

Annual Audit Letter

Carlisle City Council

Audit 2008/09

December 2009



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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.
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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the 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.

Audit opinion and financial statements

- 1 At the Audit Committee on the 25 September 2009 I discussed the detailed findings from my 2008/09 audit that were set out in my Annual Governance Report. I issued an unqualified opinion on the accounts on the 29 September 2009.
 - 2 No material errors were found in the financial statements and the overall number of errors within the financial statements had reduced. This was a significant improvement on previous years. Further improvements to the Council's accounts preparation processes have been agreed for 2009/10.
 - 3 A number of weaknesses in the Council's IT Security policy have been identified and progress against the agreed action plan will be reported by Internal Audit to the Audit Committee in December 2009.
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Value for money

- 4 I issued an unqualified opinion on the Council's arrangements to secure value for money in its use of resources. This is known as my VFM conclusion.
- 5 I have completed my work on the Use of Resources assessment for 2008/09. Use of Resources (UoR) is a scored judgement which determines how well councils manage and use their resources. The Council's use of resources theme scores have been assessed as follows.
 - Manages finances: Level 2: performs adequately.
 - Governing the business: Level 2: performs adequately.
 - Managing its human resources: Level 2: performs adequately.

Financial statements and annual governance statement

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

Significant issues arising from the audit

- 6 The Council's finance team has worked hard to improve the overall quality of the financial statements for 2008/09. In my Annual Governance Report to the Audit Committee in September 2009 I reported that the 2008/09 draft financial statements did not include any material errors and the overall number of errors within the financial statements had reduced. This was a significant improvement on previous years.
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Material weaknesses in internal control

- 7 I considered the key internal controls operating within the Council's financial systems and any significant issues identified by Internal Audit. My review has identified that Internal Audit's report 'Audit of ICT Security Policy and Annexes' made 47 recommendations, two of which were regarded as fundamental weaknesses and 14 regarded as significant system weaknesses. A detailed action plan has been agreed with the implementation date for many recommendations being November 2009. Internal Audit is to report progress against the action plan to the Audit Committee in December 2009.
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Accounting Practice and financial reporting

- 8 I consider the qualitative aspects of the Council's accounting practice and financial reporting. My findings were reported in my Annual Governance Report. The areas where improvements are necessary were as follows:
- compliance with all Financial Reporting Standards;
 - disclosure of all significant weakness in the Annual Governance Statement;
 - monitoring progress against the agreed IT Security Policy action plan; and
 - authorisation of journals by an approved officer.
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Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 9 In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 10 The Council's use of resources theme scores are shown in Table 1 below. The key findings and conclusions for the three themes are then summarised in the sections that follow the table.

Table 1 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2 - performs adequately
Governing the business	2 - performs adequately
Managing resources	2 - performs adequately

Managing finances

- 11 The Council has a five year Medium Term Financial Strategy (MTFS) which is reviewed annually, linked to its corporate priorities and sets out the framework for managing its financial resources. There is a policy for the use of reserves and recognition that using them annually to support the revenue budget is not sustainable in the long term. Savings plans are in place across the Council but in some areas, these were not achieved in 2008/09 although efficiency targets were exceeded.

- 12 The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes.
- 13 The Council has considered the impact of the banking crisis on its treasury management and is continuing to consider the implications as part of its medium term financial plan. The economic downturn also affects my audit considerations and as part of my responsibility, I have reviewed the Council's treasury management arrangements and found them to be prudent.
- 14 There is corporate ownership of financial management. Timely monthly financial monitoring reports are produced for revenue and capital with quarterly reporting to Members setting out links between performance and the financial position. Historically, the Council has managed its revenue budget within available resources. However, as in previous years, the capital programme is significantly underspent against budget. In 2008/09 this underspend was some £4.1m which is 42 per cent of the capital programme. Links between the in year financial monitoring of the capital programme and the outturn financial position need improving. It is not clear from the capital monitoring reports whether the Council has a problem with the delivery of the capital programme or with the profiling and monitoring of expenditure.
- 15 Costs are benchmarked against the 'nearest neighbour' and 'historic cities' groups. This benchmarking shows that the areas of high spend for the Council are in line with its key priorities. Costs for some services have been analysed to a unit or transactional level but this is yet to be developed in all service areas.

Governing the business

- 16 The Council and its partners have a clear vision of the outcomes it intends to deliver for local people. However, the extent to which this is based on a full understanding of community need is less clear. The Council has invested in building capacity in its commissioning and procurement function and this has led to a clear procurement framework for officers and savings and improved outcomes for local people. The Council manages a five year programme of service reviews but does not routinely evaluate all alternative service delivery options for some services.
- 17 There is a strong corporate commitment to ensuring data quality and the arrangements in place to support this are good. The Covalent performance management system has been introduced and performance is reported to the Executive and the Corporate Resources Overview and Scrutiny committee on a quarterly basis. Achievements against national and local Performance Indicators including benchmarking information are set out in the reports. Annual performance also reported at the year end.

