

<b>REPORT TO EXECUTIVE</b>			
<b>PORTFOLIO AREA:</b>			
<b>Date of Meeting:</b>	18 FEBRUARY 2002		
<b>Public</b>			
<b>Key Decision:</b>	No	<b>Recorded in Forward Plan:</b>	Yes
<b>Inside Policy Framework</b>			

**Title: DISTRICT AUDIT MANAGEMENT LETTER**

**Report of: TOWN CLERK AND CHIEF EXECUTIVE**

**Report reference: TC.33/02**

**Summary:**

Members will be aware that the District Auditor formally reports on the Management of the Authority each year in relationship to the accounts, financial aspects of corporate governance and performance. The report for the year 2000/2001 is attached for Members.

**Recommendations:**

- a. That Members receive the report.
- b. That the Committee nominates appropriate Members to discuss the Management Letter with the District Auditor.
- c. That this report be referred to the Overview and Scrutiny Corporate Resources Committee

Peter Stybelski

7001

**Contact Officer:**

**Ext:**

Annual Audit Letter

**Carlisle City Council**

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**DISTRICT AUDIT**

Reference:	CA015-06-2001.doc
Date:	December 2001

## Introduction

This has been another demanding year for Carlisle City Council. The Council has however continued to make progress in implementing a number of major changes and has progressed a number of key initiatives including:

- integrating Best Value into its day to day operations
- responding positively to the 'Foot & Mouth' crisis by initiatives such as creating a Local Strategic Partnership (LSP) with Eden District Council and supporting local businesses through the introduction of specific business rates hardship scheme
- introducing new political and decision making arrangements
- continuing to develop its arrangements for the potential transfer of its housing stock
- opening the underground gallery
- reviewing the arrangements for the provision of leisure facilities
- completing the sale of the airport and transfer of Kingmoor Park
- completing relevant statements to comply with the E-Government agenda.

The Council has also responded positively to external challenge from both audit and the Best Value Inspection Service.

The most significant event in 2000/2001 was the onset of the foot and mouth crisis during February 2001. Whilst the Council responded positively to the crisis it inevitably diverted the attention of many key managers away from the Council's core business. The effect of the crisis is likely to have a major impact on the Council's performance and the well being of the local community during 2001/2002 and beyond.

Our audit has found that the Council generally has satisfactory systems in place. The key messages arising from our audit are summarised in this letter for the Council's attention.

## KEY MESSAGES

### Financial Standing

The Council's financial standing is currently soundly based although medium term projections estimate that the Council will face significant pressure if it is to maintain future expected levels of expenditure and balances.

Members will need to ensure that medium and longer term financial plans, covering a minimum period of three years, are robust and flexible enough to enable the Council to meet its service targets whilst continuing to improve and develop services and respond to the significant corporate impact of the proposed housing stock transfer.

There are a number of major projects that could potentially impact on the Council's financial health. These need to be subject to strong programme and project management arrangements during 2001/2002 with regular financial risk assessments being undertaken by officers and Members.

### New political arrangements

Carlisle City Council has embraced the modernisation agenda and introduced its Cabinet and Leader model and new Constitution on 12 September 2001. The Council's work in this area included a number of good practice aspects. There are a number of key issues to be addressed in order to ensure that the arrangements work effectively by May 2002.

### Best Value

In June 2001 we issued an unqualified opinion on the Council's Best Value Performance Plan. The Council has continued to integrate Best Value in to its day to day processes. The Council has strengthened its strategic performance framework and has responded positively to our recommendations on developing templates for implementation and service plans and strengthening corporate quality assurance processes.

However, there is still a need to assign relative priorities to corporate and service objectives, improve the effectiveness of local performance indicators and improve quarterly reporting.

### **Gateway City Project**

During the year we undertook an independent review of the Gateway City Project. I concluded that no formal action was required under Sections 17 or 18 of the Audit Commission Act 1998, as there were no concerns about legality, financial impropriety or wilful misconduct on the part of officers or Members. Our report did however make a number of recommendations that have relevance to the major projects the Council is currently actioning and more generally for the day to day operation of the Councils activities.

The key recommendations were around improving risk management and assessment, reviewing senior management arrangements and responsibilities, improving project management arrangements, the composition of project teams, communications and improvements to the management of construction projects.

### **Proposed Housing Stock Transfer**

During the year we have been tracking progress in respect of the possible transfer of the Council's housing stock to the Riverside Housing Group. We have highlighted a number of issues and the Council has addressed these by putting arrangements in place.

### **Leisure Options**

By August 2001 the Authority had progressed the Leisuretime competitive process including a risk assessment, budget and draft timetable. A revised improvement plan has been produced to address issues raised by the BVIS.

