

# Annual governance report

Carlisle City Council

Audit 2010/11



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**Traffic light explanation**

Red  Amber  Green 

# Key messages

**This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

## Audit opinion and financial statements

My draft unqualified audit report covering the opinion and value for money conclusion is at appendix 1.

The financial statements were prepared and submitted for audit on time.

The Council has had to prepare accounts to comply with the International Financial Reporting Standards (IFRS) code for the first time this year. This was a challenging task and a number of amendments have been made to the accounts and related disclosure notes to ensure the financial statements give a true and fair view and to comply with first year adoption of IFRS.

The Council has also had to consider its accounting treatment for a large number of lease arrangements, some of which are complex.

The key issues from my work on the Council's 2010/11 accounts are:

- I am satisfied that the Council has accounted for its lease arrangements in accordance with the Code. A significant amount of work has been undertaken to confirm the Council's treatment is correct;
- the Council has interpreted and applied the new Code incorrectly in several areas and this led to amendments in the primary statements and notes.

## Value for money

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for 2010/11.

# Before I complete my audit

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## I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

### **Independence**

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I identified the following threat to independence which related one of our local auditors being related to a Councillor and having worked for the Council from October 2009 to October 2010. I have ensured that this auditor did not work on the 2010/11 audit of Carlisle City Council. In applying this safeguard I have reduced this threat to an acceptably low level.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

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## I ask you to confirm to me

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

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
  - approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion;
  - agree your response to the proposed action plan (Appendix 4);
  - agree the additional audit fee of £9,480 to cover the additional work on the IFRS re-statement and specifically on the Council's consideration and accounting treatment of its complex lease arrangements.
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# Financial statements

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I plan to issue an unqualified audit report covering the opinion and value for money conclusion. The financial statements were prepared and submitted for audit on time. However, amendments have been made to the accounts and related disclosure notes. These changes are largely, but not limited to, ensuring compliance with first year adoption of International Financial Reporting Standards (IFRS). Work on the IFRS re-statement and detailed consideration of the Council's accounting treatment for leases has required additional audit work to be undertaken and meant an increase in the audit fee.

## **Opinion on the financial statements**

Subject to satisfactory clearance of some outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

## **Errors in the financial statements**

Appendix 2 summarises all of the material and non trivial errors which have been amended in the revised set of accounts. I also identified a number of errors and omissions in the required disclosures which have been amended and these are included at Appendix 2 for completeness.

# Financial statements

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The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

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## Key audit risk and our findings

Key audit risk	Finding
<p><b>1. First time adoption of IFRS</b></p> <p>Preparation of accounts which comply with Code of Practice for Local Authorities based on International Financial Reporting Standards – risk of non compliance with new standards.</p>	<p>This has been a challenge for the Council.</p> <p>I have reviewed the re-stated 1 April 2009 position and the restated 2009/10 accounts. The work was well presented with comprehensive working papers to support the re-stated figures. However, I identified a number of issues and errors in the re-stated figures and disclosures and reported these to the Audit Committee. The most significant issue related to the Council's justification for its treatment of leases where it acted as lessor.</p> <p>After a significant amount of work by the Council's officers and my staff I am satisfied that these leases have been accounted for in accordance with the Code. However, this has highlighted that when entering into new leases careful consideration is required of how the lease arrangements are constructed and the potential accounting treatment. The number of issues identified as part of the IFRS re-statement work meant that this work took much longer than expected.</p> <p>I have reviewed the 2010/11 financial statements for compliance with the IFRS based Code and I found a number of amendments were required as outlined in the following sections and Appendix 2.</p>

## Key audit risk

## Finding

### 2. Accounting for revenues and benefits shared service

Revenues and Benefits shared service commenced on 1 April 2010 and staff from Allerdale and Copeland Borough Councils transferred to Carlisle City Council – risk of not complying with accounting requirements.

I reviewed the accounting treatment in the CIES and agreed the Council's treatment complies with the Code.

### 3. Accounting for transformation and redundancy costs

Transformation programme and redundancy costs – risk of not complying with accounting requirements.

I considered accounting treatment of termination benefits / costs in the statement of accounts and confirmed this complies with the Code.

## Recommendation

**R1** Ensure that when entering into new leases careful consideration is given as to how the lease arrangements are constructed and the potential accounting treatment.