Value for money and use of resources

- 18 A number of improvements are required to the IT security environment to ensure data security is maintained and to improve overall internal control. This was reported to the Council by Internal Audit and is now reflected in the Council's own annual governance statement.
- 19 There are appropriate governance arrangements in place and the working relationships between officers and members are good. Policies and procedures for ethical governance are sound although work had to be undertaken to raise awareness amongst staff and Members on the Standards Committee and whistleblowing policy. All significant partnerships are subject to an annual review of objectives and governance arrangements but improvements are required to governance and risk management arrangements at Cumbria Strategic Partnership level.

Managing resources

- 20 Of the three 'managing resources' KLOE's only one, workforce planning, was assessed for 2008/09. The new UoR assessment also required workforce planning to be assessed in greater detail than in previous years.
- 21 The Council has a comprehensive and well ordered approach to training and development. There is a strong emphasis on, and commitment to, the raising of skill and qualification levels, with a good focus on basic skills. The Council's Workforce Development Plan 2006 to 2010 was approved in April 2007. It is a comprehensive document which adopts a broad approach to workforce development and links this to the council of the future. Although there is a high level gap analysis a corporate skills audit has not been undertaken and there is no reference to specific future needs or specific groups of staff. There is evidence of some workforce planning in responding to skills shortages with the introduction of a 'grow your own' approach in some services.
- 22 The Council has a range of ways of engaging with staff and regularly surveys the views of staff. However, from the staff survey in 2008, almost a quarter of staff believed that the Council was doing nothing to help them cope with the change agenda. The Council has responded during 2008/09 to these concerns through the 'Future Focus' workshops which give positive indications for the future management of change. The transformation programme is in its early stages so for 2008/09 we are unable to assess how this has been managed as far as staff are concerned. Job evaluation and single status has been a lengthy process and is still not implemented.
- 23 The Council is at Equality Standard level 2. It is working towards level 3 during 2009/10 by implementing its detailed action plan. Although there are good intentions to move towards a single equality scheme and the new national equality framework these developments are for the future.

Review of Risk Management in the Cumbria Strategic Partnership

- 24 To inform our Use of Resources assessment we undertook a review of Risk Management within the Cumbria Strategic Partnership (CSP).

- 25 All partnerships face uncertainties in delivering their objectives. Effective strategic risk management is essential to enable the Cumbria Strategic Partnership (CSP) to exploit opportunities to improve services in a cost efficient way.
- 26 Although the CSP's Governance Framework sets out the risk management arrangements, it is not implemented consistently nor does it encourage well managed risk taking to deliver innovative service improvements and efficiencies.
- 27 The CSP's Governance Framework needs to be fit for purpose without imposing a burden on the partnership managers. Partners acknowledge improvements are required to the risk management and wider governance arrangements within Cumbria Strategic Partnership. Our detailed report and action plan are currently being discussed and agreed within the CSP.

VFM conclusion

- 28 I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources on 29 September 2009.

Looking forward

Organisational Assessment and Comprehensive Area Assessment

- 29 In December 2009 the Audit Commission will publish its findings from the review of the Council's Organisational Assessment which forms part of the Comprehensive Area Assessment for Cumbria as a whole. These assessments draw on our findings from our work on the Council's use of resources but are separate judgements made by the Audit Commission's Comprehensive Area Assessment Lead (CAAL).

Use of Resources Assessment during 2009/10

- 30 The key lines of enquiry specified for the assessment are set out in the Audit Commission's work programme and scales of fees 2009/10. My work on use of resources informs my 2009/10 value for money conclusion. In 2009/10, KLOE 3.3 on workforce planning will not be assessed but KLOE, 3.1 on natural resources will apply to district council. As we have not assessed the Council's use of natural resources before we plan to commence our work in this area in January 2010.

Closing remarks

- 31 I have discussed and agreed this letter with the Chief Executive and the Deputy Chief Executive. I will present this letter to members at the first Audit Committee meeting in 2010.
- 32 Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Table 2 Reports issued during the year

Report	Date issued
Audit Plan	May 2008
Partnership Risk Management - Cumbria Local Strategic Partnership	August 2009 (Presentation)
Annual Governance Report	September 2009
Auditor's report giving an opinion on the financial statements	September 2009
Use of Resources	November 2009
Partnership Risk Management - Cumbria Local Strategic Partnership	November 2009

- 33 The audit fee has increased since my original plan to reflect the cost of additional work required during 2008/09 to meet our Code of Audit requirements to obtain sufficient assurance to assess the Council's arrangements for securing value for money. This work included revisiting work already done as a result of the Council providing additional information on Use of Resources.

Table 3 Audit fees

	Actual (£)	Proposed (£)	Variance (£)
Financial statements and annual governance statement	97,633	97,633	0
Value for money	31,630	27,790	3,840
Total audit fees	129,263	125,423	3,840

Independence

- 34 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Closing remarks

Acknowledgements

- 35 The Council has continued to take a positive and constructive approach to our audit. I wish to thank the Council's officers for their support and co-operation during the audit.

Karen Murray
District Auditor
December 2009

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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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk
