



The Audit Findings for Carlisle City Council

Year ended 31 March 2013

September 2013

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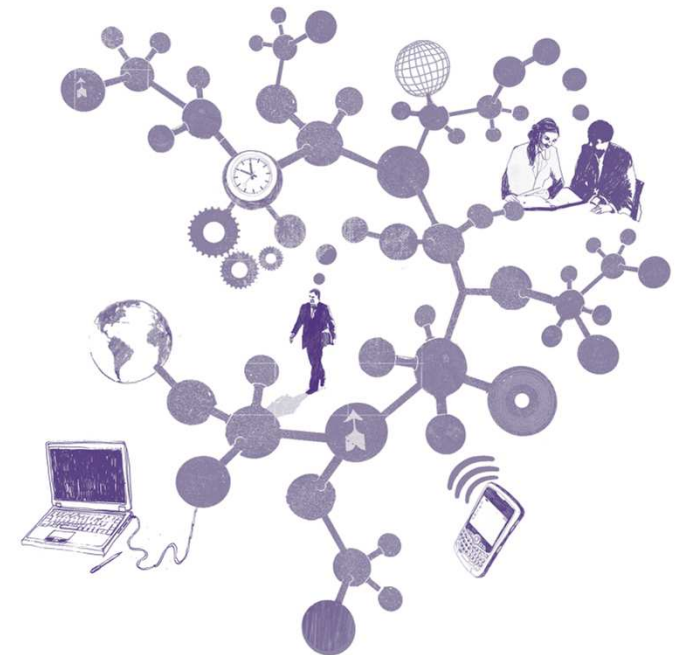
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section	Page
1. Executive summary	4
2. Audit findings	7
3. Value for Money	16
4. Fees, non audit services and independence	19
5. Communication of audit matters	21
Appendices	
A Action plan	24
B Audit opinion	26
C Overview of audit findings	29

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Carlisle City Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated June 2013.

Our audit is substantially complete although we are finalising our work in the following areas:

- detailed testing of housing and council tax benefit cases;
- review of the final version of the financial statements;
- obtaining and reviewing the final letter of representation;
- updating our post balance sheet events review, to the date of signing the opinion; and
- Whole of Government Accounts.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have identified no adjustments which affect the Council's reported financial position. However, we have made two significant amendments to correct misclassification errors in the Collection Fund and Trading Services income and expenditure. We also made a number of adjustments to improve the presentation of the financial statements and ensure that they fully comply with the Code of Practice on Local Authority Accounting 2012/13. Further details are set out in section 2 of this report.

Value for money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We plan to complete our work in respect of the Whole of Government Accounts so that we can certify the audit closed at the same time as we sign the main financial statements.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

In our Audit Plan we highlighted the need for improvement in IT controls. These were:

- requirement to review and update IT security policies;
- formal recording of all database edits;
- periodic check of assigned privileges; and
- standardised recording of application system changes

These were separately communicated to the Digital Information Service (DIS):

During our final accounts audit we found some misclassification errors that would have been identified in internal consistency checks had been undertaken.

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Resources and the Financial Services and HR Manager.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Resources and the Financial Services and HR Manager.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2013

Section 2: *Audit findings*

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 22 July 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 22 July 2013.

Audit opinion

We anticipate that we will provide the Council with an unqualified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual or significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of accounting estimates, judgements and decisions made by management • review of unusual or significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>




Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.