# Financial statements

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## Significant weaknesses in internal control

I have not identified any significant weaknesses in internal control that are relevant to the preparation of the financial statements.

# Financial statements

## Quality of your financial statements

The Council produced its IFRS based accounts on time and to a reasonable standard. There were several areas where the Council's interpretation and application of the new Code was incorrect and the accounts were amended for these issues.

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

These are the issues I want to raise with you.

### Accounting practices, policies, estimates and financial disclosures

Issue	Findings and outcomes
<p><b>1. Foreword</b></p> <p>I found that the Foreword to the accounts:</p> <ul style="list-style-type: none"><li>■ contained insufficient commentary on the major influences affecting the Council's income and expenditure and cash flow.;</li><li>■ gave an incorrect figure for the budgeted use of the Projects Reserve;</li><li>■ included several references and potentially confusing description of cash resources which had been transferred to the Capital Adjustment Account.</li></ul>	<p>Some amendments were made to the Foreword to increase clarity and ensure compliance with Code requirements.</p> <p>The commentary on the major influences affecting the Council's income and expenditure and cash flow was expanded to provide a fuller picture. The budgeted use of the Projects Reserve was updated to make clear that this budget was for use of the Project Reserve and the General Fund Reserve. References to cash resources transferred to the Capital Adjustment Account were reduced and clarified.</p>
<p><b>2. Compliance with the Code disclosures</b></p> <p>A number of disclosure issues were identified</p>	<p>The Council has added the missing information and updated the notes as required.</p>

including:

- no comparatives in the notes to support the 1 April 2009 balance sheet;
- incorrect disclosure of future minimum lease payments;
- further information required in respect of investment properties;
- incomplete disclosure in respect of related party transactions.

### 3. Incorrect application of the Code requirements

There were several areas where the Council's interpretation and application of the Code was incorrect. These included:

- componentisation of Property Plant and Equipment (PPE) assets;
- incorrect interpretation of valuation report;
- incorrectly classifying revaluation losses as impairment losses.
- treatment of rental income

My work identified several areas relating non current assets where the Council's interpretation and application of the Code was incorrect. I have outlined the issues below.

The Council failed to componentise assets which is a requirement of the Code. The three triggers for componentisation are revaluation, enhancement or acquisition of an asset during the year. The Council's policy is to componentise assets only when they have a gross book value of at least £1 million. In 2010/11 the Council carried out work on three assets with values in excess of £1 million and the Council's in-house valuer's report at 31 March 2011 commented that this work had not added any value to the gross book valuation of these assets given two years previously. The Council failed to recognise that this was a revaluation and therefore did not componentise these assets. The assets were Tullie House, the Civic Centre and Sheepmount. The Council has now componentised these assets.

While investigating the above issue we also identified that the Council had mis-interpreted the valuer's report in respect of the year end value of assets that had been enhanced in the year. The impact of this was that PPE assets were understated by £883,000.

A note to the statements identified all downward revaluations of non-current assets as impairment losses. However, the major downward movement of £2,486,000 related to investment properties and these cannot be impaired under the Code. This was simply a change in fair value. This note has been amended.

I also found that the Council had not complied with Code requirements in the treatment of

rental income and expenditure. Rental income of £1,056,000 and associated expenditure of £34,000 from The Lanes was shown within the Cost of Services as Cultural Environmental Regulatory and Planning Services income. Under the Code rental income and associated expenditure from investment property should appear in the Financing and Investment Income and Expenditure line. The statements were amended accordingly.

#### 4. Related Party disclosures

The Council's system for identifying and reporting officer and member related party transactions was inadequate.

I found that the Council has good systems in place to obtain declarations from officers and members on potential related party transactions. However, there was insufficient scrutiny of these declarations to determine whether there were any related party transactions to disclose.

I found the declarations included a number of relationships and interests which had not been fully investigated to determine whether they gave rise to related party transactions. Following further work by the Council the note was amended to include details of payments of £340,000 to Community Centres where Councillors are on the Management Committees.

#### 5. Segmental reporting

A number of errors were identified in the segmental reporting note including inconsistent treatment of the same item between years.

My review of the segmental reporting note identified that there were several areas where the classification of items was wrong. There were also areas where the treatment of the same issue between years was inconsistent e.g. government grants and contributions. The changes in reporting segments between 2009/10 and 2010/11 as part of the re-structuring of the Council's management arrangements has made this analysis more difficult to produce. The working paper to support the segmental reporting needs to be improved from 2011/12.