### **Accounts**

We will issue an unqualified audit opinion in December 2001. However, there is a need for the Authority to continue to improve compliance with the requirements of Financial Reporting Standard 15.

### **Internal Audit**

Internal Audit's work on reviewing the adequacy and operation of key controls within the Council's fundamental financial systems during 2000/2001 was incomplete. This was due to various factors including Foot & Mouth and undertaking extra work for senior management. As a result we were not always able to place reliance on their work as part of our opinion work on the accounts and in support of major grant claims.

A revised programme of work and timetable has been agreed between Internal Audit and ourselves to ensure that all fundamental systems will have been reviewed for both 2000/2001 and 2001/2002 by 31 March 2002. We have also agreed an action plan with the Head of Financial Services that should significantly strengthen arrangements and minimise any future problems.

### **Legality of financial transactions**

The Council has satisfactory arrangements to ensure the legality of significant financial transactions. There are no issues to bring to the attention of members in this area of our responsibilities.

### **Standards of financial conduct, fraud and corruption**

The Council has satisfactory arrangements in place both to maintain proper standards of financial conduct and to prevent and detect fraud and corruption.

**Grant claims**

In our 1999/2000 audit letter we raised concerns about the control over grant claims. Whilst the Council has produced draft grant claim procedures it is increasingly important that these are finalised, approved and implemented as soon as possible. If claims arrangements and supporting documentation fall below an acceptable level then there is the possibility that the Council may lose income as a result.

**The purpose of this Letter**

Our annual audit Letter summarises for Members the more important matters arising from our audit this year. We have produced separate reports during the year on completion of specific aspects of our work and these have been discussed in detail with officers. Audit reports to be issued during 2000/2001 are listed at the end of this Letter for information.

**Audit objectives**

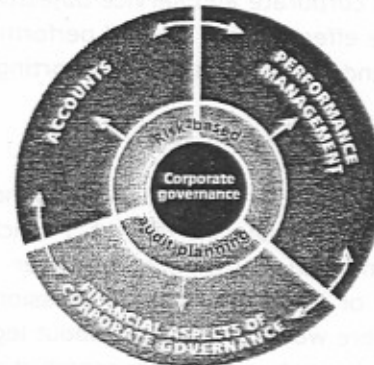
Our main objective as your appointed auditor is to carry out an audit which meets the Audit Commission's Code of Audit Practice.

A new Code has been introduced for 2000/2001 following consultation with audited bodies. This requires us to assess our audit work in terms of the significant financial and operational risks that the Council faces, and is structured around three key objectives in relation to:

- the accounts
- financial aspects of corporate governance.
- Performance.

**EXHIBIT 1**

**The three main elements of audit objectives**



**Financial aspects of corporate governance**

- Financial standing
- New political arrangements
- Standards of conduct and systems of internal control
- Prevention and detection of fraud and corruption
- Legality of financial transactions
- Grant claim arrangements

**Performance management**

- Best Value
- Performance information
- Gateway City Project
- Proposed housing stock transfer
- Leisure Options

**Accounts**

- Opinion on 2000/2001 financial statements
- Review of Internal Audit
- UNIX review

Our audit has addressed the requirements of the Code of Audit Practice and we have worked with the Council to maximise the benefits of the integrated audit approach.



Working in co-operation with your officers, we have reviewed your arrangements for dealing with risks and we have undertaken more detailed work in selected areas of higher audit risks.

## Scope of the Audit

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of external auditors. Our audit has been conducted in accordance with those principles, and what we say about the results of our work should be viewed in the context of that more formal background.

## Financial aspects of corporate governance

### Financial standing

*The Council's financial standing is currently soundly based although medium term projections estimate that the Council will face significant pressure if it is to maintain future expected levels of expenditure and balances.*

*Members will need to ensure that medium and longer term financial plans, covering a minimum period of three years, are robust and flexible enough to enable the Council to meet its service targets whilst continuing to improve and develop services and respond to the significant corporate impact of the proposed housing stock transfer.*

*There are a number of major projects that could potentially impact on the Council's financial health. These need to be subject to strong programme and project management arrangements during 2001/2002 with regular financial risk assessments being undertaken by officers and Members.*

*The Council's level of Council Tax arrears was consistent with 1999/2000 but showed a slightly deteriorating collection rate in comparison with the performance of other comparative authorities*

*during 2000/2001. This was offset by an improved position on the collection of National Non-Domestic Rates debts. The Council needs to continue to monitor both closely during 2001/2002.*

### General Fund

The Council's overall financial standing is currently healthy. Carlisle had £11.4m in revenue reserves at 31 March 2001. This consisted of General Fund of £5.6m, Large Projects Pool of £2.9m and other earmarked balances of £2.9m. The General Fund balance of £5.6m at 31 March 2001 represents 45% of the Council's net revenue budget for 2001/2002.