Transaction cycle	Description of risk	Work completed in relation to risk	Assurance gained & issues arising
Operating expenses	Operating expenses / creditors understated or not recorded in the correct period.	<ul style="list-style-type: none"> • Documentation of processes and controls. • Evaluation and walkthrough of controls. • Testing of key controls. • Substantive testing of operating expense transactions. 	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Remuneration expenses not correct	<ul style="list-style-type: none"> • Documentation of processes and controls. • Evaluation and walkthrough of controls. • Testing of key controls. • Substantive testing of employee remuneration. 	Our audit work has not identified any significant issues in relation to the risk identified.
Welfare expenditure	Welfare benefits improperly computed	<ul style="list-style-type: none"> • Documentation of processes and controls. • Evaluation and walkthrough of controls. • Substantive testing of Housing and Council Tax Benefit expenditure currently being undertaken. 	Our audit work has not identified any significant issues in relation to the risk identified, subject to the satisfactory completion of our detailed testing of housing and council tax benefit cases.
Property, plant & equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> • Documentation of processes and controls. • Evaluation and walkthrough of controls. • Review of valuation methodology. • Substantive testing of postings in relation to non-current asset revaluations. 	Our audit work has not identified any significant issues in relation to the risk identified. There have been significant downward revaluations and we are satisfied that they have been correctly measured and accounted for in 2012/13.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Revenue from provision of services is recognised when the percentage completion of the transaction can be reliably measured and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council. Grants and contributions are recognised when there is reasonable assurance the monies will be received and that any conditions attached will be met. Expenditure is recognised when goods or services are received rather than when payments are made. 	<p>The policies adopted are consistent with the Code.</p> <p>There is limited judgement involved in the accounting policies adopted by the Council and therefore limited financial impact flowing from the selection of accounting policies.</p> <p>Policies on revenue recognition are adequately disclosed in the statements.</p>	 Green
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include : <ul style="list-style-type: none"> IAS19 pension liability Revaluations Asset lives 	<p>Our work on IAS 19 figures has included specific enquiries to the auditor of Cumbria County Council, the pension fund's administering body. We have also considered work carried out centrally by PWC as consulting actuary to review the actuaries used by the Local Government Pension Scheme.</p> <p>Revaluations have been undertaken both by an in-house valuer and an external valuer. We are satisfied that the methodology adopted and the assumptions made are reasonable. There are significant downward revaluations in the financial statements due to Tullie House and Ghyll Bank being leased out to third parties.</p>	 Green
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</p>	 Green

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	332	Exceptional item in Comprehensive Income and Expenditure statement (CIES)	<p>An exceptional item of £10,114,000 on the face of the CIES was overstated as it included all revaluations charged to services. The exceptional item should related to the downward revaluations of Tullie House and Ghyll Bank only. The exceptional item was reduced to £9,782,000 and corresponding adjustments were made to service expenditure lines:</p> <ul style="list-style-type: none"> • Central Services (-£7,000); • Cultural and Related Services (+£59,000); • Other Housing Services (+£280,000) <p>This has no impact on the Net Cost of services.</p>
2 Misclassification	1,968	Financing and Investment Income and Expenditure (CIES)	<p>The accounting adjustment for work-in-progress on Trading Services was incorrectly posted against expenditure rather than income. An amendment was made to reduce both income and expenditure by £1,968,000. This had no impact on the Deficit on Provision of Services. This adjustment led to corresponding changes in Note 4.12 Amounts reported for Resource Allocation Decisions and Note 4.13 Trading Operations.</p>
3 Misclassification	1,292	Collection Fund	<p>Payments to the National Pool had not been adjusted for the amounts paid in 2012/13 but relating to 2011/12. This meant that Payments to the National Pool were overstated by £1,292,000 in the 2012/13 Collection Fund. Income from Business Ratepayers was overstated by the same amount so there was no impact on the surplus for the year or the fund balance.</p>

Misclassifications & disclosure changes (Continued)

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.


Adjustment type	Value £'000	Account balance	Impact on the financial statements
4 Misclassification	N/A	Note 4.45: Capital Expenditure and Capital Financing	<p>The analysis of capital expenditure in this note was incorrect and was amended as follows:</p> <ul style="list-style-type: none"> • Property Plant and Equipment (+£973,000); • Investment Properties (-£1,008,000); • Heritage Assets (+£35,000). <p>This had no impact on the overall capital expenditure figure or the closing capital financing requirement.</p>
5 Disclosure	N/A	Note 4.51: Contingent Liabilities	A contingent liability was added to the note to recognise the Council's responsibilities in relation to potential work required to clean up contaminated land in the Carlisle area.
6 Disclosure	1,147	Note 4.36: Financial instruments – (b) Loans and receivables	Loans and receivables operational debtors was understated by £1,147,000 due to the incorrect exclusion of benefit overpayment debtors. This also led to an adjustment in the credit risk section of the note.
7 Disclosure	N/A	Various	Various minor changes were made to the supporting notes to improve presentation and ensure consistency.
8 Disclosure	N/A	Annual Governance Statement	The Annual Governance Statement (AGS) was based on the updated draft CIPFA / SOLACE Delivering Good Governance in Local Government guidance issued in August 2012. However the guidance was finalised in an Addendum in December 2012 and included several more areas which needed to be included in an updated AGS.