#### 6. Annual Governance Statement

The Annual Governance Statement needed to be updated for:

- issues highlighted in my report on the objection to the 2009/10 accounts in respect of the Carlisle Airport planning application;
- explicit statement that the Council complies with the key principles included in CIPFA's statement on

In September 2011 I issued my report on the objection to the 2009/10 accounts in respect of the Carlisle Airport planning application. There were a number of significant governance issues identified including:

- separation and transparency of the Council's planning and economic development responsibilities;
- provision of adequate training for relevant members;
- receipt of appropriate and timely advice to support the decision making process.

## Issue

the Role of the Chief Finance Officer in Local Government.

## Findings and outcomes

This has now been reflected in the Council's Annual Governance Statement.

The statement was also updated to include an explicit statement that the Council complies with the key principles included in CIPFA's statement on the Role of the Chief Finance Officer in Local Government. .

The updated Annual Governance Statement will be signed by the Leader and the Acting Chief Executive.

## Recommendation

- R2** Improve the Council's understanding and application of all Code requirements as part of the production of the financial statements.
- R3** Componentise all assets with gross book value in excess of the Council's set limit where revaluation, enhancement or acquisition of these assets takes place within the accounting period.
- R4** Ensure that the Valuer's report makes explicit reference to the impact of in year capital expenditure on individual asset values.
- R5** Ensure more robust consideration by the Council of the need to disclose related party transactions in the accounts.
- R6** Improve the working papers supporting the segmental reporting note.

# Financial statements

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## Significant matters that were discussed or subject to correspondence with management

### Consideration of classification of operating and finance leases

The Council has a large number of leases where it acts as lessor. I have discussed the accounting treatment of these with the Financial Services Manager and Chief Accountant and reviewed the supporting evidence. I am satisfied that the treatment complies with the requirements of the Code.

### Objection to the 2009/10 accounts

On 1 September 2011 I determined the objection I received in respect of the 2009/10 accounts. I issued a report on my findings which was considered by the City Council at its meeting on 13 September. Subject to any decision by the elector to exercise his rights of appeal against my determination, I expect to close the 2009/10 audit on 29 September 2011.

## Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements.

# Value for money

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**I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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## Value for money criteria and our findings

Criterion	Findings
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Council has adequate systems and processes in place to manage financial risks effectively. This has helped it secure a stable financial position that enables it to continue to operate for the foreseeable future.</p> <p>The Council produced an updated Medium Term Financial Plan (MTFP) in November 2010. This highlighted uncertainties surrounding revenue streams and the potential impact on the financial position. The Council closely predicted the impact of the Government's Comprehensive Spending Review on 2011/12 and savings plans for 2011/12 were already well advanced as part of the 'Transformation' programme.</p> <p>In 2010/11 the Council has continued to operate within budget underspending by £2.01</p>

## Criterion

## Findings

million. This was a result of various factors including less than expected demand for concessionary fares, savings made in revenues and benefits before the shared service was introduced and delays in delivering regeneration projects. General Fund and earmarked reserves at 31 March 2011 were £6.46 million (36% of budgeted net expenditure for 2011/12).

Improved cashflow forecasting during 2010/11 has meant a significant reduction in short term borrowing in the second half of 2010/11. This addresses a previous weakness in the Council's arrangements.

### **2. Securing economy efficiency and effectiveness**

**The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.**

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Council has taken a strategic approach to delivering spending reductions. Prior to the announcement of the Government's spending cuts the Council had already put in place a Transformation Programme to reduce costs. This has reduced the size of the senior management team and is driving ongoing service reviews. Although it has involved the Council in some up-front costs in terms of redundancies, it should deliver savings in the medium term. Consideration of how best to provide services is ongoing with shared services introduced in 2010/11 for revenues and benefits and internal audit. The Council's performance monitoring is now focused upon corporate plan objectives. The Council will need to closely monitor individual service delivery and performance to ensure that planned efficiency savings are delivered whilst maintaining or improving performance.