The Council had a budget underspend of approximately £1.5 m in 2000/2001 that added to balances. Whilst this appears to be a healthy position approximately £1m of the £1.5m was already committed to be spent in 2001/2002. There are likely to be a number of planned but significant calls on balances during 2001/2002. As a result General Fund balances are currently projected to have reduced significantly by 31 March 2002 to £3.7m plus a balance of £0.65m in the Large Projects Pool. This reduction reflects the completion of the Millennium scheme and increases in non recurring expenditure on new policy initiatives such as the proposed housing stock transfer, progressing Best Value and the potential Leisure Trust.

At the end of November 2001 the City Treasurer reported revised estimates for 2001/2002 and first forecasts for 2002/2003. The report highlights that savings of £775k will be required in 2002/2003 if the Council is to remain within its net budget of £12.87m. It is also noted that since the report was produced further pressures have arisen including reduced treasury income and likely increased insurance premiums. These will be factored into estimates in December 2001 and will increase the savings required for 2002/2003.

Members will need to ensure that medium and longer term financial plans, covering a minimum period of three years, are robust and flexible enough to enable the Council to meet its service targets whilst continuing to improve and develop services and respond to the significant corporate impact of the proposed housing stock transfer.

There are a number of major projects that could potentially impact on the Council's financial health. These need to be subject to strong programme and project management arrangements during 2001/2002 with regular financial risk assessments being undertaken by officers and Members.

### Housing Revenue Account (HRA)

In 2000/2001 the Housing Revenue Account (HRA) recorded a surplus of £332k compared with a surplus of £90k in the previous year. This increased HRA balances so that they stood at £3.65m at 31 March 2001, but which included rolled forward commitments of £1.2m. This equates to 14 percent of the HRA budgeted gross expenditure for 2001/2002.

At the end of November 2001 the City Treasurer reported revised estimates for the HRA for 2001/2002 and first forecasts for 2002/2003. The report highlights that the projected deficits for 2001/2002 and 2002/2003 are £1.57m and £0.9m respectively. It is estimated that the HRA balance at 31 March 2003 will be £1.19m, before the rent increase for 2002/2003 is applied and will increase balances closer to £1.6m.

The latest available longer term projections, updated in November 2000, show that the HRA will go into deficit in 2003/2004. Even though the Council is currently progressing its proposals to transfer the housing stock there is still a need to update these longer term projections and closely monitor the position should the proposed stock transfer not proceed following the tenants' vote.

### Direct Service Organisations (DSOs)

Overall the Council's DSOs have again reported a healthy financial position with a surplus of £841,000 reported in 2000/2001. The building cleaning and refuse collection contracts achieved relatively low surpluses to turnover and Managers will need to continue to monitor performance closely.

### Arrears

Debt management continues to be an important part of financial control. At the 31 March 2001 the level of NNDR debt was £900k

(4% of annual debit). This shows an improvement on 1999/2000 position.

The level of Council tax arrears was £2.06m (7% of annual debit). Although, the position is consistent with last year Carlisle's level of arrears as a percentage of that collectable is higher than a number of other district councils as shown in District Audit's 'Balance 2001' database. Although the level of debt had reduced to £1.47m (5%) at the end of October 2001 the Authority will still need to monitor the position.

Although, the housing rent debt at 31 March 2001 of £1.29m (7.7% of annual debit) shows an improving position it still represents poor performance when compared with other district councils. There is a need to continue this improvement even though the Council is still proceeding with its proposals for transferring its housing stock.

Another area where arrears have increased related to sundry debtors. At the year end sundry debt was £1.65m (15.9% of invoices raised in the year compared with 14.2%). Although, the level of debt at the year end can be influenced by a number of factors it was noted that during 2000/2001 there were limited resources available to deal with recovery. A debtor's processor part time post was made full time in December 2000, which should help the position, but progress should be closely monitored.

### New political arrangements

*Carlisle City Council has embraced the modernisation agenda and introduced its Cabinet and Leader model and new Constitution on 12 September 2001. The Council's work in this area included a number of good practice aspects. There are a number of key issues to be addressed in order to ensure that the arrangements work effectively by May 2002.*

This year we have undertaken an initial review of the progress made by the Council in establishing and implementing the new political arrangements in response to the Government's modernisation agenda as required by the Local Government Act 2000.



Carlisle did not run a pilot and went 'live' with the Cabinet and Leader model and new constitution on 12 September 2001. The Council will need to keep the operation of the new constitution under review and an initial cautious approach seems evident in the limited delegations provided to portfolio holders of the Executive.

