



## REPORT TO EXECUTIVE

### PORTFOLIO AREA: FINANCE AND PERFORMANCE MANAGEMENT

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Date of Meeting: 23 April 2007

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Public

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Key Decision: No

Recorded in Forward Plan:

No

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Inside Policy Framework

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Title: ANNUAL AUDIT AND INSPECTION LETTER 2006/07

Report of: The Director of Corporate Services

Report reference: CORP12/07

#### Summary:

The final Annual Audit and Inspection Letter for 2006/07 was received on 4 April, considered by the Audit Committee on 18 April and is now attached for member consideration together with the Senior Management Team response.

#### Recommendations:

Members are asked to note the Annual Audit and Inspection Letter and the action being taken to address improvements required and comment as appropriate.

Contact Officer: Angela Brown

Ext: 7299

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: None

## CITY OF CARLISLE

To: The Chairman and Members of the  
Audit Committee  
18 April 2007

CORP12/07

### ANNUAL AUDIT AND INSPECTION LETTER 2006/07

#### 1. Introduction

- 1.1 The final Annual Audit and Inspection Letter for 2006/07 was received on 4 April and is attached for member consideration together with the Senior Management Team response.

#### 2. Progress

- 2.1 Generally the report shows positive progress but with some improvements still being required. There are four key actions as being required by the Council as set out below:

- (i) *Ensuring that the 2006/07 accounts submitted for audit are 'presented fairly' and contain only minimal errors.*

Response - The main issue in relation to the annual accounts is in relation to the audit assessment of non-trivial errors. The Use of Resources Action plan considered elsewhere on the agenda sets out the actions required to achieve improvements in this area.

- (ii) *Ensuring that policies and services respond to varying levels of need or access to services for particular groups or localities.*

Response - This will be addressed as part of the Corporate Improvement Plan currently under development. Improvements have already been made in analysing and mapping socio-economic data and monitoring of services to inform equalities and diversity. The challenge will be to use this information to design and deliver services (probably through the area-based teams).

- (iii) *Evaluating the capacity of the Council and its partners to deliver against key strategies over the medium and longer term.*

Response – This will be addressed as part of the Corporate Improvement Plan currently under development, mainly through the Community Plan for Carlisle developed by the Carlisle Partnership.

- (iv) *Maximising the best use of available resources by challenging areas of continual underspending and assessing the impact of slippage on the capital programme on the delivery of corporate objectives.*

Response – The carry forward procedure has been reviewed and the ongoing work of the Capital Projects Board will lead to further improvements in this area. The Use of Resources Action plan considered elsewhere on the agenda sets out further the actions required to achieve improvements in this area.

3. Recommendations

- 3.1 Members are asked to note the Annual Audit and Inspection Letter and the actions being taken to address improvements required and comment as appropriate.

ANGELA BROWN  
Director of Corporate Services

Contact Officer: Angela Brown

Ext: 7299

# Annual Audit and Inspection Letter

**Carlisle City Council**

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

### **Status of our reports**

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

### **Copies of this report**

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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: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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## Our overall summary

- 1 This report provides an overall summary of the Audit Commission's assessment of Carlisle City Council (the Council). It draws on the findings and conclusions from the audit of the Council and from any inspections that have been undertaken in the last year. The letter includes our review of how well the Council has progressed (our Direction of Travel report) and the auditor's assessment of how well the Council has managed its finances (the Use of Resources scores). These latter components will be an important feed into any future decision regarding the potential for rescoring the Council's Comprehensive Performance Assessment (CPA) category.
- 2 The report is addressed to the Council, in particular it has been written for councillors, but is available as a public document for stakeholders, including members of the community served by the Council.
- 3 The main messages for the Council included in this report are:

## Council Performance

- 4 The Council has achieved improvement across a broad range of services, but this progress has not moved a significant proportion of services to high performance levels. The housing benefit service has continued to improve in 2005/06 and during 2006/07. Planning applications are now being processed more promptly than national minimum standards and the quality of the service has improved. The Council has also helped to reduce the impact of waste on the environment in 2005/06 when the amount of waste generated in the district fell.
- 5 The Council has prioritised activity to improve community safety and it is having an impact within communities. There have been improvements during 2005/06 across key crime areas, but these remain relatively high compared with similar areas.
- 6 The Council and its partners have made good progress in establishing a new local strategic partnership (LSP) for the Carlisle area. The implementation of the renaissance plan represents a significant challenge for the Council's leadership. The development of a sub regional housing strategy is recognised as the first of its kind in the country and is used as an example of partnership working and strategic planning.
- 7 The future capacity of the Council and its key partners to deliver the aims set out within key strategies over the medium term has not yet been evaluated. The Council has made slow progress in ensuring policies and services respond to varying levels of need or access to services for particular groups or localities. It is also noted that the Council will not implement a revised pay and grading structure, based upon equality principles, in accordance with the national pay agreement timetable.

- 8 Improvements have been made in budget monitoring during 2006/07 but there is still a need for the Council to challenge areas of continual underspending and carry forwards to ensure that it is maximising the best use of available resources. There is also significant annual slippage on the Council capital programme and Members will need to be clear about the impact on the delivery of the Council's corporate priorities.

## Accounts

- 9 We gave an unqualified opinion on Carlisle's 2004/05 accounts on 30 June 2006, some nine months after the deadline. We also gave an unqualified opinion on Carlisle's 2005/06 accounts on 18 December 2006, almost three months after the deadline. We also gave our conclusion on your value for money arrangements on 18 December 2006 to say that these arrangements are adequate except for:
- putting in place arrangements to maintain a sound system of internal control; and
  - putting in place arrangements for managing performance against budgets.

## Use of Resources

- 10 Carlisle scored 2 out of 4 under our assessment of the Council's Use of Resources. The Council has strengthened its arrangements with regard to financial standing and to certain aspects of financial reporting, financial management and internal control. However, the financial reporting element of the Council's arrangements were assessed as less than adequate overall and the submission for audit of a set of accounts 'presented fairly', and containing only minimal errors, still represents a significant challenge for the Council.

## Action needed by the Council

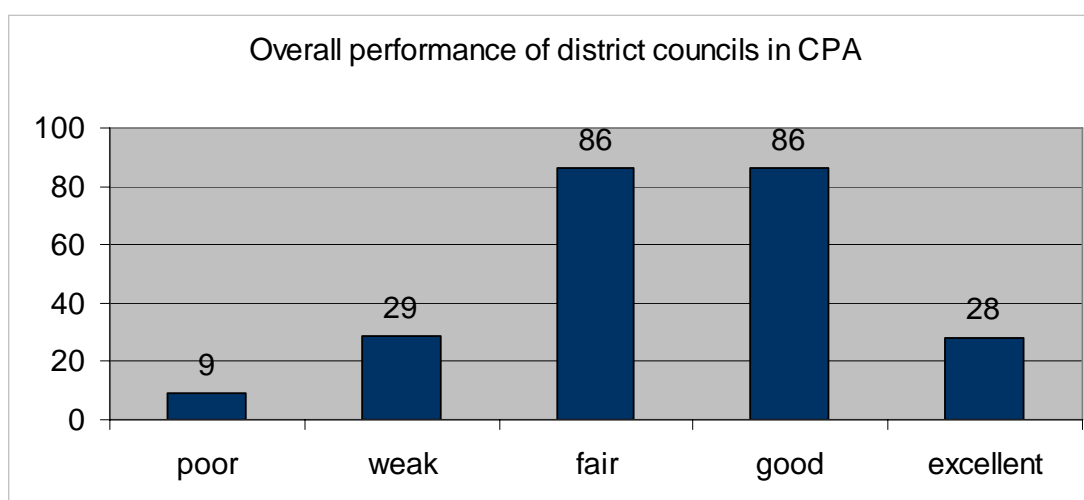
- 11 The key actions required by the Council are:
- ensuring that the 2006/07 accounts submitted for audit are 'presented fairly' and contain only minimal errors;
  - ensuring that policies and services respond to varying levels of need or access to services for particular groups or localities;
  - evaluating the capacity of the Council and its partners to deliver against key strategies over the medium and longer term; and
  - maximising the best use of available resources by challenging areas of continual underspending and assessing the impact of slippage on the capital programme on the delivery of corporate priorities.