# Appendix 1 – Draft audit report

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CARLISLE CITY COUNCIL

### Opinion on the Authority accounting statements

I have audited the accounting statements of Carlisle City Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Carlisle City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### Respective responsibilities of the Responsible Financial Officer and auditor

As explained more fully in the Statement of the Responsible Financial Officer's Responsibilities, the Responsible Financial Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on accounting statements**

In my opinion the accounting statements:

- give a true and fair view of the state of Carlisle City Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

## **Opinion on other matters**

In my opinion, the information given in the foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

## **Matters on which I report by exception**

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

## **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Authority's responsibilities**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### **Auditor's responsibilities**

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## **Basis of conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Carlisle City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

## **Certificate**

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

Karen Murray  
Officer of the Audit Commission  
Audit Commission  
2nd Floor Aspinall House  
Aspinall Close  
Middlebrook  
Bolton  
BL6 6QQ

September 2011

# Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

## Primary statements

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £	Cr £	Dr £	Cr £
<b>Non trivial errors</b>					
CIES – Cultural Environmental Regulatory and Planning Services	Rental income of £1.056,000 and associated expenditure of £34,000 from The Lanes was shown within the Cost of Services as CERPS income. Under the Code rental income and associated expenditure from investment property should appear in the Financing and Investment Income and Expenditure line.	1,056,000	34,000		
CIES – Financing and Investment Income and Expenditure		34,000	1,056,000		
Balance Sheet – Current Assets	Assets held for sale were incorrectly included within PPE. The statements			530,000	
Balance Sheet – Property Plant and					

		Comprehensive income and expenditure statement	Balance sheet
Equipment (PPE)	were amended to show these as long-term assets.		530,000
Balance Sheet – General Fund Reserve Balance.	The Projects Reserve which is shown on the Balance Sheet within Earmarked Reserves had a negative balance of £79,000. This was amended to show a zero balance with the result that the General Fund balance fell by £79,000. This change was also reflected in the Movement in Reserves Statement in the transfers to / (from) earmarked reserves.		79,000
Balance Sheet – Earmarked Reserves			79,000
Balance Sheet – Long Term Liabilities	The Capital Grants Receipts in Advance balance of £456,000 was disclosed as a non-current liability. As the grant is likely to be utilised in the next 12 months, the Balance Sheet was amended to include this within current liabilities.		456,000
Balance Sheet – Current Liabilities			456,000
Balance Sheet - PPE	The Council did not componentise assets in accordance with its policy. When investigated this issue further I discovered that valuations following enhancement work had been incorrectly interpreted with the result that PPE was understated by £883,000. Correcting this error		883,000
Balance Sheet – Revaluation Reserve			636,000
Balance Sheet – Capital Adjustment Account (CAA)			247,000
CIES - Cultural Environmental Regulatory & Planning Services		159,000	

**Comprehensive income and expenditure statement**

**Balance sheet**

CIES - Highways & Transport Services	reduced downward revaluation charged to services by £247,000 and	29,000
CIES - Other Housing Services	the deficit on the revaluation of non-current assets by £636,000. These	33,000
CIES - Corporate & Democratic Core	postings were reversed out via the MiRS to the CAA and the	26,000
CIES – surplus/ deficit on revaluation of non-current assets	Revaluation Reserve respectively.	636,000

CIES credits of £883,000 reversed out through MiRS (see below)

**Comparative information**

CIES – Cultural Environmental Regulatory and Planning Services	Rental income of £1,584,000 and associated expenditure of £30,000	1,584,000	30,000
CIES – Financing and Investment Income and Expenditure	from The Lanes was shown within the Cost of Services as CERPS income in the 2009/10 comparative CIES. Under the Code rental income and associated expenditure from investment property should appear in the Financing and Investment Income and Expenditure line.	30,000	1,584,000

		Movement in Reserves Statement	
Adjusted misstatement	Nature of adjustment	Dr £	Cr £
MIRS – Other comprehensive income and expenditure	Credits to the CIES in respect of reduced downward revaluations (see above) reversed out via the MiRS to the CAA and the Revaluation Reserve.	636,000	CIES credits of £883,000 reversed out through MiRS
MiRS – adjustments between accounting basis and funding basis under regulations		247,000	
MiRS - Adjustments between accounting basis and funding regulations	The Authority financed £95,000 capital expenditure from revenue reserves. This was incorrectly treated in the Movement in Reserves Statement (MiRS). The correct treatment is to show the £95,000 in the adjustments between accounting basis and funding basis under regulations line, thus transferring the £95,000 to the CAA. £95,000 is then posted to the General Fund from revenue reserves in the Transfers to/ from earmarked reserves line.	95,000	95,000
MiRS - Transfer to/ from earmarked reserves			