The Council's work on introducing the new political structures has included a number of good practice aspects including:

- using telephone polls, hotline and road-shows as part of the Council's consultation with the public
- IT solutions have been implemented and a date for a complete paperless exchange of information with Members has been agreed.

Making the new arrangements work effectively is likely to be a difficult task and the Council may need to alter arrangements to reflect early experiences and lessons learnt from other councils. Key issues to address over the coming months are:

- ensuring that Members and officers are trained to understand their new roles, especially in scrutiny and the linked area of performance management
- developing new mechanisms to engage the community and to build on the high levels of interest shown in the new constitutional arrangements
- reviewing the operation of the Standards Committee and the provision of support to its external members

### **Standards of conduct and systems of internal control**

*The Council has satisfactory arrangements in place both to maintain proper standards of financial conduct and to prevent and detect fraud and corruption.*

In general appropriate arrangements are in place for maintaining appropriate standards of financial conduct. Codes of conduct for Members and Officers have been recently updated as part of the new Constitution. We have identified actions that will be taken over the next year to improve or update current arrangements.

These include:

- producing procedures notes for the payroll function
- implementing recommendations made by Internal audit in respect of arrangements for registering gifts and hospitality.

The Council's arrangements for ensuring effective corporate governance will also be reliant on robust risk management processes. We have noted that the Council has already created a Risk and Safety Management Best Value Working Group to develop a comprehensive risk management strategy. It is important that the development of a risk management strategy is accompanied by a suitable policy document. This would set the framework for the identification of the risk quantum and help to minimise the Council's exposure to service failure or litigation. To support the Authority in developing its approach to risk management we held a workshop for Officers and Members in November 2001.

### **Prevention and detection of fraud and corruption**

The Council has improved overall arrangements in recent years by formally adopting:

- a Theft, Fraud and Corruption Response Plan, and
- a Confidential Reporting Policy.

However, there is a need to review the 'Confidential Reporting Policy' to ensure that it fully reflects the requirements of the Public Interest Disclosure Act 1998.

### **National Fraud Initiative 2000**

The NFI is a key data matching exercise operated throughout the public sector to prevent or detect misappropriation of public funds. Carlisle was part of this year's initiative. This exercise identified a large number of data matches which, in a return to the Audit Commission in August 2001, the Authority highlighted 42 cases requiring further investigation. This work is continuing.

## Legality of financial transactions

*The Council has satisfactory arrangements to ensure the legality of significant financial transactions. There are no issues to bring to the attention of members in this area of our responsibilities.*

We are satisfied with the Council's overall arrangements. Neither of your statutory officers, the Monitoring Officer or Section 151 officer have had to exercise their formal powers associated with unlawful or potentially unlawful action.

No letters of objection have been received from the public and no matters have arisen to report to Members.

## Grant claims

*In our 1999/2000 audit letter we raised concerns about the control over grant claims. Whilst the Council has produced draft grant claim procedures it is increasingly important that these are finalised, approved and implemented as soon as possible. If claims arrangements and supporting documentation fall below an acceptable level then there is the possibility that the Council may lose income as a result.*

Last year we highlighted the need to develop a single overall grant claim record within the Authority. Work started on this at the end of June and by mid August 2001 the Authority had produced draft procedures. These outline responsibilities for Chief Officers and individual officers and provide guidance on supporting evidence and submission. A grant claims monitoring return has also been developed. It is important that these procedures are finalised and approved as soon as possible. We also included guidance as part of our annual final accounts workshop.

Problems were again incurred with a Home Energy Conservation (HEC) grant for £180,000. This was submitted for audit over two months late and although an audit extension was granted to 30 September we were only able to certify the claim on 22 November 2001. This was due to significant difficulties and delays in agreeing the claim form to working papers and the Authority's accounting records.

The City Treasurer has already offered to provide assistance to establish more secure arrangements for recording and retrieval of data to support next year's HEC claim. We strongly recommend that an officer from City Treasury, with experience of grant claims, be assigned to assist with the completion of next year's claim.

We would like to remind the Authority that the late submission of grant claims and an inadequate audit trail increases both the cost of auditing the claim and the risk that the sponsoring government department reduces its funding leading to the Authority having to fund the expenditure already incurred.

## Performance management

### Best Value

*In June 2001 we issued an unqualified opinion on the Council's Best Value Performance Plan. The Council has continued to integrate Best Value in to its day to day processes. The Council has strengthened its strategic performance framework and has responded positively to our recommendations on developing templates for implementation and service plans and strengthening corporate quality assurance processes. However, there is still a need to assign relative priorities to corporate and service objectives, improve the effectiveness of local performance indicators and improve quarterly reporting.*

In June 2001 we reported that this year's Best Value Performance Plan (BVPP) had complied in all significant respects with legislation and followed relevant guidance, and issued an unqualified opinion.

