

Annual governance report

Cumbria County Council

Audit 2011/12



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Key messages

This report summarises the findings from the 2011/12 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.

Financial statements

As at 21 September 2012 I expect to issue an unqualified audit opinion. I am waiting for further information to support the Council's treatment of legal claims from teaching assistants. The key messages from the audit are:

There has been a further improvement in the quality of the accounts with fewer amendments than in previous years and much improved supporting working papers prepared to a good standard.

The recommendations from last year's Annual Governance Report have been successfully implemented and the increased quality review and earlier completion of key tasks has led to clearer disclosures and fewer errors. Officers decided not to use the e5 capital accounting module and prepared the capital transactions using spreadsheets. I found that the comprehensive work done regarding the capital accounting entries resulted in improved disclosures. The Council has increased the resources within the Corporate Accounting and Technical Finance teams and this has had a clear benefit to the accounts preparation process.

The unadjusted items in appendix 2 do not impact on my opinion and are not material. The only uncorrected item in appendix 2 which would affect the Council's total usable reserves is the omission of a provision which would lead to an increase in expenditure in the Comprehensive Income and Expenditure Statement (CIES) and a reduction in the earmarked insurance reserve of £560,000 relating to a liability arising from historic claims in the Municipal Mutual Insurance (MMI) Scheme of Arrangement. As at 31 March 2012 the Scheme of Arrangements has not been triggered, however it is expected that it will be triggered in the next year. The Council has recognised this as a contingent liability in its accounts for the past 20 years. Officers have agreed to charge this expenditure in 2012/13. It will be an unbudgeted charge in 2012/13, supported by use of the insurance reserve and therefore no consequence to the General Fund balance.

The accounts have been amended and the amendments are detailed in appendix 3. There was one material error within the Cash Flow Statement. There was also a material classification error within the Group Accounts. In addition, the changes to the PFI models and accounting entries led to the net cost of services in the Comprehensive Income and Expenditure Statement (CIES) being increased by £6.5 million because the revenue costs of the PFI schemes had been understated. The effect on the General Fund balance was netted down by an equivalent adjustment to capital expenditure charged to the General Fund. The corrected items noted in appendix 3 had no effect on the Council's General Fund Balance and usable reserves. The Council's net worth reduced by £6.5 million.

Private Finance Initiative (PFI)

Accounting for PFI is complex and often requires specialist skills. The Council arranged for specialist technical expertise to prepare new accounting models and provide guidance on the accounting entries. The accounting entries for the Council's PFI schemes were particularly complex and have been amended. Although the accounts have been amended for errors made in the PFI accounting entries, there has been no effect on the Council's General Fund or Earmarked Reserve balances. The net cost of services was increased by £6.5 million, but this was offset by an equivalent reduction in capital expenditure funded from revenue. The Council's net worth has reduced by £6.5 million. The amendments are detailed in appendix 3.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. I also expect to conclude that there are no matters arising from my VFM work that I need to comment on in my audit opinion. The Council has clearly recognised the need to make savings in response to the reduced funding following the Government's Spending Review. Staff numbers have reduced following both voluntary and compulsory redundancy schemes and the 2011/12 budgeted savings of £44 million have been exceeded. The Council's Better programme is also contributing towards the required long term spending reductions.

One of the areas I identified as being at risk for the Council's use of resources was the need for significant improvements in its contract management and monitoring arrangements. I have found that there have been improvements in the initial contract letting process but there is scope to improve the clarity over performance measurement, monitoring and reporting against the service levels expected from the contracts.

Certificate

I expect to complete the outstanding work and report my findings to management by 28 September 2012. I plan to issue my certificate by 5 October at the latest. The reason for the delay between giving my opinion and value for money conclusion and issuing the certificate that the audit is complete is because the deadline for submitting the Whole of Government Accounts is 5 October 2012.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit 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.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/12.

I ask the Audit Committee to:

- review the unadjusted misstatements which are set out in appendix 2. If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a note regarding the uncorrected errors to your representation letter;
- take note of the adjustments to the financial statements included in this report (appendix 3);
- approve the letter of representation (appendix 4), on behalf of the Authority before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 6).

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected 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.

Opinion on the financial statements

Subject to satisfactory clearance of 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 audit report.

Uncorrected errors

The unadjusted items in appendix 2 do not impact on my opinion and are not material. Only one of the five uncorrected errors would have an effect on the Council's usable reserves; I recommend that the Council provides up to £560,000 in respect of a Scheme of Arrangement agreement made in 1992 with Municipal Mutual Insurance (MMI). During 2011/12 a judgement was reached in the Supreme Court which means that it is likely that there will be clawback of claims which have been settled by MMI's successors (Zurich Municipal) and also an expectation that the Council will be required to contribute a share of the amount of claims which cannot now be met by the insurers following the judgement. As at 31 March 2012 the Scheme of Arrangements has not been triggered, however it is expected that it will be triggered in the next year. The Council has recognised this as a contingent liability in its accounts for the past 20 years. Officers have agreed to charge this expenditure in 2012/13. It will be an unbudgeted charge in 2012/13, supported by use of the insurance reserve and therefore no consequence to the General Fund balance.

