



CORPORATE RESOURCES OVERVIEW AND SCRUTINY COMMITTEE

Committee Report

Public

Date of Meeting: 22 November 2004

Title: STATEMENT OF ACCOUNTS 2003/04 – AUDIT ISSUES

Report of: Head of Finance

Report reference: FS39/04

Summary:

On 3 August 2004, the Council approved the draft Statement of Accounts for 2003/04 subject to Audit (FS14/04). The audit is now complete and this report provides information on issues raised during the audit.

The Corporate Resources Overview and Scrutiny Committee must approve the SAS610 Statement prior to the Auditors issuing their Audit certificate and formal opinion on the accounts.

The statutory deadline for the publication of the accounts for the current year is 30th November.

Recommendations:

The Corporate Resources Overview and Scrutiny Committee is requested to:

- (i) Approve the Auditor's SAS 610 Statement detailed in Appendix 2.
- (ii) Note the adjustments required to the 2003/04 Statement of Accounts detailed in Appendix 3, which will be reported to full Council on 23 November 2004.

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: Accounts and Audit Regulations 2003; Working papers prepared by Carlisle City Council and the Audit Commission; Draft Statement of Accounts for Carlisle City Council 2003/04.

CITY OF CARLISLE

To: Corporate Resources Overview & Scrutiny
FS39/04
22 November 2004

STATEMENT OF ACCOUNTS 2003/04 – AUDIT ISSUES

1. INTRODUCTION

- 1.1 On 3 August 2004, the Council approved the Statement of Accounts for 2003/04 subject to Audit (FS14/04). The Audit is now complete.
- 1.2 For information, Members' involvement in the process in accordance with the Accounts and Audit Regulations 2003 is set out in **Appendix 1**.
- 1.3 The role of the Corporate Resources Overview and Scrutiny Committee is to approve the SAS610 Statement, which must be approved before the Auditors will issue their Audit Certificate and formal opinion on the accounts.
- 1.4 The role of Council is to approve the original Statements for submission to audit. There is then a requirement for the Head of Finance to report back any material amendments following conclusion of the audit back to Council.
- 1.5 Following the conclusion of the audit, the Statement of Accounts must be published by statutory deadlines, which for the 2003/04 Statements is 30th November 2004. It should be noted that the required deadlines are another month earlier for the 2004/05 accounts and a further month earlier for the 2005/06 and future years' accounts.
- 1.6 The Auditors will be in attendance at the Committee to answer any Member queries.

2. SAS 610 STATEMENT

2.1 The SAS610 Statement is attached at **Appendix 2**, and details the unadjusted errors and other matters that the auditors wish to draw to members' attention. The following comments are made:

- (i) Unadjusted errors - there are no adjustments that have any effect on the overall financial position of the authority.
- (ii) Pension liability with Carlisle Housing Association - this issue is in the hands of the Fund Actuaries, and it is hoped that the matter will be resolved shortly.
- (iii) Quality of working papers - this is an area that has been improved over the past two years, however there is still more work required in meeting the standards now expected under the managed audit regime. A meeting will be arranged with the auditors to discuss this issue and also other improvements to the audit process, which will be required to enable the tighter deadline for the 2004/04 accounts to be met. I do not consider the quality of the working papers to be a significant risk area to the authority.

3. SUMMARY OF ADJUSTED ERRORS

3.1 Following the approval to the SAS610, the summary of adjusted errors will be reported to Council and the revised Statement of Accounts for 2003/04 will then be prepared and published. Whilst not a matter for approval by this the Corporate Resources Overview and Scrutiny Committee, the adjusted errors have also been attached to this report at **Appendix 3** for information.

3.2 Many of the adjustments are of a presentational nature including a number of transfers between the General Fund and the Housing Revenue Account. While these are significant in the context of the overall Statement of Accounts, they have no material impact on the overall financial position of the authority. The net improvement in the Council's usable balances from the adjustments is £43,961.

4. RECOMMENDATION

4.1 The Corporate Resources Overview and Scrutiny Committee is requested to:

- (i) Approve the Auditor's SAS 610 Statement.
- (ii) Note the adjustments required to the 2003/04 Statement of Accounts, which will be reported to Council on 23 November 2004.

