.

Recommendation

R2 Ensure appropriate and timely responses to audit queries are provided and that audit files have sufficient evidence to support accounting treatment of figures in the financial statements.

Material weaknesses in internal control identified during the audit

- 33 As we noted in our report last year, the ongoing lack of balanced bank reconciliations represents a serious control and governance weakness.
- 34 The authority has worked during the year to resolve problems with the bank reconciliation. However, at the end of the year of audit (2005/06) the bank reconciliation remained unbalanced. Progress has been made in reviewing daily transactions for 2006/07 however this report is concerned with the 2005/06 accounts.
- 35 The authority now needs to ensure that traditional bank reconciliation is prepared monthly and that this reconciliation has clear evidence of review by senior management. The bank reconciliation is regarded as an essential element of internal control and without it there is a fundamental uncertainty regarding the accuracy of the financial statements.
- 36 To address this uncertainty with regard to the 31 March 2006 bank reconciliation we have undertaken significant additional audit work to compensate for the assurance that should have been provided by the bank reconciliation. This has once again increased the audit time required (and accordingly the audit fee) for the 2005/06 audit year.

- 37 In our previous report we highlighted the need for Members to consider what action they wished to take to ensure that the completion and balancing of the 31 March 2006 bank reconciliation in auditable format was adequately addressed. We would like to draw to Members' attention the need to give serious consideration to options for resolving the unbalanced reconciliation to avoid problems for future audits. Writing off the unreconciled balance has been raised by officers as a method of resolving this matter and will be subject to further consideration.

Recommendation
<i>R3 Consider how the continuing unreconciled balance on the bank reconciliation is to be addressed to ensure that problems do not continue into the 2006/07 audit.</i>

- 38 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.

Matters specifically required by other auditing standards

- 39 Other auditing standards require us to communicate with you in other specific circumstances including:
- where we suspect or detect fraud;
 - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
 - non-compliance with legislative or regulatory requirements.
- 40 We do not wish to report any matters to you in relation to the above.

Any other matters of governance interest

- 41 Finally, we are required to report any other matters that we believe to be of governance interest. We report these matters in Table 3 below.

Table 2 Other matters of governance interest

There are a number of other matters that we would like to bring to the attention of those charged with governance

Area	Auditor responsibility	Impact
Statement of internal control (SIC)	The auditor reviews the SIC for compliance with the requirements of proper practice as specified by CIPFA and consistency with other information from the audit of the financial statements.	We are satisfied that the SIC complies with the requirements of proper practice and is consistent with other information gathered during the course of our other audit work.
Whole of Government Accounts' consolidation pack	The auditor is responsible for issuing a report on the consistency of the Authority's consolidation pack with the statutory financial statements.	This review has still to be completed by us in accordance with the deadlines set by the Government.

Letter of representation

- 42 We obtain written representations from management as an acknowledgement of its responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. The text of the required letter of representation is included at Appendix 6.

Next steps

- 43 We are drawing these matters to the Audit Committee's attention so that:
- you can consider them before the financial statements are approved and certified;
 - the representation letter can be signed on behalf of the Authority and those charged with governance before we issue our opinion on the financial statements; and
 - the Committee has the opportunity to amend the financial statements for the unadjusted misstatements/significant qualitative aspects of financial reporting issues identified in table 1. Should you choose not to amend the financial statements, in accordance with the ISA (UK and Ireland) 260, we request that you extend the representation letter to explain why you are not adjusting the financial statements. We ask that the letter specifically details the misstatements and/or qualitative aspects of reporting to which it relates, either in the body of the letter or in a document appended to it.