Corrected errors

The corrected items are listed in appendix 3. Improvements were made to presentation and also to classification. There was one material error within the Cash Flow Statement. There was also a material classification error within the Group Accounts. In addition to the amendments noted in appendix 3, other amendments have been made to improve the clarity of the Accounting Policies and to correct a small number of minor formatting errors in the primary and group statements. The main amendments were as follows.

Corrected Improvements to presentation

In 2011/12 the effect of Capita staff returning to the Council's employment and Academy schools' staff leaving the Council's employment led to two high value adjustments to the pensions costs recorded in the Comprehensive Income and Expenditure statement (CIES). The CIES originally reported the two separate exceptional items on one line by adding the gains and the losses together. Following discussion, the CIES and Note 6 have been amended to report them separately in order to make them clearer and to reconcile to the entries in Note 48. The consequence of the Academy Schools staff who are members of the Local Government Pension Scheme (LGPS) leaving the Council's employment (the Settlement) is a net gain of £10.8 million (£16.7 million reduced liabilities plus £5.9 million reduced assets). The consequence of Capita staff returning to the Council (the Business Combination) is a net loss of £3.8 million (£68.3 million increased liabilities plus increased assets of £64.5 million). There was no change to the Net Cost of Services;

Corrected errors to classification

Group Accounts

The Group Accounts contained a material error in classification. The Group Accounts CIES exceptional item was not consistent with the main accounts exceptional item. The £81.2 million of income and £74.2 million of expenditure was netted off and included within non distributed costs rather than shown separately. This was amended and did not affect the net cost of services as the net value of the exceptional item was correctly included in the group accounts.

Corrected errors

Cash Flow Statement

The 2010/11 and 2011/12 Cash Flow Statements and supporting notes were amended to correct a material error of £18.2 million on the Net cashflows from investing activities relating to classification of long term debtors (£6.1m) and also to correct the error in the value of purchase of property plant and equipment relating to the PFI schemes £12.1 million), the amendments are detailed in appendix 3.

Private Finance Initiative (PFI)

Accounting for PFI is complex and often requires specialist skills. The Council arranged for specialist technical expertise to prepare new accounting models and provide guidance on the accounting entries. However errors were made in the models and they did not provide sufficiently detailed accounting entries. Following my audit, the models and the accounting entries for CNDR and Waste were amended. The models and accounting entries for the Fire PFI scheme were correct.

Although the models and accounting entries were amended, there was no effect on the Council's General Fund or Earmarked Reserve balances. The net cost of services was increased by £6.5 million, but this was offset by an equivalent reduction in capital expenditure funded from revenue. The Council's net worth has reduced by £6.5 million. The amendments are detailed in appendix 3.

The main reasons for the amendments were that the Council paid the PFI operator for some interim services before the PFI schemes became operational and it was not included correctly in the new accounting models. In addition, the new models:

- did not include sufficient information to show how the accounting entries reconciled to the costs set out in the PFI operators' costing models;
- included some detailed formula errors;
- did not include accurate accounting entries and
- were difficult for non-PFI specialists to follow, resulting in officers incorrectly interpreting the model when preparing detailed journal entries.

Capital Financing Requirement (CFR) Note 22

Note 22 reports the Capital Financing Requirement (CFR) – the total amount of Capital spending incurred but not yet financed. The closing CFR was understated by £71.6m because it included the value of the PFI liability in error. The Note was amended for this initial error and then further amended following the changes to the PFI accounting entries. There was no consequence to the Council's net assets nor its assessment of financing requirements as the error had been made in reporting the figures in the Statements rather than in the supporting working papers.

Explanatory Foreword

The Explanatory Foreword was amended to improve the clarity of the explanations of the changes to the Council's original budget. The main reasons for the increase in reserves were given but the text was amended to improve the clarity of how these changes related to the original budget. Arising from this officers plan to ensure that all known grant and planned contributions to reserves are included in the original and revised budgets going forward.

Significant risks and my findings

In December 2011 I reported to you in my Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In table 1 I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Findings
<p>Non current asset accounting – limitations of e5 module and risks associated with maintaining the asset register on a spreadsheet.</p>	<p>The Council decided to complete the 2011/12 accounts using the fixed asset register based on spreadsheets. The e5 module continues to be tested to ensure it provides the correct accounting entries under IFRS. I found that the capital accounting supporting working papers were well prepared and, apart from the errors noted in appendix 3, provided accurate entries in the statements</p>
<p>Non current asset accounting – componentisation and valuation. In particular surplus assets held for sale and heritage assets.</p>	<p>The Council amended its componentisation policy and identified components separately. £10.5m of engineering components were incorrectly classified within Vehicles, Plant and Equipment when they are mostly integral parts of the buildings. The accounts were amended.</p> <p>Some of the Council’s surplus assets that were valued at £1 in 2010/11 have been revalued to £1.1 million in accordance with the updated guidance.</p> <p>Heritage assets have been identified and the opening balance sheet amended to include £385,000 of assets and in the year the Council acquired further assets to give a closing value of £521,000.</p>
<p>Private Finance Initiative (PFI) – accounting for all three schemes – CNDR, Waste and Fire Stations.</p>	<p>The Council initially commissioned the District Valuer (DV) to value the completed waste plant prior to it being brought into use. However the Council then decided to accept the value within the operator's model so the DV did not complete the valuation. It was therefore brought on to the Council’s balance sheet at the value included in the Operator’s Model (£24.6 million). Two risks arise from this, firstly:</p> <ul style="list-style-type: none"> ■ the asset may be overvalued, experience at other councils shows that assets are usually revalued at considerably less than their cost, which could mean that the split of the unitary charge between principal repayment and interest is incorrect. I have accepted the Council’s inclusion of the value from the Operator’s model as being a reasonable estimate of the waste plant’s value. However, the Council should ensure that it does obtain accurate valuations, especially when the second waste plant comes in to operation during 2012/13, in order to disclose the correct split between principal and interest payments going forward;