ANGELA BROWN
Head of Finance

Contact Officer: Angela Brown

Ext: 7299

Members' involvement in the Final Accounts Process

This appendix details Members' roles and responsibilities in relation to the final accounts process and the subsequent production and approval of the annual Statement of Accounts in accordance with the requirements of the Accounts and Audit Regulations 2003.

Responsibility for Financial Management (Regulation 4)

The City Council is responsible for ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes the arrangements for the management of risk.

A review must be undertaken at least once a year of the effectiveness of its system on internal control and shall include a Statement of Internal Control (SIC), prepared in accordance with proper practices, with the annual Statement of Accounts.

Audit Commission requirements:

- Copy of Statement of Internal Control
- Summary of work undertaken and other evidence supporting the assertions included in the Statement cross referenced to the detailed reviews undertaken by the authority

This SIC will form part of the published annual Statement of Accounts, which must be approved at a meeting of the authority, or delegated Committee i.e. full Council. The delegated Committee needs to ensure that it has obtained relevant and reliable evidence to support the disclosures made and in particular to consider the reviews of the Monitoring Officer and Chief Finance Officer on issues covered by the statutory responsibilities. The SIC should be signed by the most senior officer (Chief Executive) and the most senior member (Leader) of the Council.

Signing and approval of Statement of Accounts (Regulation 10)

The Head of Finance must sign and date the statement of accounts and certify that the statement presents fairly the financial position of the Council as at the relevant year-end. Statements to be signed include the Balance Sheet and the Statement of Responsibilities.

The statement of accounts must be approved by a resolution of a committee of the Council or otherwise by a resolution of the members of the Council meeting as a

whole. Such approval must take place as soon as reasonably practicable and in any event before the following dates following the end of a year:

2003/04 Statement before 31 August 2004

2004/05 Statement before 31 July 2005

2005/06 Statement before 30 June 2006

The Council's Constitution designates full Council with the responsibility for approving the statutory Statement of Accounts.

Following approval of the statement as detailed above the statement of accounts must be signed and dated by the person presiding at the committee or meeting at which the approval was given (the Mayor).

The presiding Member's signature will formally represent the completion of the council's approval process of the accounts.

Audit Commission requirements:

- a copy of the minute formally adopting the accounts
- the original copy of the adopted statement of accounts bearing the Head of Finance's original dated signature and the dated signature of the person presiding at the Committee or meeting at which approval of the Statements was given

Publication (Regulation 11)

The statement of accounts including the Auditor's Opinion on the Accounts must be published as soon as reasonably possible after the conclusion of the audit and in any event before the following dates:

2003/04 Statement before 30 November 2004

2004/05 Statement before 31 October 2005

2005/06 Statement before 30 September 2006

The term publication does not merely mean the appearance of the accounts on the agenda of the Executive or full Council. It is recommended as a matter of good practice that the requirement to publish should also not mean merely providing copies to enquirers on demand. Good practice might include putting a copy on a notice board, copying onto a website, publishing a separate leaflet or publication in a newspaper or as part of a newsletter.

Public inspection of the accounts can be exercised under Regulations 13,14 and 16 of the Accounts and Audit Regulations 2003. Members of the public are able to inspect and make copies of the accounts, and all books, deeds, contracts, bills, vouchers and receipts pertaining to the financial year under scrutiny for 20 full

working days before the commencement of the Audit. Notice by advertisement in the local press must be given 14 days prior to the commencement of the period of public inspection. The specific wording of the public notice is specified in the Regulations.

Audit Commission requirements

- a copy of the advertisement together with a statement of the name and date of the newspaper(s) in which it was published.

Conclusion of the audit (Regulation 18)

If any material amendment is required to the statement of accounts, the Head of Finance will report such amendment as soon as reasonably practicable to the relevant committee that originally approved the accounts (i.e. Full Council).

Members of the public are permitted to inspect the Statements following the conclusion of the audit under regulation 16 (1) of the Accounts and Audit Regulations 2003. They may inspect and make copies of the Statements or require copies to be sent to them on payment of a reasonable fee (recommended at £5 per copy).

