

# Annual Governance Report

Carlisle City Council  
Audit 2008/09  
Date September 2009

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# Contents

<b>Key messages</b>	<b>4</b>
<b>Next steps</b>	<b>6</b>
<b>Financial statements</b>	<b>7</b>
<b>Use of resources</b>	<b>10</b>
<b>Appendix 1 – Independent auditor’s report to Members of Carlisle City Council</b>	<b>11</b>
<b>Appendix 2 – Adjusted amendments to the accounts</b>	<b>14</b>
<b>Appendix 3 – Draft letter of representation</b>	<b>16</b>
<b>Appendix 4 – Use of resources &amp; VFM Conclusions</b>	<b>20</b>
<b>Appendix 5 – Action Plan</b>	<b>21</b>
<b>The Audit Commission</b>	<b>23</b>

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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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Ladies and Gentlemen

**2008/09 Annual Governance Report**

I am pleased to present the final version of my report on the results of my audit work for 2008/09. A draft of the report was discussed and agreed with the Director of Corporate Services and Head of Financial Services on 16 September 2009.

The 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 financial statements are re-authorised for issue (pages 7 to 9);
- 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 4); and
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Karen Murray  
District Auditor  
16 September 2009

# Key messages

This report summarises the findings from the 2008/09 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 how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

<b>Financial Statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	7
Financial statements free from material error	Yes	7
Adequate internal control environment	Yes	8
<b>Use of resources</b>	<b>Results</b>	<b>Page</b>
Use of resources judgements	Yes	10
Arrangements to secure value for money	Yes	10

## 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 2009. Appendix 1 contains a copy of my draft audit report.

## Financial statements

- 2 The Council's Finance team has worked hard to improve the overall quality of the financial statements for 2008/09. As a result, the 2008/09 draft financial statements did not include any material errors and the overall number of errors within the financial statements has reduced. This is a significant improvement on previous years.

## Use of resources

- 3 The outcome of our Use of Resources (UoR) assessment is contained within a separate report that will be discussed and agreed with the Chief Executive. The final report will also be presented to the Audit Committee.

## Key messages

- 4 For 2008/09 all UoR areas have been assessed as meeting level 2, the minimum requirements. On this basis 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.

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## Audit Fees

- 5 I am currently considering the need for the audit fee to be increased because of additional work required during 2008/09 to meet our Code of Audit requirements to obtain sufficient assurance to assess your arrangements for securing value for money. This work has included revisiting work already done as a result of the Council providing additional information on Use of Resources.

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# Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only 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.**

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

- consider the matters raised in the report before the financial statements are re-authorised for issue (pages 7 to 9);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- take note of the VFM Conclusion and Use of Resources score (Appendix 4);
- 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).

# 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 on the financial statements and the annual governance statement before the financial statements are re-authorised for issue.**

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## Opinion on the financial statements

**7** My audit is substantially complete. Subject to the satisfactory clearance of any 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.

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## Errors in the financial statements

**8** The Council's Finance team has worked hard to improve the overall quality of the financial statements for 2008/09. As a result, the 2008/09 draft financial statements did not include any material errors and the overall number of errors within the financial statements has reduced. This is a significant improvement on previous years.

**9** I am now required to report to you all non-trivial errors over £15,865, representing 1% of materiality, which is set at 2% of the Council's gross revenue expenditure for 2008/09.

**10** 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:

- backpay for 2007/08 and 2008/09 in respect of job evaluation was incorrectly treated as an earmarked reserve. In accounting terms, this meets the definition of a provision under Financial Reporting Standard (FRS) 12. Treating it as a provision means that expenditure of £1,362k is charged to the Income and Expenditure (I&E) Account in 2008/09;
- depreciation charged in the I&E account for the year was overstated by £178k. This relates to the properties at Adrianos and Warwick Street which are being held and therefore depreciated over a three year period. However, the depreciation rate was based on the properties having a residual value of nil at the end of the three year period. This is incorrect. Taking into account the likely residual value, the depreciation charge was overstated;

- note 5.16 on exceptional items stated there were none on 2008/09. However, FRS 3 on reporting financial performance requires that where there is an impairment 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. As there was an £8.1m impairment this additional disclosure note is required.

**Recommendation**

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

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**Material weaknesses in internal control**

- 11** 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.
- 12** 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. Overall, this area was assessed by Internal Audit as 'Restricted assurance'. This assurance level is categorised as "Significant weaknesses have been identified in the system of internal control, which put the system objectives at risk". A detailed action plan has been agreed with the implementation date for many recommendations being November 2009.

**Recommendation**

- R2** Ensure that the agreed action plan from Internal Audit's report 'Audit of ICT Security Policy and Annexes' is closely monitored.

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**Letter of representation**

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

## Financial statements

### Key areas of judgement and audit risk

14 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

**Table 1** Key areas of judgement and audit risk

Issue or risk	Finding
That the accounting treatment adopted to reflect the progress on implementing job evaluation is not in accordance FRS12.	Backpay for 2007/08 and 2008/09 in respect of job evaluation was incorrectly treated as an earmarked reserve. In accounting terms a reliable estimate of £1,362k has been made and as this meets the definition of a provision under Financial Reporting Standard (FRS) 12 it should be a provision and charged to the Income and Expenditure (I&E) Account in 2008/09;
Asset valuations may not have not been updated to reflect the potential impact of the current economic climate.	The Council undertook a full valuation of its assets as at 31 March 2009 which has mitigated this risk.