		Cashflow statement	
Adjusted misstatement	Nature of adjustment	£	
Adjustment to net surplus or deficit on the provision of services for non-cash movements.	The Council made an adjustment of £88,000 in respect of the sale or disposal of PPE to arrive at the net cash flow from operating activities. This was posted to the non-cash movement adjustment line on the face of the cash flow statement. It should have been shown as an adjustment for non-cash movements of £153,000 in respect of the carrying value of disposed assets, and an adjustment for items that are investing and financing activities for the cash inflow of £241,000 relating to the sale. This change also impacted on the analysis in Note 4.51.	241,000	
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities			241,000
Net surplus or deficit on the provision of services.	The cash flow statement had to be adjusted to reflect the £247,000 reduction of impairments charged to services as a result of the non-current asset revaluation error referred to in the CIES section above.	247,000	
Adjustment to net surplus or deficit on the provision of services for non-cash movements.			247,000

## Notes to the accounts and other disclosure issues

Issue	Findings and outcomes
<b>Foreword</b> <p>The Foreword to the accounts was amended to ensure that the information in it was consistent with the accounts and that it complied with Code requirements.</p>	<p>Some amendments were made to the Foreword to increase clarity and ensure compliance with Code requirements. These included:</p> <ul style="list-style-type: none"><li>■ improved commentary on the major influences affecting the Council's income and expenditure and cash flow;</li><li>■ correcting the budgeted use of the Project Reserve;</li><li>■ clarifying references to cash resources transferred to the Capital Adjustment Account</li></ul>
<b>Accounting Policies</b> <p>The Accounting Policies note was amended to remove some minor errors and expanded to include areas not previously covered.</p>	<p>Some amendments were made to the Accounting Policies note. The more significant amendments were:</p> <ul style="list-style-type: none"><li>■ insertion of an introductory paragraph in the financial instruments section and detail of impairment of financial assets and gains and losses on derecognition;</li><li>■ expansion of the section on accounting estimates with the most significant effect on the statements and details of the material risks arising from accounting estimates.</li></ul>
<b>Movement in Reserves Statement (MiRS) related notes</b> <b>Note 4.4 Adjustment between accounting basis and funding basis under Regulations</b> <p>Reversal of items debited or credited to the CIES were not disclosed in accordance with the Code</p>	<p>The note was amended to:</p> <ul style="list-style-type: none"><li>■ reflect changes made to the MiRS outlined above;</li><li>■ separately identify the use of £22,000 capital grant unapplied brought forward from 2009/10 which was previously shown within capital grant and contributions unapplied credited to the CIES.</li><li>■ show the posting of £241,000 of capital receipts to the capital receipts reserve, and the</li></ul>

Issue	Findings and outcomes
<p><b>Note 4.5 Transfers to/ from Earmarked Reserves</b></p> <p>Project Reserve balance was a negative amount of £79,000 to maintain the General Fund balance at £3,800,000.</p> <p>The movement on the Capital Grant Unapplied reserve was incorrectly disclosed.</p>	<p>use of these receipts to finance capital expenditure in separate lines.</p> <p>The note was amended to show a reduction of £79,000 transferred out of the Project Reserve to ensure the balance on the Project Reserve at 31 March 2011 was zero and not negative. A corresponding amendment was required to the General Fund balance to reduce the transfers in and out by £79,000 so that the General Fund balance at 31 March 2011 was £3,721,000.</p> <p>The note was amended to show £86,000 transferred into the reserve and £22,000 transferred out when applied against capital expenditure. This had previously been shown as a transfer in of £64,000 with no transfer out.</p>
<p><b>Comprehensive Income and Expenditure (CIES) related notes</b></p>	
<p><b>Note 4.7 Exceptional items</b></p> <p>The note did not provide any detail of the service lines in the CIES to which termination costs had been charged.</p>	<p>The note on exceptional items referred to termination payments of £1,025,116 which were charged to services but did not give details of the charge against individual service lines. The note was amended to show the impact on service lines of the termination costs.</p>
<p><b>Note 4.11 Investment Properties</b></p> <p>The format of the note was not in accordance with the Code and it did not contain all the specified information</p>	<p>The note was amended to:</p> <ul style="list-style-type: none"> <li>■ include changes in fair value of investment property of (£2,514,000) and gains / losses on disposal £100,000;</li> <li>■ show direct operating expenses as a single line;</li> <li>■ change the total from Closing Balance of Investment Property to Net (Gain)/ Loss;</li> <li>■ add further information required by the Code including additional details on the valuation of investment properties and any restrictions or obligations associated with investment properties.</li> </ul>
<p><b>Note 4.12 Amounts reported for Resource Allocation Decisions (Segmental reporting)</b></p>	