Use of resources

Value for money conclusion

- 44** The Code requires us to reach a conclusion on whether we are satisfied that the Authority has proper arrangements in place for securing economy, efficiency and effectiveness in its use of your resources (the value for money conclusion). In meeting this responsibility, we will review evidence that is relevant to the Authority's corporate performance management and financial management arrangements. Our work in reaching the value for money conclusion is integrated with our work on the use of resources assessment. The use of resources assessment is a qualitative assessment of the effectiveness of the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources. The five areas we make assessments on are; financial statements, financial management, financial standing, internal control and value for money.
- 45** We have substantially completed our work in relation to the use of resources but need to feed in the results of our planned work on your Data Quality, Gershon Efficiency Savings and Whole of Government Accounts. On the basis of our audit work to date, we currently anticipate issuing a conclusion by the end of September, indicating 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 ending 31 March 2006 with two exceptions.
- 46** The first exception has arisen because during 2005/06 the Council did not have arrangements in place to maintain a sound system of internal control. Specifically:
- members did not review the evidence in support of the Statement of Internal Control or consider it separately from the accounts;
 - work was still in progress to produce procedure notes/manuals in place for those systems identified by the Council as being business-critical; and
 - agreements were not in place for all significant partnerships.
- 47** The second exception has arisen because prior to March 2006 the Council did not put in place arrangements for managing performance against budgets and regularly testing financial systems. In particular, there were;
- serious failings in the bank reconciliation;
 - weaknesses in monitoring of partnerships; and
 - inadequate arrangements for producing action plans to address budget variances.
- 48** We would also like to draw to the attention of the Committee the key findings from our work to date on the use of resources criteria that are summarised below.

Strategic objectives

'The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.'

- 49 The Council has clarified its objectives and priorities, together with measures of success.

Consultation

'The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.'

- 50 The Council has continued to improve how it communicates and how it obtains and uses the views of the communities, service users and partners to improve planning and delivery of services.

Performance management

'The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.'

- 51 The Council has a performance management framework in place which is being further developed to link financial and performance information.

Data quality

'The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members'

- 52 The Council's overall internal quality arrangements have been assessed as adequate, pending our detailed testing of individual performance indicators that is currently taking place. The results of this detailed testing when completed will further inform our initial assessment.

Internal control

'The body has put in place arrangements to maintain a sound system of internal control'

- 53 In our initial assessment we highlighted that improvements were required in the approval of the Statement of Internal Control, producing procedure notes/manuals in place for those systems identified by the council as being business-critical and ensuring agreements were in place for all significant partnerships. Progress has been made after March 2006 in the following areas:
- the establishment of an Audit Committee with responsibility for risk management and reviewing the SIC;
 - improving procedure note/manuals; and
 - ensuring whistle-blowing policy was communicated to all staff.
- 54 However, for the period under review, these issues have caused us to issue a value for money conclusion 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 ending 31 March 2006 with the exception that it did not put in place arrangements to maintain a sound system of internal control.

Recommendation
R4 Ensure that all procedure notes for business critical systems are in place and up to date

Risk management

'The body has put in place arrangements to manage its significant business risks'

- 55 Our use of resources work found that there had been progress in risk management over the last year although further improvement was required before risk management was truly embedded in the authority. Further progress on updating the risk register has taken place and the new Audit Committee has responsibility for risk management. However, the business continuity plan still needs to be updated. There has been further development of the risk register and this is reviewed quarterly by Corporate Resources Overview and Scrutiny Committee but further work is required to link risks to priorities.

Improving value for money

'The body has put in place arrangements to manage and improve value for money'

- 56 There has been progress in this area since our initial use of resources work earlier in 2006. Trends are to be reported in future and performance indicators are also to have a meaningful commentary included. Officers are looking at ways of linking financial information and performance information through looking at the cost of delivering services and relating that cost to quality, and then relating that to the City Council's priorities. This would enable the Council to monitor more closely how budgets are being used.

Financial strategy

'The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities'

- 57 The authority consistently shows underspends year-on-year and evidence has not been provided to show re-alignment of budgets rather than persistent carry forward of substantial underspends. No further evidence has been provided to show that budgets have been tightened to avoid underspends.