### Accounting practice and financial reporting

15 I consider the qualitative aspects of your financial reporting. Table 2 sets out the issues I want to raise with you.

**Table 2** Improvements required to accounting practice and financial reporting

Issue or risk	Finding
That the Annual Governance Statement fails to disclose all significant weaknesses highlighted in the year.	My work identified one significant weakness that was not reported in the Annual Governance Statement (AGS). Internal Audit's Concerns over weaknesses in the IT control environment, as documented in the section in this report on material weaknesses in internal control, should be disclosed in the AGS.
Accounting journals are not properly authorised.	Testing of journals identified that they were not always being authorised by one of the approved officers.

### Recommendation

**R3** Ensure that all journals are authorised by an approved officer.

# Use of resources

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

I am also required to conclude 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

- 16** 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.
- 17** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 18** The Council's use of resources theme scores are shown in Table 3 below. The outcome of our Use of Resources (UoR) assessment is contained within a separate report that will be discussed and agreed with the Chief Executive. The final report will also be presented to the Audit Committee.

**Table 3** Use of resources theme scores

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

## Value for money conclusion

- 19** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 4.
- 20** 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 report.

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

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## **Opinion on the financial statements**

I have audited the Authority accounting statements and related notes of Carlisle City Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of the 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 prepared by the Audit Commission.

## **Respective responsibilities of the Chief Finance Officer and auditor**

The Chief Finance Officer’s responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

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 accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 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 financial 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.

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 Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority’s 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 judgements 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 financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 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 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.

### 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 February 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 ending 31 March 2009.

### Certificate

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

Karen Murray  
District Auditor

Date: September 2009

Audit Commission  
2nd Floor Aspinall House  
Aspinall Close  
Middlebrook  
Bolton  
BL6 6QQ

# Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

**Table 4**

Description of error	Accounts effected	Value of error £'000
The estimated cost of backpay for job evaluation was treated as an earmarked reserve in the approved financial statements. In accounting terms a reliable estimate has been made for the backpay for 2007/08 and 2008/09. This means it meets the definition of a provision under Financial Reporting Standard (FRS) 12.	Earmarked reserves are overstated by £1,361,575 and provisions are understated by the same amount. Costs above the net costs of services line and within trading undertakings in the Income and Expenditure (I&E) Account are understated by £1,361,575.	1,362
The properties at Adrianos and Warwick Street are being correctly depreciated over three years. However, they are incorrectly shown as having a nil residual value at the end of this period.	The depreciation charge in the I&E Account for the year has been overstated by £178,300 with the Capital Adjustment Account understated by the same amount.	178
Note 5.16 on Exceptional items stated there were none on 2008/09. However, FRS 3 on reporting financial performance requires that where the impairment in a year is material and charged to the I&E Account this should be separately disclosed for the benefit of the reader of the accounts.	Note 5.16 on Exceptional items amended to provide more detail as to which line in the I&E Account the impairments have been charged.	8,100

## Appendix 2 – Adjusted amendments to the accounts

Description of error	Accounts effected	Value of error £'000
Note 5.20 on capital commitments showed the commitment to replace refuse vehicles as £1,750k. This should have been £1,659k.	Note 5.20 on capital commitments amended to show the commitment to replace refuse vehicles as £1,659k.	91

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# Appendix 3 – Draft letter of representation

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

## **Carlisle City Council- Audit for the year ended 31 March 2009**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and 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 2009. 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 present fairly 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 relevant 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.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### **Fair Values**

I confirm the reasonableness of the significant assumptions within the financial statements. For the financial instruments assumptions in the Council accounts, 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 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;
- 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 5.24(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;
- 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

## Appendix 3 – Draft letter of representation

### **Post balance sheet events**

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events that 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 this letter has been discussed and agreed by the Audit Committee on 25 September 2009.

Signed

Angela Brown  
Director of Corporate Services  
Carlisle City Council

September 2009

# Appendix 4 – Use of resources & VFM Conclusions

The tables summarise the UoR scores and whether the VFM criterion is met.

KLOE Criteria	Score	VFM Criterion met
<b>Managing finances</b>		
1.1 Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	2	Yes
1.2 Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	2	Yes
1.3 Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	2	Yes
<b>Governing the business</b>		
2.1 Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	2	Yes
2.2 Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	2	Yes
2.3 Does the organisation promote and demonstrate the principles and values of good governance?	2	Yes
2.4 Does the organisation manage its risks and maintain a sound system of internal control?	2	Yes
<b>Managing resources</b>		
3.3 Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	2	Yes

# Appendix 5 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Governance Report 2008/09 - Recommendations</b>						
8	R1 Ensure that greater consideration is given to compliance with all Financial Reporting Standards in producing the financial statements.	2	Head of Financial Services	Yes	Improvements have been made in 2008/09 and we will continue to review the requirements of Financial Reporting Standards.	Ongoing
8	R2 Ensure that the agreed action plan from Internal Audit's report 'Audit of ICT Security Policy and Annexes' is closely monitored.	3	Shared ICT Services Manager (Designate)	Yes	The action plan will be implemented in accordance with the agreed timescales. Internal Audit has planned a follow up visit in November 2009.	Nov 2009

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R3 Ensure that all journals are authorised by an approved officer.	2	Head of Financial Services	Yes	We will review our current arrangements for authorising journals in terms of approved officers and value of journals to be authorised.	Dec 2009

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# The Audit Commission

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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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