Risk	Findings
	<ul style="list-style-type: none"> and secondly, CCC needs information in future to support such items as lifecycle costs in order to account for them as capital transactions in future. The £808,000 of lifecycle costs incurred in 2011/12 were charged to revenue as there was insufficient costing information to classify the expenditure as capital. <p>I have undertaken considerable additional work to review the revised accounting models prepared by the Council's advisers. My findings are detailed in appendix 3. The amendments affected the Net cost of services within the CIES and the value of the PFI assets and liabilities within the Balance sheet. There was also a transfer of some £8 million from capital expenditure financed from revenue to the minimum revenue provision. However there was no change to the General Fund Balance or the Council's usable reserves.</p>
<p>Equal Pay – consideration of whether or not a provision is required.</p>	<p>I am awaiting information that the Council has reviewed the current position regarding tribunal findings and Counsel's advice and is able to demonstrate that it is correct not to provide for these claims.</p>

Recommendation

R1 Review the PFI contracts to establish what information is required to be provided by the Operators and come to an agreement with them to provide sufficient accurate information regarding valuations and lifecycle costs in future.

Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

The Council has recognised weaknesses in its internal control arrangements and the Annual Governance Statement contains a detailed action plan to address the weaknesses. I have not repeated the concerns in this report but encourage the Council to maintain the momentum to make the improvements to the controls over the basic systems and processes of managing the Council's daily business. I have reviewed some current contracting and contract performance management arrangements and include my findings in the later section on the Value for Money Conclusion.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- I received new guidance from the Audit Commission regarding the need to provide for the future costs of closed landfill sites and I reviewed the Council's arrangements. The Council owns or leases over 30 closed sites and continues to monitor gasses and leachate, spending some £1 million each year. The Council has not provided for these ongoing costs as it considers it cannot make a reliable estimate but acknowledges them as a contingent liability and I concur with management's view. I understand that CIPFA will issue updated guidance during 2012/13 and officers will consider the guidance in the current year and make any required changes.
- The Council has a contractual dispute with one of its service providers. At present it is not clear what the outcome will be but the Council is receiving Counsel's guidance and I am keeping a watching brief. I concur with management's view that further disclosure in the accounts is not required.

Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. As at 19 September 2012 I have not completed the procedures specified by the National Audit Office. I expect to complete my report by 5 October 2012.

Value for money

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

I assess your arrangements against the two criteria specified by the Commission. In my December 2011 Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in appendix 1.

Value for Money conclusion criteria and my findings

Table 2: Value for money conclusion criterion – Financial Resilience and my findings

Criteria	Risk	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</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's proposals for cost reduction do not progress as quickly as forecast and savings are not made which reduces the Council's financial resilience.</p> <p>The Council's arrangements to reduce school deficits and reduce surplus school places do not lead to improvements.</p>	<p>The findings from my detailed work are below, but in summary, I found that:</p> <ul style="list-style-type: none">■ the Council has made savings both by reducing overall staffing numbers and from the Better programme but there is scope to improve the monitoring and reporting; and■ Schools' deficits have improved. The shortage of school places in urban areas is being addressed. Meanwhile school rolls continue to fall in rural areas. The School Organisation team is focussing on ensuring that all schools are sustainable going forward.

Budget savings

The Council was required to make budget savings 2011/12 including a £26m reduction in grants income. The Council set in train a programme of voluntary redundancies and other cost savings. During 2011/12 645 people have left and a further programme of voluntary redundancies has commenced in 2012/13.

'Better' programme

In last year's Annual Audit Letter I acknowledged that the Council had embarked on its 'Better' Programme' which reviews services across the Council to identify scope for financial savings, efficiency gains and service improvements. It was clear that the programme was resulting in improved processes and services. However in my 2011/12 Audit Plan I identified a significant risk to my VFM conclusion; that the Council's proposals for cost reduction do not progress as quickly as forecast and savings are not made which reduces the Council's financial resilience.

The Council has reported on its website that it achieved savings from its 'Better' programme of £5.9 million in 2011/12. This falls short of the planned savings of £7.4 million, primarily because the £1.5 million of savings planned from proposed reductions to the number of recycling sites were not realised. The savings that have been achieved are as follows.