Budget setting and monitoring

'The body has put in place arrangements for managing performance against budgets'

- 58 This section covers budget monitoring, including monitoring of partnerships, and regular testing of financial systems. Serious failings in the bank reconciliation demonstrated that financial systems were not regularly tested or secure and weaknesses exist in monitoring of partnerships and action plans for variances. Despite significant work on the bank reconciliation a balanced reconciliation was not in place at 31 March 2006 and further work is required to ensure a balanced monthly reconciliation in the traditional format, in addition to the daily reconciliations, is being produced.
- 59 Further work has been undertaken on budget variances but the formal mechanism for dealing with material variances is not yet completed. Further work is also needed to monitor all partnerships.
- 60 For the period under review to March 2006, these issues have caused us to issue a value for money conclusion 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 ending 31 March 2006 with the exception that it did not put in place arrangements for managing performance against budgets.
- 61 No further evidence as at March 2006 had been provided to show that actual reserves were in line with the reserves policy and that significant unexpected overspends or underspends have been addressed. Further information has been received in regarding the reserves and reserves policy after this period.

Recommendations	
R5	<i>Ensure that a balanced 'traditional format' bank reconciliation is produced monthly and has evidence of review by a senior officer.</i>
R6	<i>Ensure that variances are monitored and action plans developed to address the variances more effectively.</i>
R7	<i>Enhance the monitoring of the operational and financial performance of partnerships</i>

Use of auditors' statutory powers

- 63 Auditors are required to consider the exercise of certain statutory powers during the course of the audit, as summarised in Table 5 below.

Table 3 Use of statutory powers

Issue	Auditor responsibility	Impact
Section 8 reports	Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public.	There have been no section 8 reports in respect of the financial year 2005/06.
Section 11 recommendations	To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	<p>A section 11 recommendation was issued in March 2006 concerning the need for the authority to improve its financial management arrangements and systems of internal controls, in order that that it is able to prepare financial statements which are free from material error and demonstrate proper stewardship of public money.</p> <p>The authority has responded satisfactorily to this recommendation.</p>

Issue	Auditor responsibility	Impact
Best value	To consider whether to recommend that the Audit Commission should carry out a best value inspection of the Authority under section 10 of the Local Government Act 1999 and/or that the Secretary of State should give a direction under section 15 of that Act.	Our work in respect of the Authority's 2005/06 Best Value Performance Plan (BVPP) was reported in the 2005 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

Closing remarks

- 64 This report has been discussed and agreed with the Head of Finance and the Chief Executive. A copy of the report will be presented at the Audit Committee on 25 September 2006.
- 65 The report makes a number of recommendations. An action plan is included at Appendix 7, which includes responses from management and indicative target dates for the implementation of recommendations.
- 66 Arrangements have been established for monthly monitoring meetings with the Chief Executive to ensure a positive and constructive dialogue on audit issues continues throughout the year. The Audit Commission remain committed to helping the authority address the issues identified in this report.

Mark Heap
District Auditor

September 2006

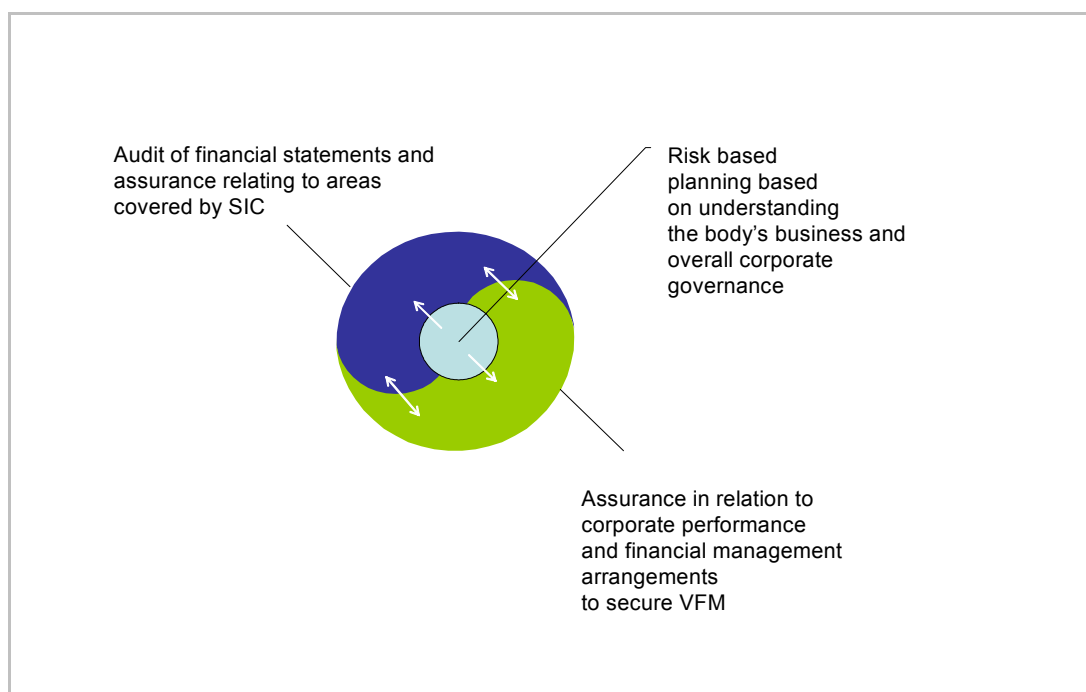
Appendix 1 – Audit responsibilities and approach