Other Audit requirements:

- SAS610 Statement – a report showing those unadjusted errors found in the course of the audit for which amendments to the statements are not deemed necessary due to the immaterial effect they would have on the audit opinion. These unadjusted errors are reported to Corporate Resources Overview and Scrutiny Committee as part of the SAS610 statement, which must be approved before the Statement of Accounts can be signed off (audit opinion given).
- SAS440 Letter of representation – this Auditing standard requires that auditors should obtain written confirmation of appropriate representations from management before their report is issued. In particular, auditors should obtain evidence that Members acknowledge their collective responsibility for the preparation of the financial statements and that they have approved them. The SAS440 also requires that auditors should obtain written confirmation of representations from management on matters material to the financial statements, when those representations are critical to gathering sufficient appropriate audit evidence.

Communication concerning financial statements to those charged with governance

Carlisle City Council

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- Matters to be reported to those charged with governance
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Appendix 1

- Draft auditor's report

Appendix 2

- Summary of unadjusted errors

Reference:	Carlisle SAS610 Report
Date:	November 2004

Introduction

Statement of Auditing Standard (SAS) 610 requires auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance':

- expected modifications to the audit report
- unadjusted non-trifling misstatements
- qualitative aspects of accounting practice and financial reporting
- material weaknesses in accounting and internal control systems
- matters required by other auditing standards to be reported to those charged with governance
- other matters that we wish to draw to your attention.

We have agreed with the Authority that the communications required under SAS 610 would be with the Corporate Resources Overview and Scrutiny Committee. This report sets out for members' consideration the matters arising from the audit of the financial statements for 2003/2004 that require reporting under SAS 610.

Status of the audit

Our work on the financial statements is now substantially complete. Should any further matters arise in concluding the outstanding work that requires reporting under SAS 610, we will raise them at the Corporate Resources Overview and Scrutiny Committee.

Subject to the satisfactory conclusion of the work outstanding, we anticipate being able to issue an unqualified opinion by 30 November 2004 (a draft report is attached at Appendix 1).

Matters to be reported to those charged with governance

We have the following matters to draw to the attention of members:

Unadjusted misstatements

Our audit has identified a number of misstatements in the financial statements which management has decided not to adjust. We have included as appendix to this report (Appendix 2) a list of all non trivial unadjusted misstatements. These relate to less significant errors and presentational issues which officers have agreed will be corrected where appropriate in the 2004/2005 financial statements

Qualitative aspects of accounting practices and financial reporting

Our audit identified the following qualitative areas of accounting practices and financial reporting which we should report to you:

Pension liability with Carlisle Housing Association

The pension liability with Carlisle Housing Association has not yet been fully quantified and has been an estimate in the accounts for both 2002/03 and 2003/04 following the stock transfer in December 2002. While we are minded to accept the reasonableness of the estimate based on evidence available to date, it is essential that steps are taken to confirm the accuracy of the estimated liability before the 2004/05 financial statements are prepared as we are unwilling to accept an ongoing estimate for this amount.

Material weaknesses in accounting and internal control systems

Our audit identified the following weaknesses in systems of accounting and financial control which we should report to you:

Quality of supporting working papers/audit information

To promote improvement in the audit process, we agreed a managed audit protocol with the authority in April 2004. This document noted that our proposed audit timetable for 2003/2004 was based on the key assumptions that officers would provide good quality working papers and records to support the accounts and that requested information would be provided within agreed timescales and with clear supporting documentation. We appreciate that officers have worked hard to produce audit evidence to a higher standard than in previous years. However, there is still progress has been made in considering accounting issues and providing evidence to support balances in the financial statements to improve the audit process. It is essential in order to achieve an economic and efficient audit that all necessary information is available to us at the start of the audit.

We therefore would like to draw to members' attention the need to ensure proper compliance with accounting regulations and to provide supporting evidence for material balances in the financial statements in order to avoid any future delays in the certification of the accounts or potential qualification. Members should be aware that the 2004/05 auditing deadlines are to be a month earlier next year and we will work with the authority to achieve the improvements required.

Next steps

We are drawing these matters to members' attention so that you can consider them before the financial statements are approved and certified. In particular, this provides members with the opportunity to amend the financial statements for the unadjusted misstatements identified above. Should you chose not to do so, we are required by SAS 610 to request from you a letter of representation explaining why you are not going to adjust the financial statements. We ask that the letter specifically details the misstatements and/or qualitative aspects of reporting to which it relates, either in the body of the letter or in a document appended to it.