- Better for Children: £2.6 million of savings were achieved through a staffing restructure between February 2011 and September 2011.
- Better Transport: £2.1 million of savings were delivered through reductions in budgets and retendered routes in Eden and Carlisle.
- Better for People: £1.2 million of savings was achieved through a reduction in staff posts.

With further reductions in funding, cost reductions will be more difficult to identify and will only result from cutting services or delivering services differently. It is essential that reporting to members is clear about what changes have been made to secure savings to be able assess what impact this has had on service delivery.

Recommendations

R2 The reporting of the actual savings achieved by the Better programme to those planned needs to be improved to clearly demonstrate what savings have been realised and, if not, what specific action is to be taken and by when.

R3 Members need to satisfy themselves that savings planned are realistic and achievable within the timescale set and the impact on service delivery.

Schools reserves

In last year's Annual Audit Letter I reported that the number of schools in deficit had increased from 107 at the end of March 2010 to 111 at the end of March 2011. However, the total amount of the deficit had reduced from £8.5 million to £8.1 million. The total value of schools' reserves has increased from £354,000 at the end of 2010/11 to £13 million at the end of 2011/12 although the reserves are not strictly comparable because of the changes made to the schools standards fund which is now included within the Dedicated Schools Grant.

I have reviewed progress during 2011/12 and looked at the detailed information at year end. The strengthening of the Council's arrangements is reflected in the improvement to both the number of schools in deficit and the total value of that deficit.

Officers have continued to address the number of schools in deficit both by providing greater support and monitoring of spending against planned expenditure. Additional funding has been provided for schools with underlying historical deficits. There has also been further clawback of surplus balances. As a result the number of schools in deficit, excluding schools that have closed during 2011/12 or have become academies, has reduced from 105 to 66. The total for all of the schools in deficit has also reduced from £8.1 million to £4.9 million. The action being taken needs to be maintained to ensure that the number of schools in deficit continues to fall and that the level of deficits in all schools also continues to fall.

School Places

The Council's Strategy for Learning includes a recognition of the difficulties of dealing with over provision of places within Cumbria's rural communities and also addresses the need to provide more places in the urban areas. Over the next 12 months, the School Organisation team will be working up area school organisation plans that should give both short and longer-term solutions to a variety of issues, including the impact of school funding reform and the ongoing changes in school rolls. The team is focused on removal of surplus places where necessary to enable sustainable schools.

Table 3: **Value for money conclusion criterion – Securing economy, efficiency and effectiveness and my findings**

2. Securing economy efficiency and effectiveness

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

Focus for 2011/12:

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

The Council's arrangements for ensuring the many large outsourced services do not provide assurance that they are giving value for money for local people.

The Council's plans to reduce the costs of services for older people do not progress.

The findings from my detailed work are below, but in summary, I found that:

- there is scope for improving both the way in which performance criteria within contracts are initially agreed and also how the performance is monitored; and
 - Services for older people continue to cost well above the average of other Councils.
-

Client side Contract management

In last year's Annual Audit Letter I reported that the Council had identified weaknesses in the operation, management and monitoring of outsourced contracts. I have reviewed the arrangements for contract monitoring for two recently awarded major contracts: the Professional Services Framework, with annual contract value of £4 million, which commenced on 1 February 2011, and the Support at Home Service Framework Contract, with an estimated annual contract value of £32 million, which commenced on 1 March 2012. The management arrangements for each contract vary due to both the nature and complexity of the contract coverage and whether one, or more, Directorate is using them. I also considered the findings of Internal Audit's review of Carlisle Northern Development Route (CNDR) Contract that commenced on 1st October 2009, came into operation in February 2012, is worth around £12 million per year and will run for 30 years.

Professional Services Framework

Whilst directorates are responsible for commissioning work through the frameworks it is the Framework Management Group (FMG) that manages supplier performance and key performance indicators. The FMG is reliant upon directorates providing a completed Customer Satisfaction Questionnaire (CSQ) for each piece of work commissioned, both on a quarterly and final basis. At the time of my audit in July 2012 only 40 per cent of CSQs had been returned for 2011/12 work. I understand that since then the rate has improved to 80 per cent. Whilst the FMG is confident that any significant underperformance on individual pieces of work will be identified and addressed by the directorates it is essential that all CSQs are returned to enable the FMG to monitor and address supplier underperformance under the terms of the Framework Contract. The FMG has reminded managers of their responsibilities.

Framework 2 – Support at Home Contract

This £32 million per year contract is concerned with providing care to individuals in their homes and is used by one Department. The contract includes improvements to the service for example, by extending the length of the day during which Support at Home services are available. The Council also intends to enable NHS Cumbria to commission services from the same providers which will provide a seamless service for users in Cumbria. In the first six months of the contract client side management has focussed on quickly addressing any concerns on the service provided that has been raised by individuals or their representative and close liaison with providers. However plans are in place to make the client side management arrangements more robust from September 2012 onwards including the following.

- An electronic recording system for carers visiting an individual's home is to be rolled out in the homes served by the main providers from September 2012 to the end of December 2012 as a trial. From 1 January 2013 this electronic system will be used to both trigger payments and provide real time and historic information to monitor service delivery.
- Performance audits are planned of all framework providers by the Adult Social Care Contract and Compliance Unit. Risk based and ad hoc audits will also be undertaken as necessary.