Audit objectives

- 1 Our objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

Figure 1 Code of Audit Practice

Code of practice responsibilities



Approach to the audit of the financial statements

- 2 In our approach to auditing the financial statements, we adopt a concept of materiality. Material errors are those which might be misleading to a reader of the financial statements. We seek, in planning and conducting our audit of the accounts, to provide reasonable assurance that your financial statements are free of material misstatement. In planning our work we considered the arrangements of the Authority which had most impact on our opinion. These included:
 - the standard of the overall control environment and internal controls;
 - reliance on internal audit;
 - the likelihood of material misstatement occurring from of material information systems; or a material error failing to be detected by internal controls;
 - any changes in financial reporting requirements; and
 - the effectiveness of procedures for producing the financial statements and supporting material.
- 3 The results of the above feed into our risk assessment which determines the level and type of testing undertaken on each element of the financial statements. The key risks that we identified included:
 - treatment of the flooding income and expenditure in 2005/06; and
 - the bank reconciliation.

Approach to audit of arrangements to secure value for money

- 4 The scope of these arrangements is defined in paragraph 20 of the Code as comprising:
 - corporate performance management; and
 - financial management arrangements.
- 5 Our conclusion is informed and limited by reference to relevant criteria covering specific aspects of audited bodies' arrangements, specified by the Code.

- 6** In planning audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, considered and assessed relevant significant business risk. Significance is defined by the Code as 'a matter of professional judgment and includes both quantitative and qualitative aspects of the risk'.
- 7** The potential sources of assurance when reaching the value for money conclusion include:
 - the Authority's whole system of internal control as reported in its statement on internal control;
 - results from statutory inspections or the work of other regulators, for example, corporate assessments, service assessments (whether by the Commission or other regulators), etc;
 - work specified by the Audit Commission, for example, the use of resources assessments, and data quality work;
 - links to the financial statements' audit, including review of internal audit, the SIC and budgetary control arrangements; and
 - other work necessary to discharge our responsibilities.

Appendix 2 – Audit reports issued

Table 4

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit and inspection plan	February 2005	March 2005	The Authority
Waste follow up report	2005/06	June 2005	The Authority
Safer Communities follow up	2005/06	November 2005	The Authority
Road Safety	2005/06	March 2006	The Authority
Annual governance report	September 2006	September 2006	Audit Committee
Opinion on financial statements	September 2006	September 2006	The Authority
Value for money conclusion	September 2006	September 2006	The Authority
Final accounts memorandum	September 2006	September 2006	Management
Use of resources assessments	September 2006	TBC	Management
BVPP report	December 2006	TBC	Management

Appendix 3 – Fee information

Table 5

Fee estimate	Plan 2005/06	Actual 2005/06
Accounts*	67,844	73,344***
Use of resources*	30,496	30,496
Total audit fees**	98,340	103,840
Voluntary improvement work*	-	9,450

* The increase in audit fee is due to an additional £5,500 charged for our system documentation work to comply with International Standards of Auditing. The voluntary improvement work fee is for an Internetwork vulnerability assessment requested by the Authority

** The outturn on inspection and grant certification fees will be reported in the Relationship Manager Letter

*** A further amount to be quantified following the completion of our audit will be charged for our additional work on the bank reconciliation and other areas of the audit in excess of our original plan

Appendix 4 – The Audit Commission's requirements in respect of independence and objectivity

- 1 We are required by the standard to communicate following matters to the Audit Committee:
 - the principal threats, if any to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, Members, senior officers and the auditor;
 - any safeguards adopted and the reasons why they are considered to be effective;
 - any independent District Auditor review;
 - the overall assessment of threats and safeguards; and
 - information about the general policies and processes for maintaining objectivity and independence.
- 2 We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.