In this years Best Value Audit Report we concluded that a corporate framework to address the requirement of Best Value has been established and incorporated within the Authority's new Strategic Performance Framework.

However, whilst the Council had strengthened its Strategic Performance Framework it had yet to fully implement it in practice. We also identified scope to better integrate action and implementation plans, resource planning and budget setting and a need to improve the robustness of service planning including developing 'SMARTer' local performance indicators and targets clearly focused on outcomes.

Towards the end of November we met with Officers to discuss the Council's progress in relation to the recommendations we made to further develop and strengthen the approach to Best Value and performance management generally. Over the last five months the Authority has taken action to address some of our recommendations including:

- strengthening corporate guidance in relation to Best Value and the Strategic Performance Framework including developing corporate templates for action/implementation plans and annual service plans
- involving the Best Value Officer on all Best Value Reviews to further strengthen and support corporate quality assurance processes
- developing a new corporate protocol setting out the roles and responsibilities of the new overview and scrutiny committee to help further develop and strengthen member engagement in the Best Value process, and in scrutinising overall performance.

However, for several recommendations the planned remedial action has not yet been taken and consequently there has been slippage against the agreed action plan. Some of this slippage has occurred because of resources available to effectively 'police' adherence to corporate guidance and timetables at the individual service level. More importantly however is the effect the Council's traditional departmental approach to service, financial planning and resource allocation is having on managers' ability and commitment to plan and think 'more strategically'. Key areas where the Authority has not yet taken action or has fully addressed our original recommendations include

the need to adopt a more strategic approach. In particular:

- assigning relative prioritised to corporate themes and service priorities and objectives to support a more strategic approach to financial planning, budgeting and resource allocation across services and activities
- adopting a longer term strategic approach to service planning to support longer term corporate and financial planning and budgeting
- strengthening corporate guidance on partnership working, particularly procurement through partnership approaches to support the Best Value process
- corporately reviewing the range and effectiveness of local performance indicators with a view to developing SMART indicators and targets that cover the full range of dimensions
- improving quarterly monitoring reports to committee by providing narrative to place performance in perspective, set out the remedial action being taken to address poor performance and identifies responsible officers.

### Performance information

This year is the last time that we were required to audit the Council's arrangements for collecting, recording and publishing Audit Commission Performance Indicators. On the basis of the work we carried out, we issued an unqualified opinion on the Council's arrangements for collecting, recording and publishing performance indicators on the 29 October 2001.

Data collection and verification arrangements have been strengthened over the last twelve months. This has included the requirement to provide a self-assessment of how performance indicators and targets within the BVPP have been generated.

## Gateway City Project

*During the year we undertook an independent review of the Gateway City Project. I concluded that no formal action was required under Sections 17 or 18 of the Audit Commission Act 1998, as there were no concerns about legality, financial impropriety or wilful misconduct on the part of officers or Members. Our report did however make a number of recommendations that have relevance to the major projects the Council is currently considering and more generally for the day to day operation of the Councils activities.*

### Background

On the 11 December 2000 the Full Council asked the Town Clerk & Chief Executive to undertake a full and independent review into the management of the Gateway City Project following a report from MPM Capita report which highlighted rising costs and other issues associated with the scheme.

At the same time as part of our audit planning we had identified the need through our revised planning process to review the scheme in detail. A job brief was prepared and agreed with the Council during December and early January 2001. The key purpose of our work was to review the circumstances which led to the situation in which the Council found itself in December 2000 and to identify lessons to be learnt and recommendations for future actions.

### Overall Conclusions

The Audit Commission Act 1998 is very specific about the circumstance in which the District Auditor can take action. The three main areas relate to illegality, failure to account for transactions and wilful misconduct. These are the areas in which I can take formal action under sections 17 and 18 of the Act. In addition I have general responsibilities to review the Council's arrangements for ensuring best use of its resources and maintenance of internal financial control.

My review concluded that:

- The Council had operated within its powers.
- Decisions had been properly made in accordance with the Council's rules.
- There were no probity issues.
- Council finances remained sound and sufficient to fund the scheme.
- Officers had not provided advice or evidence to Members which was incorrect or inaccurate.
- No evidence of technical incompetence.
- Members had taken decisions that were reasonable in the light of the advice they were given.
- The actions of Officers and Members throughout reflected a desire to do the best for the City and people of Carlisle.

I concluded on the basis of our findings that there was no formal action required under sections 17 or 18 of the Audit Commission Act 1998, but that a detailed report should be issued.