Status of our reports to the Council

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

Draft auditor's report

Auditors' Report to Carlisle City Council

I have audited the statement of accounts on pages 10 to 51 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 10 to 15.

This report is made solely to Carlisle District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Chief Financial Officer and Auditor/Auditors

As described on page 52 the Chief Financial Officer is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2003. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether the statement of accounts presents fairly the financial position of the Council and its income and expenditure for the year,

I review whether the statement on internal control on page 53 reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the authority's corporate governance procedures or its risk and control procedures. My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the council'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 statement of accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion, I evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion

In my opinion the statement of accounts present fairly the financial position of Carlisle District Council as at 31 March 2004 and its income and expenditure for the year then ended.

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.

Fiona Daley

District Auditor

Audit Commission

DATE

Summary of Unadjusted Non Trivial Errors

Summary of Unadjusted Non Trivial Errors: - Consolidated Revenue Account and Balance Sheet

Our audit has identified the following misstatements in the financial statements which management have decided not to adjust. The majority of these items relate to presentational items and do not impact on the bottom line.

Error £	Comments
	Fixed assets/Fixed asset restatement reserve
133,265	Vehicles and plant had been valued too highly in the financial statements.
	Service expenditure analysis/Asset management revenue account
231,615	The council's services had not been charged enough for depreciation (the cost of fixed assets wearing out) and impairment losses (a decrease in the value of fixed assets that is permanent).
	Asset management revenue account/Service expenditure analysis
259,639	The charges for interest costs (required only as an accounting entry) to each of the council's service are too high – this has no impact on reserves.
	Asset management revenue account/Service expenditure analysis/Fixed assets/Capital reserves
242,678	Too much depreciation has been charged to the revenue account for land and buildings.
	Direct service organisation provision/creditors/Service expenditure analysis
129,300	The provision (amount held in the accounts to pay future costs) was too high in the direct service organisation account.
	Usable capital receipts/Capital financing reserve/CRA transfers/Housing general fund expenditure
217,000 175,578	These two errors are related. An amount paid out of the housing stock transfer receipt for pension costs was included in last year's accounts based on estimates but has been cancelled out this year due to a updated estimate of the amount owing for pension costs. The other error relates to movements on capital reserves following accounting requirements in respect of the same issue.
	Fixed assets/Capital financing reserve and transfers/ Asset management revenue account /Service expenditure analysis
120,505	Depreciation in last year's accounts (2002/03) was too high, and this has not been adjusted for in the 2003/04 accounts.
	Trading undertakings /Service expenditure analysis
159,735	The profit made by the direct service organisation of the council had not been included in individual services as required by accounting rules.

	Trading accounts -Service expenditure analysis/Pension reserve transfers/Non distributable costs
114,928	The pension costs of the employees of the Direct Service Organisation are too low.
	Service expenditure analysis/Pension reserve transfers/Non distributable costs
277,468	The employers' cost of employee pensions was too high for discretionary benefits – there is no effect on reserves (presentational entry to comparative 2002/03 figures in the accounts only).
	Collection fund
242,000	The amount provided as an estimate for non payment of council tax appears too high based on the amount actually collected.
	Fixed assets/Fixed assets restatement reserve
250,000	Fittings from Tullie House gallery and exhibition space were missed from the valuation of the building in 2002/03 and 2003/04.
	Service expenditure analysis/Fixed assets/Capital reserves
126,662	Items have been included in fixed assets but should have been written off to the revenue account. There are also associated capital accounting entries.

Overall Summary of unadjusted errors by item of account

('-' = credit)		£
Consolidated Revenue Account	Service Expenditure Analysis	-419,003
	Housing General Fund	-161,540
	Trading Undertakings	274,663
	Appropriation to Capital Reserves	465,417
Fixed Assets	Operational land and buildings/Vehicles and plant	857,061
Debtors	Local Taxpayers (including related bad debt provision)	236,647
Provisions	DSO Provision for Losses	129,300
Reserves	Capital Financing Reserve	-282,720
	Collection Fund Reserve	-242,000
	Fixed Asset Restatement Reserve	-696,312

For clarity, each unadjusted non trivial error has been described above this table in isolation with a heading stating which items of account are affected. Each item has one or more contra entries in the accounts (for example, the purchase of a vehicle would affect both the cash balance and the fixed assets balance) but the error has been described once to avoid duplication or confusion.