Issue	Findings and outcomes
<p>Amendments were required to ensure internal consistency and compliance with the Code.</p>	<p>The note was amended to:</p> <ul style="list-style-type: none"> <li>■ correct the treatment of government grants and contributions in the 2009/10 comparative figures. This reduced fees charges and other service income by £6,361,000 and increased Government grants and contributions by the same amount;</li> <li>■ separately identify change in the fair value of investment properties of £2,514,000 in the 2010/11 figures;</li> <li>■ remove Lanes income and associated expenditure from the subjective analysis of the net cost of services and then add it back as a corporate adjustment;</li> <li>■ transfer expected return on pension assets (£5,561,000 2010/11 and £4,349,000 2009/10) from fees charges and other service income to interest and other investment income.</li> </ul>
<p><b>Note 4.17 Officers' remuneration</b></p> <p>The senior officer disclosure included amounts for one officer which did not related to their post as an Assistant Director.</p> <p>Estimates had been used for some of the benefit-in-kind figures.</p>	<p>Senior officer remuneration note amended to show the correct amounts.</p> <p>The note was amended to replace estimated benefit-in-kind figures with the actual sums. This had a minor impact on some of the bandings and on the total remuneration disclosure for senior employees.</p>
<p><b>Note 4.19 Grant income</b></p> <p>The note did not include details of all grants, contributions and donations which had been credited to the CIES.</p>	<p>The note was amended to include Housing Benefit subsidy and Council Tax Benefit subsidy of £25,744,000 and £7,751,000 respectively.</p>
<p><b>Note 4.20 Related party transactions</b></p> <p>The disclosure did not include all information required by the Code and the Council had not identified all related party transactions.</p>	<p>The note was amended to:</p> <ul style="list-style-type: none"> <li>■ include details of payments of £340,000 to Community Centres where Councillors are on the management Committee;</li> </ul>

Issue	Findings and outcomes
<p><b>Note 4.27 Impairments</b></p> <p>The note incorrectly referred to downward revaluations of PPE and investment properties as impairments.</p>	<ul style="list-style-type: none"> <li>■ include any year-end balances with related parties.</li> </ul> <p>The note was amended to remove the reference to impairments. It now shows movements in the value of PPE assets were due to downward revaluations. Movements in investment properties now shown as a gain or loss on fair value.</p>
<p><b>Balance Sheet related notes</b></p>	
<p><b>Note 4.29b Capital commitments</b></p> <p>The note excluded commitments of less than £50,000.</p>	<p>The note was amended to include capital commitments of less than £50,000 which had been excluded on the grounds that they were de minimis. This increased the capital commitments figure by £244,000 to £2,847,000.</p>
<p><b>Note 4.41 Unusable Reserves</b></p> <p>The movements on the Capital Adjustment Account (CAA) were not disclosed in accordance with the Code.</p>	<p>Postings to the CAA were made correctly but the disclosure of movements was not in accordance with the Code. The note was amended to:</p> <ul style="list-style-type: none"> <li>■ separately show £426,000 revaluation losses on Property, Plant and Equipment which had been included in the charges for depreciation and impairment of non-current assets.</li> <li>■ separately disclose £153,000 write off of non-current assets on disposal or sale, and £241,000 capital expenditure financed from capital receipts which had been shown as a net figure of £88,000.</li> </ul>
<p><b>Note 4.44 Leases</b></p> <p>The note disclosed annual lease payments rather than future minimum lease payments as required by the Code.</p>	<p>The note was amended to show the future minimum lease payments for the Council as lessee and lessor and to separately disclose contingent rents.</p>
<p><b>Cash Flow Statement related notes</b></p>	
<p><b>Note 4.51 Cash Flow Statement – Operating Activities</b></p> <p>The note did not include all disclosures required by the Code.</p>	<p>The Code requires a note to the cash flow statement showing dividend and interest cash flows included in operating activities. Note 4.51 was expanded to include the information required by the Code.</p>

## Issue

## Findings and outcomes

### Other Issues

#### Annual Governance Statement

The Annual Governance Statement did not explicitly confirm compliance with the key principles CIPFA's statement on the Role of the Chief Finance Officer in Local Government and was only signed by the Chief Finance officer.