### Findings

Five key weaknesses or factors were identified that led to the situation in which the Council found itself. These were:

- the Millennium Commission's bidding framework
- weaknesses in some key management and decision making processes
- the Council's internal management arrangements at the top
- project management arrangements
- some of the judgements made by Officers and Members at critical points in the process.



## Recommendations

We highlighted a number of key lessons for the Council to take forward including:

- the need for all major projects to have a formal risk assessment
- reviewing management arrangements including:
  - the corporate and professional responsibilities of Chief Officers
  - greater emphasis on the role of the City Treasurer in terms of Value for Money, monitoring and scrutiny
  - maintenance of the Chief Executive's ability to provide a critical and independent oversight of arrangements
- improvements to project management arrangements with dedicated project management arrangements on major projects
- all major projects to be led by a project team with legal and financial representation
- better communication of major change initiatives through a Communications Strategy
- improvements to the management of construction projects including:
  - agreeing appropriate levels of contingency
  - better scrutiny of capital estimates and external advice from consultants
  - regular monitoring arrangements and forecasts to completion.

Many of these lessons are relevant in the current context of the changes that the Council is currently considering including housing and leisure but also more generally in respect of the day to day running of the Council.

## Proposed Housing Stock Transfer

*During the year we have been tracking progress in respect of the possible transfer of the Council's housing stock to the Riverside Housing Group.*

*We have highlighted a number of issues and the Council has addressed these by putting arrangements in place. We will continue to liaise with officers as part of next year's audit.*

During the year we have monitored the Council's arrangements for controlling the possible transfer of the Council's housing stock. Our work included meetings with key officers and reviewing appropriate reports and minutes. We have had discussions with Officers on the adequacy of the Council's arrangements in a number of areas including project management, conflict of interests and information given to tenants.

In progressing its proposal to transfer the housing stock the Council will need to:

- ensure that it has a comprehensive and up-to-date project plan in place to help ensure the delivery of the project within required timescales
- ensure that the City Treasurer maintains overall responsibility for the corporate aspects of taking the project forward
- continue to consider why and where potential conflicts of interest may occur, and ensure that adequate management arrangements are put in place to deal with these
- provide appropriate information to tenants and other stakeholders that is factually accurate and which is objectively informative rather than persuasive
- ensure that it considers the full impact on transfer on its residual services and functions and plans appropriately
- maintaining and monitor performance of the Council's housing service to minimise any potential problems should the transfer not go ahead.

We are aware that the Council is already undertaking work in these areas and has put arrangements in place. We will continue to liaise with officers on the proposed transfer as part next year's audit.

## Leisure Options

*By August 2001 the Authority had progressed the Leisuretime competitive process including a risk assessment, budget and draft timetable.*

*A revised improvement plan has been produced to address issues raised by the BVIS.*

During this year's audit we have been monitoring progress in respect of the Leisuretime competitive process. Leisuretime was a Year one Best Value Review (BVR) which took around nine months works. The final report was produced in November 2000 and concluded that the best way of reducing costs and possible capital investment was to consider procuring alternative management of the Leisuretime facilities. The two main options proposed were a Leisure Trust or using a private sector partner.

In June 2001 we discussed with the Director of Leisure and Community Development the process for developing a risk assessment. In August 2001 the Authority produced:

- risk assessment for the Leisuretime competitive process
- budget and draft timetable were also produced outlining the expected date to award the contract as mid April 2002
- selection of four companies to be asked to tender alongside the Leisuretime 'Trust' option.

In September 2001 the Best Value Inspection Service (BVIS) reviewed the Leisuretime BVR. In their interim challenge the BVIS commented that the focus of the improvement plan was to externalise the service, but was not clear on the improvements, other than financial, which this would produce. The process ceased while a draft revised improvement plan was produced in mid October 2001 to address the issues raised by the BVIS. We will continue to monitor progress as part of next year's audit.

## Accounts

*We will issue an unqualified audit opinion in December 2001. However, there is a need for the Authority to continue to improve compliance with the requirements of Financial Reporting Standard 15.*

## Opinion on 2000/2001 financial statements

The Authority is required to prepare its 2000/2001 statement of accounts in line with the Local Authority Statement of Recommended Practice (SoRP) 2000.

The SoRP 2000 incorporates the requirements of FRS15 - Tangible Fixed Assets, and establishes the requirement for depreciation to be charged on all tangible fixed assets with a fixed life. During 2000/2001 no depreciation has been charged on Housing Revenue Account (HRA) properties. This is an issue affecting a significant number of authorities nationally. To ensure compliance with FRS15 we have agreed appropriate amendments to the financial statements to include a depreciation charge and will issue an unqualified opinion in December 2001.