## How is Carlisle City Council performing?

- 12** Carlisle City Council was assessed as Good in the Comprehensive Performance Assessment carried out in 2003. These assessments have been completed in all district councils and we are now starting to update these assessments, through an updated corporate assessment, in councils where there is evidence of change. The following chart is the latest position across all district councils.

**Figure 1 Overall performance of district councils in CPA**



Source: Audit Commission

## The improvement since last year - our Direction of Travel report

### What evidence is there of the Council improving outcomes?

- 13** The Council has achieved improvement across a broad range of services, but this progress has not moved a significant proportion of services to high performance levels.
- 14** Using a comparison of selected performance measures that relate to corporate health and shared priority areas, since 2004/05 the Council has improved those measures at a rate well above the average of other district councils (67 per cent compared to the average range of 57.4 - 58.6 per cent). However, in 2005/06 the Council achieved a lower proportion of these measures in the best quartile than the average for other districts (24 per cent compared to the average of 31 per cent).

- 15 The housing benefit service has continued to improve in 2005/06 and during 2006/07. The processing of new housing benefit claims is at very good standards and the processing of claims subject to changing circumstances is also improving well in 2006/07. However, the accuracy of claims processed reduced in 2005/06 and dropped to the worst quartile compared to all councils.
- 16 Unaudited performance information shows improvement in processing rates for all categories of planning applications during 2005/06 and 2006/07, so that currently national minimum standards are being exceeded. The quality of the service has also improved against the national 'checklist', moving from a worst quartile position in 2004/05 to fully complying with those standards in 2006/07.
- 17 The Council has helped to reduce the impact of waste on the environment in 2005/06. The amount of waste generated in the district reduced, reversing the growth trend of recent years, and a further reduction is predicted for 2006/07. Recycling improvements have contributed to reduced waste being sent to landfill and a phased change to an alternate weekly refuse collection system with extended kerbside recycling starts in March 2007.
- 18 The Council has prioritised activity to improve community safety and it is having an impact within communities. There have been improvements during 2005/06 across key crime areas, but these remain relatively high compared with similar areas. Violent crime against the person was the one category that increased in 2005/06. A programme of targeted interventions during 2006/07 is having an effect and there are reductions in all crime categories during 2006/07, including violent offences. The 'area teams' developed alongside the local policing presence are seen as a key resource and work well with the local community to identify areas for attention.
- 19 The Council has made slow progress in ensuring policies and services respond to varying levels of need or access to services for particular groups or localities. Progress is being made in developing detailed community information in ward and city profiles. The customer contact centre re-opened during 2006, following flood damage, and this has simplified service requests and query handling for customers. There was a significant improvement in the proportion of interactions with the Council that can be carried out electronically during 2005/06, reaching the 100 per cent target.

### **How much progress is being made to implement improvement plans to sustain future improvement?**

- 20 The Council and its partners have made good progress in establishing a new local strategic partnership (LSP) for the Carlisle area. The major regeneration initiative 'Carlisle Renaissance' continues to be developed with partner and public participation to shape the economic, social and physical development of the city. The strategic planning of the medium and long term future of the city and the integration of the 'renaissance' plan, community plan and corporate plan is a significant challenge for the Council's leadership.