In September 2011 I issued my report on the objection to the 2009/10 accounts in respect of the Carlisle Airport planning application. There were a number of significant governance issues identified.

#### Comparative figures

Notes to the statements did not include all comparative figures required by the Code.

#### Other

Minor amendments and inconsistencies within the accounts.

The Annual Governance Statement was expanded to include an explicit statement that the Council complies with the key principles included in CIPFA's statement on the Role of the Chief Finance Officer in Local Government, and to add commentary that the CFO 'leads and directs a finance function that is resourced and fit for purpose'.

The updated Annual Governance Statement will be signed by the Leader and the Interim Chief Executive.

The AGS was also amended to reflect the significant governance issues highlighted in my report on the objection to the 2009/10 accounts in respect of the Carlisle Airport planning application.

Notes to statements did not show comparative figures for balances at 1 April 2009. The Code specifies that on transition to IFRS, notes must support all balances and this includes those in the third balance sheet as at 1 April 2009.

In addition to this general issue, the statements did not show any comparatives at all for some of the notes including notes 4.17, 4.24, 4.25 and 4.27.

The statements were amended to include all required comparative figures

A number of minor amendments were made to the accounts to correct inconsistencies between notes and the primary statements, errors in terminology, page referencing and Code disclosure requirements.

# Appendix 3 – Glossary

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## Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

## Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

## Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

## Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

## Value for money conclusion

The auditor’s conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;

- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

# Appendix 4 Action Plan

## Recommendations

### Recommendation 1

Ensure that when entering into new leases careful consideration is given as to how the lease arrangements are constructed and the potential accounting treatment.

<b>Responsibility</b>	Financial Services Manager
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<b>Priority</b>	High
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<b>Date</b>	Ongoing
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<b>Comments</b>	Working in conjunction with Legal and Property Services, the accounting treatment of all new leases will be given careful consideration prior to being completed.
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### Recommendation 2

Improve the Council's understanding and application of all Code requirements as part of the production of the financial statements.

<b>Responsibility</b>	Financial Services Manager
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<b>Priority</b>	High
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<b>Date</b>	Ongoing
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<b>Comments</b>	Financial Reporting Standards will be reviewed in conjunction with the requirements of the Code when preparing the financial statements. Attendance at relevant seminars will continue to assist in the implementation of the Code.
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### Recommendation 3

Componentise all assets with gross book value in excess of the Council's set limit where revaluation, enhancement or acquisition of these assets takes place within the accounting period.

<b>Responsibility</b>	Financial Services Manager
<b>Priority</b>	High
<b>Date</b>	June 2012
<b>Comments</b>	The Council's Componentisation Policy will be adhered to when preparing the financial statements

#### Recommendation 4

Ensure that the Valuer's report makes explicit reference to the impact of in year capital expenditure on individual asset values.

<b>Responsibility</b>	Financial Services Manger
<b>Priority</b>	Medium
<b>Date</b>	June 2012
<b>Comments</b>	Amendments will be made to the Valuer's report / certificates to include an assessment of in year capital expenditure and the impact on asset valuations

#### Recommendation 5

Ensure more robust consideration by the Council of the need to disclose related party transactions in the accounts.

<b>Responsibility</b>	Financial Services Manager
<b>Priority</b>	Medium
<b>Date</b>	June 2012
<b>Comments</b>	More robust consideration will be given to the declarations provided which will be formally signed off by the Assistant Director (Resources)

#### Recommendation 6

Improve the working papers supporting the segmental reporting note.

<b>Responsibility</b>	Financial Services Manager
<b>Priority</b>	Medium
<b>Date</b>	June 2012
<b>Comments</b>	This will be addressed as part of the closure of the 2011/12 accounts process

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