FRS15 also requires assets to be re-valued at intervals of not more than five years. The City Treasurer, in the 1999/2000 statement of accounts, disclosed non-compliance as £80.7m of assets, including the housing stock, had not been re-valued since April 1994. Although it was agreed that a revaluation exercise would be undertaken to enable compliance with the Code and FRS 15 in 2000/2001 only the housing stock was re-valued. When the financial statements were produced in mid August 2001 approximately £20.3m of General Fund assets had not been re-valued since April 1994. This was again brought to the attention of the Authority and a timetable for the re-valuation exercise was agreed. Revised re-valuations were subsequently received in October 2001 which are likely to result in a material adjustment of around £6m to the value of assets.

This year also saw the introduction of the Best Value Accounting Code of Practice (BVACOP). This was introduced to improve comparability and consistency in the reporting of financial activities. Some amendments will be required to the financial statements to ensure the code is fully reflected in the 2000/2001 accounts.



## Review of Internal Audit

*Internal Audit's work on reviewing the adequacy and operation of key controls within the Council's fundamental financial systems during 2000/2001 was incomplete. This was due to various factors including Foot & Mouth and undertaking extra work for senior management. As a result we were not always able to place reliance on their work as part of our opinion work on the accounts and in support of major grant claims.*

*A revised programme of work and timetable has been agreed between Internal Audit and ourselves to ensure that all fundamental systems will have been reviewed for both 2000/2001 and 2001/2002 by 31 March 2002. We have also agreed an action plan with the Head of Financial Services that should significantly strengthen arrangements and minimise any future problems.*

Carlisle's Internal Audit arrangements generally comply with the standards set out by CIPFA and the Auditing Practices Board. We identified problems with the coverage of work on the Council's fundamental systems in 2000/2001.

We rely as far as possible on Internal Audit's coverage of the main financial systems to underpin our opinion work on the accounts. During 2000/2001 Internal audit lost some resources due to staff vacancies. As a result of this the Audit Manager decided to postpone the detailed testing on the 2000/2001 fundamental systems and planned to undertake this work early in 2001/2002. However, a secondment to 'Foot & Mouth', together with the effect of a further vacancy and significant demands for unforeseen and unplanned work requested by senior management, meant that by October 2001 detailed testing had still not been undertaken on the 2000/2001 fundamental systems.

A revised timetable has now been agreed between Internal Audit and ourselves to ensure that all fundamental systems will have been reviewed for both 2000/2001 and 2001/2002 by 31 March 2002.

Failure to undertake detailed testing to confirm controls or to identify this in the annual report to Members significantly reduces any assurance that the system of internal financial control is operating effectively.

We have agreed an action plan at the end of October 2001 with the Head of Financial Services that should significantly strengthen arrangements. The key improvements include:

- ensuring that work on the fundamental systems is given first priority and audited within each financial year
- enhanced quarterly monitoring reports to include progress on auditing the fundamental systems and identifying any problems with completing the programme
- Head of Financial Services will authorise any audit work which is cancelled or postponed
- closer monitoring of unplanned work
- the year end audit report will include an assurance that all fundamental systems work has been completed.

The introduction of these measures should minimise any future problems.

## UNIX review

*Our work has identified issues to address in respect of the UNIX operating system and the implementation of an effective IT Security Policy.*

Information and the IT systems that support it are important business assets. Their availability, integrity and confidentiality are vital to ensuring business continuity.

During the year we reviewed the Council's UNIX operating system. Several important applications are processed in the UNIX environment including financial systems, housing benefits, council tax, personnel and payroll. The integrity of these applications can be undermined by weaknesses in control, use or maintenance of the operating system.

The review covered the key control areas of the operating system including:

- detailed controls including access to system facilities, file permissions and performance monitoring
- operational controls including system start-up and shut down procedures, backup, recovery and physical protection of magnetic media

- system and user administration including user set up procedures and password controls
- management arrangements, including security policy and change controls.

**Security**

We identified a number of opportunities for strengthening control connected with user access controls and password rules.

The council has yet to implement an effective IT security policy to established standards that are based on an evaluation of potential threats and risks. Without this, the Council cannot be assured that appropriate controls have been established for their IT systems.

We are currently agreeing an action plan with the Authority to address the issues raised.

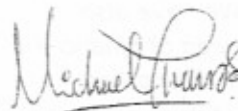
**Future audit work**

We are currently starting our work to plan the audit for 2001/2002. This will be carried out as a risk-based process looking at the major issues faced by the Authority. Our risk assessment and audit proposals will be discussed fully with officers before producing the Audit Plan.