Carlisle Northern Development Route (CNDR) Contract

The Council awarded a private finance initiative contract to design, build, finance and operate the new CNDR, together with the operation and maintenance of 150km of existing roads throughout West Cumbria. The concession commenced on 1st October 2009, the route opened ahead of schedule in February 2012, costs some £12 million per year and will run for 30 years. The new route around Carlisle has had clear and immediate benefits by reducing traffic through Carlisle and improving the road links with West Cumbria.

Internal Audit recently completed their first audit review of the CNDR contract. Weaknesses identified included limited verification of contractor data, under-developed contract monitoring routines and the planned performance audits by officers to test compliance with contract performance standards have never taken place.

Internal Audit concluded that the Council needs to establish a robust contract management regime and ensure that contractor data and self-monitoring routines are independently and rigorously verified. Only then will the interests of the Council be protected over the lifetime of the contract. Management has agreed to Internal Audit's recommendations.

Given the scale, complexity and significance of these and other contracts it is essential that members monitor contract performance and address any issues and risks that are identified. At the time of our audit, end of August 2012, I did not identify any such reports although there had been discussions with key members.

Conclusion

The Council has identified the need to improve its contract agreement and performance management arrangements through the development of the Corporate Management Team Programme Board. Some good work has been done to improve the operation of the waste management contract and secure improvement and savings for the future. However, my review of other contracts identified that the criteria against which delivery of the contract would be measured were not always clearly defined when the contract was signed. Also the mechanism to collect the required information to support and monitor performance standards were not set up at the start of the contract. Discussions with some staff at an operational level showed that there was scope for procurement to work more closely with directorates to ensure the contract specification matched the operational delivery of the service.

Recommendations

R4 Procurement and directorates should work closely in setting performance criteria when agreeing contracts so that they reflect the operational delivery and set appropriate performance measures. Mechanisms to measure and monitor performance should be in place at the start of the contract.

Recommendations

R5 The reporting of contract performance to members should be improved to ensure that they are aware of the performance for all major contracts.

The reports should include:

- whether the intended benefits from the contract have been realised;
- whether robust contract monitoring arrangements are in operation; any issues and risks arising; and
- any remedial action being taken.

Cost of services for older people

In last year's Annual Audit Letter I reported that the Council's costs to provide care for older people will remain high, compared with other similar authorities, until Cumbria Care home provision is reduced. I reflected this in my 2011/12 Audit Plan as a significant risk to my VFM conclusion; that the Council's plans to reduce the costs of services for older people do not progress. I have reviewed progress during the year.

One planned outcome of the Council's Commissioning Strategy for Older People 2010-2019 is that older people should be able to access social care services of the right quality in the right place and at the right time. The intention is that, wherever possible, individuals will be cared for in their own home. But, where it is needed, modern residential care and nursing home care will be commissioned to meet the higher levels of service that will be required.

Independent demand analysis has shown that by 2019 there will be an overprovision of Adult Social Care (ASC) funded residential care beds across Cumbria of 740 beds requiring a 31 per cent reduction across the private and public sector. In response the Council is working with individual care home providers who are seeking to invest in upgrading existing or building new homes in Cumbria and developing a shared understanding of service trends across the whole care market, including those people who fund their own care.

In line with the Commissioning Strategy the Council has been assessing its own Care Home Provision. So far two have closed in Barrow and a further two are due to close in that area, being replaced by a single new home that meets the modern standards. This will result in the number of Council delivered places reducing from 120 to 60 in the Barrow area. In Allerdale, one home has already closed (Ravensfield in Keswick) and a decision has been taken to close a further home although two other homes that were recommended for closure have been retained. The other four areas in Cumbria are considering future care home provision that will be addressed in the Area Plans that are currently being drafted.

Recommendation

R6 Members need to ensure that momentum is maintained to reduce the number of care home places the Council provides, both to reduce its costs in the face of reduced demand and to ensure the facilities provided meet the more complex needs of those individuals who are unable to be cared for in the future in their own homes.

Results of other Inspections

In reaching my VFM conclusion I also considered reports on the Council by both the Office for Standards in Education, Children's Services and Skills (Ofsted) and the Care Quality Commission (CQC).

Of the three inspections by Ofsted, the *'Adoption Service – Social Care Inspection'* was assessed as good and *the 'Annual assessment of Children's Services'* was assessed as performing well. However, the *'Safeguarding and Looked After Children'* inspection was assessed as inadequate. Officers have put plans in place to address the concerns raised.

The CQC reported the outcome of 28 inspections, of individual Council run Care Homes and area domiciliary care agencies, during 2011/12 to date. Of these concerns were raised on three care homes where one or more standards had not been met and improvements were required. However no enforcement action was required by the CQC.

My consideration of the outcome of these inspections did not raise any issues that posed a risk to an unqualified VFM conclusion.

Fees

I reported my planned audit fee in the December 2011 Audit Plan.

I propose to increase the audit fee by £5,000 to reflect the additional audit work required to review the new PFI accounting models and agree amendments both to the models and to the primary statements and supporting notes.