Appendix 5 – Independent auditor's report to Carlisle City Council

Independent auditor's report to the Members of Carlisle City Council

Opinion on the financial statements

I have audited the financial statements of Carlisle City Council for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Carlisle City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial 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 financial statements present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.

I review whether the statement on internal control reflects compliance with CIPFA's guidance, 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial 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 financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, 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 financial statements 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 financial statements.

Opinion

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

Mark Heap
District Auditor
Audit Commission
Aspinall Close
Middlebrook
Horwich
Bolton
BL6 6QQ
30 September 2006

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 to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Authority is required to prepare and publish a best value performance plan summarising the Authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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 specified by the Audit Commission for principal local authorities. 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.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Carlisle City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006 except for the failure to:

- put in place arrangements to maintain a sound system of internal control;
- put in place arrangements for managing performance against budgets.

Auditors' responsibilities

Under section 11 of the Audit Commission Act 1998, auditors may designate any audit recommendation as one that requires the authority to consider it at a public meeting held within one month of the issue of the relevant report and to decide what action to take in response.

On 31 March 2006 we issued a report containing a recommendation designated under section 11. The authority has responded satisfactorily to the recommendation.

Mark Heap
District Auditor
Audit Commission
Aspinall Close
Middlebrook
Horwich
Bolton
BL6 6QQ
30 September 2006

Appendix 6 – Letter of representation

The Audit Commission

2nd Floor

Aspinall Close

Enterprise Park 3

Middlebrook

Bolton BL6 6QQ

Dear Sirs

Carlisle City Council - Audit for the year ended 31 March 2006

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other of other officers of the authority 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 2006.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which present fairly the financial position of the council at 31 March 2006 and for making accurate representations to you.

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the authority and the reasons for not correcting these items are as follows;

xxx

The authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations

Carlisle Housing Association

I confirm that, except as disclosed in the financial statements, no further amounts are payable to/receivable from Carlisle Housing Association under the terms of the transfer agreement dated 9 December 2002.

Investments

I confirm that, except as disclosed in the financial statements, none of the investment balances at 31 March 2006 were intended to be held on a continuing basis.

Interests in companies

A comprehensive review of the Authority's interests in corporate and other outside bodies was undertaken in [insert year] and updated during 2005/06. A full list of all identified interests is included in Appendix A to this letter. Based on this assessment and except for items disclosed in the financial statements, the Authority held no other interests at 31 March 2006 or at any time during the year ended 31 March 2006, requiring disclosure in the financial statements and/or the preparation of supplementary group accounts

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 authority have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all members meetings, have been made available to you.

Related party transactions

I confirm the completeness of the information provided 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.

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;
- 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.

Law, regulations 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 authority.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect 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; and
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by Council on 29 June 2006, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of Carlisle City Council.

Signed

Name

Position

Date.

Appendix 7 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R1 Amend the draft financial statements for the uncorrected misstatements.					
10	R2 Improve year end and qualitative processes for producing the financial statements to ensure the accounts presented for approval are free from significant errors and supported by a robust set of working papers.					
11	R3 Ensure appropriate and timely responses to audit queries are provided and that audit files have sufficient evidence to support accounting treatment of figures in the financial statements.					
11	R4 Consider how the continuing unreconciled balance on the bank reconciliation is to be addressed to ensure that problems do not continue into the 2006/07 audit.					
17	R5 Ensure that all procedure notes for business critical systems are in place and up to date					
19	R6 Ensure that a balanced 'traditional format' bank reconciliation is produced monthly and has evidence of review by a senior officer.					

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
19	R7 Ensure that variances are monitored and action plans developed to address the variances more effectively.					
19	R8 Enhance the monitoring of the operational and financial performance of partnerships					