**Closing remarks**

The issues raised in this Letter and the audit work undertaken during 2000/2001 will be discussed with the Members early in 2002.

Finally I would like to take this opportunity to express my appreciation for the assistance received from officers during the course of our work. Our aim is to provide a high standard of audit service which makes a practical and positive contribution to the Council's work. We recognise that this can only be done with your co-operation and support.



**Michael Thomas**  
District Auditor

**Reports issued during the audit**

Final Accounts Memo and Audit Opinion	December 2001
BVPP Audit Opinion, Report and Action Plan	28 June 2001
Certificate on Audit Commission Performance Indicators	29 October 2001
Review of Corporate Governance Arrangements	December 2001
Democratic Renewal	November 2001
Gateway City Project : Management Investigation and Review	March 2001
Review of UNIX Operating System	December 2001
2000/2001 Audit Plan	April 2001
Annual Audit Letter	December 2001

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**EXCERPT FROM THE MINUTES OF THE  
CORPORATE RESOURCES  
OVERVIEW AND SCRUTINY COMMITTEE  
HELD ON 28 FEBRUARY 2002**

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CROS.28/02 REFERENCES FROM THE EXECUTIVE AND OTHER COMMITTEES

**(b) District Audit Management Letter**

Further to Minute EX.057/02, the Town Clerk and Chief Executive submitted Report TC.33/02 enclosing a copy of the District Auditor's Annual Audit Letter on the management of Carlisle City Council in relation to the accounts, financial aspects of corporate governance and performance for the year 2000/01. The report had been referred to the Committee by the Executive.

In considering the report Members made the following comments:

- The report showed that the Council was going in the right direction and officers and Members should take heart from this report. Officers at all levels, particularly those at the front line of services should be thanked for their efforts.
- Improvements in relation to project management had been implemented since the Gateway City Project. In future these improvements should mean that extra care is taken when officers are expected to take on the management of major projects which are in addition to existing workloads. In future, support needs for major projects should be considered at the outset with specific project management teams and/or consultants used where appropriate.

The City Treasurer and the Town Clerk and Chief Executive then answered Members' questions in relation to Internal Audit's Audit Plan for reviewing key controls for 2000/01 and 2001/02.. They also commented on risk assessments which had taken place in relation to the housing and leisure transfer and on the existence of an alternative strategy if the housing transfer does not proceed. Performance in relation to the collection of housing rent debt was highlighted and it was noted that there had been an improvement in housing performance indicators.

In response to questions, the City Treasurer outlined the procedures which were in place to registering and monitoring all grant income and advised that Chief Officers were responsible for ensuring that staff adhere to these procedures. In relation to the UNIX review, District Audit would come back to the Head of Information Technology to discuss an action plan.

**RESOLVED – (1)** That the comments of Members as outlined above be noted and officers at all levels be thanked for their efforts.

(2) That the Executive be advised that this Committee endorses the District Auditor's comments in relation to the need for medium and longer term financial plans (Page 2 – Key Messages – Financial Standing).

(3) That the key issues on ensuring that Members and officers are trained to understand their new roles, especially in relation to scrutiny and performance management (as contained in the second set of bullet points under New political arrangements - page 7, first column) be endorsed and referred to the group looking at Member Training priorities.

Decision Ref No	EX.057/02
Subject Matter	DISTRICT AUDIT MANAGEMENT LETTER  To consider a report from the Town Clerk and Chief Executive (TC.33/02) enclosing a copy of the District Auditor's Annual Audit Letter on the management of Carlisle City Council in relation to the accounts, financial aspects of corporate governance and performance for the year 2000/01.
Decision	1. That the report be received. 2. That Councillors Mitchelson, Firth, Stevenson and the Leaders of the Labour and Liberal Democrat and Independent Groups be nominated to discuss the management letter with the District Auditor. 3. That the report be referred to the Corporate Resources Overview and Scrutiny Committee.
Key or Non-Key Decision	Non-Key      Key Decision Ref      Not applicable
Portfolio	Strategy and Performance
Who made decision	Executive
Date	18-Feb-02
Reports and Background Papers considered	Report TC.33/02.
Reasons for Decision	In order to make Members aware of the District Audit's Management Letter and make arrangements for certain Members to discuss the contents of the letter with the District Audit.
Summary of Options rejected	None
Interests declared	None
Date published	20-Feb-02
Urgent decision not subject to call in	No
Consent of Chairman/ Deputy Chairman of Council to Urgency	Not applicable
Deadline for call-in	1700 on 27 Feb 02
Implementation date if not called-in	28 Feb 02
Relevant Overview and Scrutiny Committee	Corporate Resources
Call-in notified to and date notified	