- 21 Housing within the city faces some significant challenges. There has been some good progress in recovering from flood damage and bringing properties back into use, however there have been delays to the housing capital programme. The sub regional housing strategy has progressed well and has provided benefits to individual councils and the county as a whole through the effective targeting of action and the improved use of resources to deliver improvement. The strategy is recognised as the first of its kind in the country and is used as an example of partnership working and strategic planning.
- 22 The Council has a clear expression of its priorities and is a significant influence in strategic partnerships for the local area, however, the connection from strategic priorities and the outcomes expected through into corporate and service plans is not clear across all shared and local priority issues. The Council's has a good focus on improving the 'quality of life' for citizens, but the identification of whether the 'gaps' are closing between the most deprived areas, rural areas and the city 'average' is weak.
- 23 The future capacity of the Council and its key partners to deliver the aims set out within key strategies over the medium term has not yet been evaluated. A qualifications audit of staff has been carried out and there are local targets to increase the range of qualifications, complimenting its 'learning city' agenda. Staff absence levels reduced in 2005/06 and during 2006/07. This has improved the Council's position from being in the worst comparative quartile in 2004/05 and is improving the capacity of services.
- 24 The Council will not implement a revised pay and grading structure, based upon equality principles, in accordance with the national pay agreement timetable. Job evaluation processes are progressing and completion of this exercise and the establishment of a pay structure with harmonised terms and conditions is expected by March 2008. At present the Council cannot be assured that it has fair and equitable pay structures in place that meet its needs for the future.

## Financial management and value for money

- 25** As your appointed auditor I have reported separately to the Audit Committee on the issues arising from our 2005/06 audit and have provided:
- an unqualified opinion on your accounts;
  - a conclusion on your vfm arrangements to say that these arrangements are adequate except for;
    - putting in place arrangements to maintain a sound system of internal control; and
    - putting in place arrangements for managing performance against budgets;
  - a report on the Best Value Performance Plan confirming that the Plan has been audited.
- 26** The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
  - Financial management (including how the financial management is integrated with strategy to support the Council priorities).
  - Financial standing (including the strength of the Council's financial position).
  - Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
  - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 27** For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

**Table 1 Use of resources assessment**

Element	Assessment
Financial reporting	1 out of 4
Financial management	2 out of 4
Financial standing	3 out of 4
Internal control	2 out of 4
Value for money	2 out of 4
Overall assessment of the Audit Commission	2 out of 4

(Note: 1=lowest, 4=highest)

- 28** The key issues arising from the audit, as reflected in the above judgements where appropriate, are as follows:
- The Council's score for the financial standing category has improved from 2 to 3 this year. This has arisen mainly due to improvements which the Council has made to its arrangements for assessing the effectiveness of debt recovery actions as part of a recent revenue review.
  - We have also seen improvements this year in the Council's arrangements for promoting external accountability and - during 2006/07 - managing performance against budgets and strengthening the system of internal control.
  - Progress has been made recently on producing monthly bank reconciliations for 2006/07. This is a positive move and now needs to form part of the Council's ongoing key monthly internal control arrangements. The new reconciliation arrangements should be tested regularly by Internal Audit.
  - The submission for audit of a set of accounts 'presented fairly', and containing only minimal errors, still represents a significant challenge for the Council.
  - Financial management arrangements are adequate but can be improved by regularly reviewing the financial performance and outputs of partnerships, and by developing local performance indicators for asset usage to assess their contribution to corporate objectives.
  - Internal control arrangements have improved but there are still a number of areas where further development is required including ensuring that appropriate governance arrangements are in place for partnerships and that risks are being actively managed.
  - The Council needs to implement a new business continuity plan.
  - There is scope for developing a stronger fraud culture by undertaking more pro-active fraud and corruption work as determined by a formal risk assessment.
  - In developing its approach to achieving value for money the Council needs to maximise the use of available resources by reviewing areas of continual underspending and improve its evaluation of service quality and cost factors.

## **Audit of 2004/05 and 2005/06 accounts**

- 29** We gave an unqualified opinion on the Council's 2004/05 accounts on 30 June 2006, some nine months after the deadline. As reported in last year's letter material adjustments were required to the 2004/05 financial statements to ensure compliance with accounting standards.
- 30** We gave an unqualified opinion on the Council's 2005/06 accounts on 18 December 2006, almost three months after the deadline.