Internal controls



The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
1.	 Red	<ul style="list-style-type: none"> Large misclassification errors were identified in the Collection Fund and Note 4.45 on Capital Expenditure and Capital Financing. The risk is that if internal consistency checks are not made the financial statements could be materially mis-stated. 	<ul style="list-style-type: none"> Ensure that Quality Assurance (QA) procedures include internal consistency checks between the statements and agreement with other grants and returns. This would highlight errors such as the incorrect disclosure of capital expenditure and the NNDR figures in the Collection Fund not agreeing to the NNDR3 claim.

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	We have previously discussed the risk of fraud with the Chair of the Audit Committee. We have been made aware of one fraud and there have also been a number of benefit frauds. Apart from these issues, we have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	A standard letter of representation has been requested from the Council.
4.	Disclosures	Our review highlighted some disclosure issues. Amendments were made in respect of these issues and they are highlighted in the misclassification and disclosure changes table. In general, we found that the financial statements complied with the requirements of the CIPFA Code of Practice on Local Authority Accounting.
5.	Matters in relation to related parties	We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council 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.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Overall our work highlighted 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. Our work identified that the Council's General Fund balance at 31 March 2013 was £2.542 million and that will not reach its target level of £2.6 million until the 31 March 2015. We also identified the need to improve the profiling and delivery of the capital programme and to forecast the year end revenue and capital outturn from quarter two onwards. The details of our findings can be found in our separate report 'Review of the Council's arrangements for securing financial resilience for Carlisle City Council'.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. The Council's 'Transformation Programme' has provided a good basis for its strategic approach to delivering spending reductions. Some benchmarking has been undertaken to compare Carlisle's 2011/12 position against the district council average and historic cities group. Our work identified that public reporting of performance has been limited to an assessment against five service standards but less clear how performance against the Corporate Plan reported. Internal Audit has highlighted the need to improve contract monitoring arrangements for outsourced contracts.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual Risk identified	Assurances obtained	Conclusion on residual risk
The Council's General Fund balance will not reach its target level of £2.6 million until the 31 March 2015.	Members are well aware of this issue as part of their consideration of the annual budget setting process and projections in the Medium Term Financial Plan (MTFP). The General Fund balance at 31 March 2013 was £2.542 million which is just below the Council set minimum level of £2.6 million.	Although members are well aware of the issue the General Fund balance is not expected to meet its target level until 31 March 2015. The Council continues to operate in an ever tightening financial environment which may impact further on balances. Members should continue to closely monitor the general Fund balance position.
The capital budget for 2012/13 was underspent by £3.42 million (42.9%) of the revised budget of £7.98 million. Delays in delivering capital projects can impact on service delivery. The Council expected £4.73 million to be spent in the last quarter of 2012/13 but only £1.20 million spent.	There is quarterly monitoring of the capital programme and adjustments are made to the overall budget on an on-going basis. Commentary is made on individual projects in quarterly monitoring reports.	Progress in delivering the capital programme is formally reported to the Executive on a quarterly basis. However underspending, often termed slippage, is a common feature of the capital programme and the Council needs to improve its profiling and delivery of its capital programme. Consideration should be given to how progress is reported and the potential impact of delays on service delivery.
The in-year capital monitoring reports do not include a year end projection and the in-year revenue monitoring was only included from quarter 3.	The in-year quarterly monitoring reports do provide information on spending to date and narrative commentary on the position.	Although in-year monitoring of capital and revenue is undertaken the lack of year end projections makes it difficult to assess the reasonableness of forecasting and does not provide members with an expectation against which to assess performance. There is a need to improve year end forecasting for revenue and capital and ensure that these forecasts are included from Quarter 2.
Public reporting on performance in 2012/13 has been limited to an assessment against five service standards but it is unclear how performance against the Corporate Plan is reported.	Directorate performance against the service plans is reported to the Senior Management Team (SMT) on a monthly basis. Any significant performance issues would be reported to full Council through the Portfolio holder reports.	No evidence of any significant problems with performance. Now that there is a new corporate plan in place 'Carlisle Plan 2013-2016' clear arrangements need to be in place to publically report performance against the plan.
Internal Audit weaknesses in the contract monitoring arrangements for outsourced contracts. Action plans have been agreed and the Council now needs to ensure that the recommendations are implemented.	Action plans agreed and the Council has already started to implement some of the recommendations e.g. Chief Accountant now attends update meetings with Carlisle Leisure Limited (CLL). High visibility of the issue in terms of the Audit Committee and Resources Overview and Scrutiny Committee.	Action plans have been agreed to improve contract monitoring arrangements for outsourced contracts. The Council now needs to ensure that the recommendations are implemented.

Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Fees, non audit services and independence

We confirm below our final fees charged for the audit. We did not provide any non-audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	70,153	70,153
Grant certification	22,150	22,150
Total audit fees	92,303	92,303

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Ensure that Quality Assurance (QA) procedures include internal consistency checks between the statements and agreement with other grants and returns. This would highlight errors such as the incorrect disclosure of capital expenditure and the NNDR figures in the Collection Fund not agreeing to the NNDR3 claim.	Medium	The QA process will be strengthened to ensure that the statements agree to prime records and that all disclosure notes are consistent.	Financial Services & HR Manager Statement of Accounts 2013/14
2	Ensure the Annual Governance Statement published within the financial statements is compliant with the latest guidance.	Low	Relevant guidance will be reviewed to ensure compliance.	Financial Services & HR Manager Statement of Accounts 2013/14
3	Continue to closely monitor the general Fund balance position.	Medium	Use of revenue reserves will continue to be monitored via the quarterly monitoring reports; however half yearly MTFP reports providing details of revenue reserves will be introduced.	Director of Resources On-going
4	Consider how progress against the capital programme is reported, including assessing the potential impact of delays on service delivery.	Medium	The Corporate Programme Board will continue to monitor significant Council projects; however use of earmarked provisions for potential capital projects will be developed during the annual budget processes.	Director of Resources Budget Process 2014/15

Action plan (Continued)

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
5	Improve year end forecasting for revenue and capital and ensure that these forecasts are included from Quarter 2.	Medium	To form part of future Quarter 2 reports. The revised FS structure will facilitate improved budget monitoring with year end forecasts being provided in conjunction with Directors.	Financial Services & HR Manager Budget monitoring reports 2013/14 Quarter 3
6	Ensure there are clear arrangements need to be in place to publically report performance against the Carlisle Plan 2013-2016..	Low	Improvements have been implemented for monitoring performance against the 2013/14 Carlisle Plan.	Chief Executive 1 April 2013
7	Ensure that the recommendations to improve contract monitoring arrangements for outsourced contracts are implemented.	Medium	Revised staffing structures will facilitate this improvement with responsibilities for the monitoring of outsourced contracts being identified within job descriptions. An internal audit follow up report and regularly reporting of progress through Corporate Governance action plan will provide the necessary assurances.	Senior Management Team (SMT) January 2014

Appendix B: Audit opinion

We anticipate we will provide the Council with an unqualified audit report

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

Opinion on the Authority financial statements

We have audited the financial statements of Carlisle City Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial 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. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices 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 financial statements sufficient to give reasonable assurance that the financial 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 Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Carlisle City Council as at 31 March 2013 and of its expenditure and income 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 2012/13.

Opinion on other matters

In our opinion, the information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA / SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, 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 us to consider under the Code of Audit Practice in satisfying ourselves 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 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we 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 our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are 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 ended 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements 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.

Jackie Bellard

Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
MANCHESTER
M3 3EB

Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 22 July 2013.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated or not recorded in the correct period	No	All downward revaluations (£10.1m) recorded as an exceptional item in the CIES. Should be restricted to Tullie House and Ghyll Bank (£9.8m)
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None

Audit findings

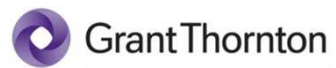
Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
Revenue support grant and other Government grants	Grant Income	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	All downward revaluations (£10.1m) recorded as an exceptional item in the CIES. Should be restricted to Tullie House and Ghyll Bank (£9.8m)
Heritage assets & Investment property	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cash and cash equivalents	Cash	None		No	None
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None



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