The table above provides a summary by item of account of the overall impact of the unadjusted errors. The items of account reported in the table above include the individual errors and also include trifling errors, which are not required by auditing guidance to be included in this report.

Summary of Adjusted Errors

Summary of Adjusted Errors: - Consolidated Revenue Account, Housing Revenue Account, Balance Sheet and Cashflow Statement

Our audit has identified the following misstatements in the financial statements which management are to adjust.

Error £	Comments
	Payments on account/Development costs/Fixed asset – land and buildings
478,332 254,995 223,337	The cost of the new customer contact centre needs to be shown as being constructed rather than as a finished asset in the accounts. These entries are presentational adjustments to comply with accounting requirement and have no impact on reserves/the bottom line.
	Creditors/Payments on account and fixed assets/Service expenditure analysis
430,000	A payment for work undertaken on the customer contact centre was included in the 2003/04 accounts but relates to next year. The entries will therefore appear in next year's accounts and have been taken out of this year's accounts. There is a £50,000 decrease of expenditure affecting the bottom line as fees have not been charged to the revenue account this year.
	Fixed asset valuations/depreciation
783,113	This is an amendment to a note only to comply with accounting requirements. There is no adjustment on reserves or the bottom line.
	Fixed asset revaluation/fixed asset restatement reserve
301,500	Assets retained from the housing revenue account need to be increased in value. There is no impact on the bottom line.
	Housing fund expenditure/Capital reserves
76,427	The amount of grant money receivable is too high and needs to be adjusted. There is a corresponding adjustment to the balance sheet note 4. This has no effect on the bottom line.
	Government department debtors/creditors
107,783	Amounts owing and due to the same government department were shown separately. An adjustment is needed so the accounts show a single balance due. This has no impact on the bottom line.
	Sundry/Other debtors
431,048	This is a presentational entry so that the amount due to the authority from Cumbria County Council is shown in line with accounting requirements for details of debtors. This has no impact on the bottom line.

274,202	Government department debtors/creditors	Amounts owing and due to the same government department for council tax benefit were shown separately. An adjustment is needed so the accounts show a single balance due. This has no impact on the bottom line.
44,732	Capital reserves/Consolidated revenue account	This is an accounting entry relating to capital reserves to ensure compliance with accounting guidance. This was an error in the amount kept in reserve to repay debt per legislation (known as the minimum revenue provision or MRP) which was wrongly shown as income in the revenue account. This amount affects the bottom line as the income cannot be included in the revenue account.
171,000	Cash/Capital reserves/Sundry debtors	Cash was received before the year end but had been shown in the accounts as received after the year end. There are also presentational corresponding adjustments to capital reserves to comply with accounting guidance. This has no impact on the bottom line.
4,889,906	Usable capital receipts/Deferred capital receipts	Presentational entry only on capital reserves to comply with accounting guidance. This amount relates to money due from Carlisle Housing Association for right to buy receipts due to the council that are not been received in the financial year. This has no impact on the bottom line.
212,303	Capital/specified reserves	This is an accounting entry between reserves to show correctly which reserves were used to pay for capital expenditure. This has no impact on the bottom line.
149,292	Consolidated revenue account/Fixed assets	Kerbside recycling costs written off need to be included as plant and equipment in fixed assets. This has no impact on the bottom line.
233,974	Housing Revenue Account	A number of adjustments have been made to the housing revenue account. A number of these items totalling £185,395 relate to transfers to the general fund and therefore have no impact on the bottom line. The total impact on the bottom line of these errors is £48,579.
Various	Cashflow statement	The cashflow statement has no impact on reserves or the bottom line. It is included in the statement of accounts to show cash movements in the year. this will not be the same as the revenue account as this is prepared to show amounts relating to the financial year which is not always the same as when amounts are paid. An example of this is an electricity bill due for January to March 2003 which is paid in June 2003. the revenue account would not include this bill as it relates to the last financial year, but the cash has been paid in the year and would be shown in the cashflow statement. Adjustments are required for various lines on the cashflow statement to ensure that amounts received and paid in the year are shown accurately. This has no effect on any other parts of the accounts and no effect on the bottom line. A table summarising the overall movements is attached.

Total impact on reserves

The overall impact of the above is a credit to the bottom line of £43,961.