## **Matters arising from the final accounts audit**

- 31 A significant number of changes were required to the 2005/06 financial statements before we could provide our audit opinion. Our view is that we have seen some improvements in respect of detailed working papers to support the accounts and the higher priority given to the resolution of audit queries. However, further progress in 2006/07 is still required in terms of reducing the number of errors and uncertainties within the accounts presented for audit, responding to queries, ensuring that accounting treatments are appropriately evidenced and supported, and improving compliance with accounting standards and the Statement of Recommended Practice.

## **Report to those with responsibility for governance in the Council**

- 32 We are required by professional standards to report to those charged with governance (in this case the Audit Committee) certain matters before we give an opinion on the financial statements. In September 2006 we reported the position on the audit commenting that several issues had still to be resolved and outlined the additional work required to compensate for the assurance that we could not get from the unbalanced year end bank reconciliation. Ongoing meetings took place with officers with a further meeting with the Audit Committee in November 2006. On 12 December 2006 the Audit Committee re-approved the amended accounts with us providing the unqualified audit opinion on 18 December 2006.

## **Financial standing**

### **General fund spending and balances**

- 33 The Council had a budget underspend of approximately £2.9 million in 2005/06. However, £0.8 million related to income from the final settlement of the flooding claim and £1.7 million was already committed to be spent on services in 2006/07. The budget monitoring report to the end of December 2006 showed underspending of £0.67 million for 2006/07 which is an improvement on the position in December 2005 where underspending was £1.23 million. Although improvements have been made in budget monitoring during 2006/07 there is still a need for the Council to challenge areas of continual underspending and carry forwards to ensure that it is maximising the best use of available resources.
- 34 In November 2006 the Director of Corporate Services reported on the Council's General Fund Revenue projections to 2009/10. These showed that substantial savings will be required over the next three years especially with the implementation of a revised pay and grading structure. Members will need to ensure that longer term financial plans are robust and flexible enough to enable the Council to meet local and national priorities whilst maintaining a sound financial position.

## Capital programme

- 35 Capital expenditure in 2005/06 was £9.951 million against a revised budget of £10.530 million. The Council's original capital budget for 2006/07 was £13.153 million which included £6.285 million carried forward from 2005/06. Further slippage and changes to the capital programme during the year meant that by December 2006 the revised capital budget for 2006/07 was reduced to £9.921 million with further slippage expected. It is clear that there is significant annual slippage on the Council capital programme and Members will need to be clear about the impact on the delivery of the Council's corporate priorities.

## Systems of internal financial control

- 36 The most significant weakness in the Council's overall control framework in 2005/06 remained the ability to produce a balanced monthly bank reconciliation. In last year's audit letter we commented that, after the new financial system was implemented in April 2004, no balanced bank reconciliations had been produced during 2004/05. In 2005/06 the Council put significant effort and resources into resolving the bank reconciliation problem but at the end of 2005/06 it remained unbalanced.
- 37 Since April 2006 the Council has been balancing daily transactions, whilst at the same time trying to address the 2005/06 imbalance. In January 2007 the Council produced monthly bank reconciliations, in the traditional format, for each month April 2006 to December 2006. Although we have yet to audit these we see this as a positive move and this now needs to form part of the Council's ongoing key monthly internal control arrangements. Now that monthly bank reconciliations are being produced Internal Audit should regularly test them to provide Members with the assurance that this fundamental control is working.

## Other work

### Data Quality

- 38 During the year we undertook a review of the Council's data quality arrangements. We concluded that the Council has adequate arrangements in place. There is some scope for strengthening a small number of areas.

### Best value performance plan

- 39 Your best value performance plan (BVPP) complies in all significant respects with statutory guidance. An unqualified audit report was issued on 12 December 2006.



## Conclusion

- 40 This letter has been discussed and agreed with senior officers. A copy of the letter will be presented to the full Council in April 2007.
- 41 During the year arrangements were established for monthly monitoring meetings between the Council's Chief Executive and the Audit Commission's District Auditor and Relationship Manager to ensure that a positive and constructive dialogue on audit issues was maintained. The Audit Commission remains committed to assisting the Council in addressing the issues identified in this letter.

## Availability of this letter

- 42 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the Council's website.

Mark Heap  
District Auditor and Relationship Manager

March 2007