Table 4: Fees

	Original scale fee (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)	2010/11 Fees (£)
Audit	£254,700	£254,700	£259,700	£303,200
Claims and returns		£26,145	£10,000	£33,000
Non-audit work		None undertaken	None undertaken	None undertaken
Total		£280,845	£269,700	£336,200

The Audit Commission has paid a rebate of £20,376 for 2011/12 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission, in respect of the Audit Fee, to £239,324. The fee for claims and returns has reduced from £33,000 to £10,000 because the Council's reduced grant funding, particularly the single programme grants.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF CUMBRIA COUNTY COUNCIL

Opinion on the Authority and firefighters’ pension fund financial statements

I have audited the financial statements and the firefighters’ pension fund financial statements of Cumbria County Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The Authority financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow, and the related notes. The firefighters’ pension fund financial statements comprise the Fund Account, the Net Assets Statement 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 2011/12.

This report is made solely to the members of Cumbria County 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 Acting Assistant Director – Finance and Auditor

As explained more fully in the Statement of the Acting Assistant Director – Finance’s Responsibilities, the Acting Assistant Director – Finance is responsible for the preparation of the Statement of Accounts, which include the Authority financial statements and the firefighters’ pension fund 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. My 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 me 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 and the firefighters pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Acting Assistant Director – Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Cumbria County Council as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the firefighters' pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which I report by exception

I report to you if:

- in my 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;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I 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
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement 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 2011/12.

This report is made solely to the members of Cumbria County 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 Acting Assistant Director – Finance and Auditor

As explained more fully in the Statement of the Acting Assistant Director – Finance’s Responsibilities, the Acting Assistant Director – Finance is responsible for the preparation of the Statement of Accounts, which include the pension fund 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. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me 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 fund’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Acting Assistant Director – Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund’s financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund’s assets and liabilities as at 31 March 2012; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Conclusion on 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.

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.

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

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 2011, 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 2012.

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 2011, I am satisfied that, in all significant respects, Cumbria County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

EITHER

Certificate

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

OR

Delay in certification of completion of the audit

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

Jackie Bellard

District Auditor

September 2012

Audit Commission, Aspinall House, Middlebrook, Horwich, Bolton, BL6 6QQ

Appendix 2 – Uncorrected errors and uncertainties

I identified the following errors during the audit which management have not addressed in the revised financial statements.

Nature of error	Adjustment	Statement of comprehensive income and expenditure		Balance sheet	
		Dr £	Cr £	Dr £	Cr £
<p>MMI provision for Insurance Claims</p> <p>Expenditure and provisions are understated by £560,000. If the error was corrected the General Fund balance (or earmarked reserves) would be reduced by £560,000. Officers have agreed to provide for this liability in 2012/13 which will be an unbudgeted pressure in 2012/13 supported by use of the insurance reserve</p>	<p>Environmental and Regulatory Services</p> <p>Provisions</p>	<p>£560,000</p>			<p>£560,000</p>
<p>Actuarial strain costs</p> <p>Actuarial strain costs which arise as a result of early retirements and redundancies of £4.9 million are reported within non-distributed costs within the CIES whereas I consider they should be reported against the relevant service lines. The guidance available is not definitive and correcting this error would have no consequence for the total Net Cost of Services in the CIES</p>	<p>CIES Service lines</p> <p>CIES Non-distributed costs</p>	<p>£4.9m</p>			<p>£4.9m</p>

Nature of error	Adjustment	Statement of comprehensive income and expenditure		Balance sheet	
		Dr £	Cr £	Dr £	Cr £
<p>Pension costs and year end liability</p> <p>Estimated pensionable pay information provided to the actuary was overstated by £7.5 million. The Actuary estimates that gross expenditure and closing net pension liability is overstated by some £1.5 million. Correcting this error would have no effect on the General Fund balance.</p>	<p>Balance sheet Pensions liability</p> <p>CIES cost of services</p>			£1.5m	
<p>Deferred Debtors</p> <p>In 2010/11 I recommended that the balance on the deferred debtors (amounts due from residents of elderly person's homes (EPH) which will be collected when their homes are sold) be reviewed because not all of the debt due would be collectable within a year and therefore it was not correct for the balance to be shown as a short term debtor. In 2011/12 the balance, which has increased by 23% from £5 million to £6.1 million. It is all shown within long term debtors although experience shows that around £1 million is collected each year. Adjusting this item would not affect the Council's total net assets.</p>	<p>Balance sheet short term debtors</p> <p>Balance sheet long term debtors</p>			£1m	£1m
<p>Cash in hand and overdrawn</p> <p>The cash and cash equivalents balances of £61.3 million and the cash overdrawn balances of £6.1 million are both overstated by £436,000 because cash in transit has been shown as a cash in hand balance when it should have been set against the overdrawn balance on the Council's main bank accounts. Adjusting this item would have no effect on the Council's total net assets</p>	<p>Balance sheet Bank Overdraft</p> <p>Balance sheet Cash and Cash Equivalents</p>			£436,000	£436,000

Appendix 3 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements. In addition to those noted below, other amendments have been made to improve the clarity of the Accounting Policies and to correct minor formatting errors in the primary and Group statements.

Item of account	Nature of adjustment
Corrected Improvements to disclosures	
Exceptional item on CIES and Note 6 pensions adjustment	The Comprehensive Income and Expenditure statement (CIES) originally showed two separate items on one line. The CIES and Note 6 have been amended to report them separately in order to make them clearer and to reconcile to the entries in Note 48. The consequence of the Academy Schools staff who are members of the Local Government Pension Scheme (LGPS) leaving the Council's employment (the Settlement) is a net gain of £10.8 million while the consequence of Capita staff returning to the Council (the Business Combination) is a net loss of £3.8 million. There was no change to the Net Cost of Services
Concessionary fares exceptional item disclosed on CIES	From 1 April 2011 the Council took on responsibility for Concessionary Fares which had previously been administered by the District Councils. The CIES was amended to separately identify the expenditure (£8.3 million) and income (£100,000) transferred services which had been included within Highways and Transport Services There was no change to the Net Cost of Services.
Dedicated Schools grant (DSG)	£1.8 million of Dedicated Schools Grant (DSG) (a revenue grant) was designated by the Schools' Forum to be a contribution to a capital scheme which was incomplete at year end. The unspent balance of £1.2 million is included as a Capital Grant and Contributions Unapplied balance at year end rather than being included within the DSG earmarked reserve balance. A note has been added to Note 20 DSG to explain that a further £1.2 million of DSG is unspent at year end. Amendments to the disclosure of the £1.2 million in the MIRS were also made. There was no effect on the Council's net worth.

Item of account	Nature of adjustment
Acquired and discontinued Operations	Note 11 was amended to include an explanation of the consequences to the Council's accounts of the Academy Schools transfers.
Changes to CIES disclosures	An additional disclosure was included within Note 55 to explain the changes required by CIPFA's Service Reporting Code of Practice (SeRCoP) which split the expenditure previously included in one service as Cultural, Environmental, Regulatory and Planning Services into three separate categories. Both 2010/11 and 2011/12 disclosures had been amended on the CIES but the explanatory note had been omitted
Corrected classification issues	
Group accounts exceptional item	The Group Accounts contained a material error in classification. The Group Accounts CIES exceptional item relating to the Academies settlement and Capita business combination was not consistent with the main account's exceptional item. The £81.2 million of income and £74.2 million of expenditure was netted off and included within non distributed costs rather than shown separately. This was amended and did not affect the net cost of services as the net value of the exceptional item was correctly included in the group accounts.
Assets under construction (AuC) additions	In Note 27, Property Plant and Equipment, £13 million of AuC additions had been incorrectly included in the Land and Buildings additions figure rather than added to AuC and then transferred into use within land and buildings. The Note was amended, there was no effect on the Council's net worth.
Engineering components reclassified as Plant and Equipment	The Balance Sheet and Note 27.1 Property, Plant and Equipment reported £10.5 million of building components within the £28.2 million of Vehicles, Plant and Equipment. After discussion it was agreed to report the components within land and buildings as most of the components are integral to the building, eg the electrical wiring. The Note was amended to include the £10.5 million components within buildings. There was no effect on the Council's net worth.
Earmarked capital reserve split	Note 45, Earmarked Reserves, was amended to correct the split between the two elements of the capital reserve. The total remained unaltered at £5.3 million, but the Earmarked element was amended from £4.4 million to £1.4 million and the general element amended from £0.9 million to £3.9 million. There was no effect on the Council's net worth.

Item of account	Nature of adjustment
Short Term Creditors	The footnote to Note 40 for short term creditors was amended due to £1.7 million incorrectly classified as other short term creditors whereas they were children's services capital creditors. There was no effect on the Council's net worth.
CIES trading deficit	£2.8 million deficit on trading was incorrectly included within Other Operating Expenditure rather than within the Financing and Investment income and expenditure. The CIES was amended, as were Notes 7 and 8.
Corrected errors	
2011/12 Cash Flow Statement (CFS)	<p>The CFS had a material error and other errors. The amendments did not affect the change in cash and cash equivalents for the year. The cash flow statements (CFS) in both the County and Group Accounts were amended for both 2010/11 and 2011/12 in respect of errors made in classifying long term debtors and investment transactions.</p> <ul style="list-style-type: none"> ■ The CFS net cash flows from Investing activities was reduced by £18.2 million to correct the overstated purchase of PPE (£12.1 million) and an error on long term debtors (£6.1million). ■ The CFS non cash movements was amended to correct a £6.1 million error on long term debtors. ■ The CFS net cash flow from financing activities was increased by £5.5 million to correct the omission of the payment to reduce the PFI liability. ■ The Cash Flow Statement net surplus on the provision of services was reduced by £6.5 million as a consequence of the £6.5 million amendment made to the CIES net cost of services for PFI.
2011/12 Notes to the Cash Flow Statement	In addition to the amendments to the CFS noted above, the supporting Note 49.3 Cash Flows from investing activities was amended for an error of £8.1 million reducing the purchase of short term investments with a corresponding adjustment to the proceeds from short term investments. The error was corrected to remove the daily overnight deposits transactions which are not deemed to be investing activities.
2010/11 Cash Flow Statement	The 2010/11 CFS was amended due to an error classifying long term debtors. The non cash adjustment to the net deficit was reduced by £5 million with a corresponding increase in the net cash flows from investing activities. There was no consequence for the change in cash and cash equivalents in the year.

Item of account	Nature of adjustment
2010/11 Notes to the Cash Flow Statement	In addition to the amendments to the CFS noted above, the supporting Note 49.3 Cash Flows from investing activities was amended for an error of £44.3 million reducing the purchase of short term investments with a corresponding adjustment to the proceeds from short term investments. The error was corrected to remove the daily overnight deposits transactions which are not deemed to be investing activities.
PFI Schemes – general	The Council arranged for specialist technical expertise to prepare new accounting models and provide guidance on the accounting entries. However errors were made in the models and they did not provide full accounting entries. Following my audit, the models and the accounting entries CNDR and Waste were amended. The models and accounting entries for the Fire PFI scheme were correct.
PFI scheme amendments – Carlisle Northern Development Route	<p>The amendments for CNDR are as follows and did not impact upon usable reserves,</p> <ul style="list-style-type: none"> ■ Increase net expenditure in the CIES highways and transport services line by £3.2 million. ■ Decrease the amount in the MIRS for MRP by £3.2 million and ensure any capital charged to the general fund balance in the MIRS is reclassified as MRP. ■ Increase the Property Plant and Equipment infrastructure asset by a net figure of £4.3 million. ■ Increase the Long Term liability for PFI by £7.5 million. ■ Decrease the Capital Adjustment Account unusable reserve by £3.2 million. <p>Amendments were made to the other notes affected by the above changes including the cash flow statement, Note 22 Capital Financing Requirement, to Note 25 PFI and to Note 37 Financial Instruments.</p>
PFI scheme amendments – Waste Treatment Plant	<p>The amendments for the Waste Treatment Plant as a result of my audit queries are as follows and did not impact upon useable reserves.</p> <ul style="list-style-type: none"> ■ Increase net expenditure in the Environmental and Regulatory Services line by £3.4 million. ■ Decrease the amount in the MIRS for MRP by £3.4 million and ensure any capital charged to the general fund balance in the MIRS is reclassified as MRP. ■ Decrease the Property Plant and Equipment building asset by a net figure of £1.2 million. ■ Decrease the Short Term liability for PFI from £0.5 million to nil. ■ Increase the Long Term liability for PFI by £2.7 million. ■ Decrease the Capital Adjustment Account unusable reserve by £3.4 million.

Item of account	Nature of adjustment
	Amendments were made to the other notes affected by the above changes including the cash flow statement, Note 22 Capital Financing Requirement, to Note 25 PFI and to Note 37 Financial Instruments.
Non adjusting post balance sheet events	Note 51 was amended to include disclosure that the West Lakes Academy was handed over for nil consideration in April 2012. The asset had been included in the authority's balance sheet for £37.1 million.
Capital Financing requirement Note 22	Note 22 reports the Capital Financing Requirement (CFR) – the total amount of Capital spending incurred but not yet financed. The closing CFR was understated by £71.6m because it included the value of the PFI liability in error. The Note was amended for this initial error and then further amended following the changes to the PFI accounting entries. There was no consequence to the Council's net assets nor its assessment of financing requirements as the error had been made in reporting the figures in the Statements rather than in the supporting working papers.
Capital commitments	Note 27.4 Capital Commitments was amended from £49.6 million to £46.5 million. The main reasons were to include the Northside Bridge commitment for £2.6 million which had been omitted and take out the Barrow Elderly Persons Home for £5.7 million because the contract was not yet signed.
Financial instruments	The Financial Instruments Fair Values Note 37 was amended to ensure that the PFI Liability and the long term creditors were included. The debtors were amended to exclude debts which were not contractual. Note 38 Financial Instruments – Risks, Aged Debts and also Bad Debt provision were also amended to exclude amounts relating to debtors which were not financial instruments.
Group accounts	The group accounts were amended to reflect the amendments made in the County's accounts and to correct minor disclosure errors.
Explanatory Foreword	The Explanatory Foreword was amended to improve clarity over the high value changes to the original budget and improve the explanations of the savings between years.

Appendix 4 – Draft letter of management representation

Cumbria County Council – Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Cumbria County Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows.

- reason 1 etc;
- reason 2

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

For [xyz] accounting estimate, I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Authority, where relevant to the accounting estimates and disclosures;
- the disclosures relating to the accounting estimate are complete and appropriate under the Code; and
- that no subsequent event requires the Authority to adjust the accounting estimate and related disclosures included in the financial statements.

Other representations

Specific representations to be added.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Cumbria County Council

I confirm that the this letter has been discussed and agreed by the Audit Committee on 26 September 2012

Signed

Name

Position

Date

Appendix 5 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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

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

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 6 – Action plan

Recommendations

Recommendation 1

Review the PFI contracts to establish what information is required to be provided by the Operators within the contracts and come to an agreement with them to provide sufficient accurate information regarding valuations and lifecycle costs in future

Responsibility

Priority

Date

Comments

Recommendation 2

The reporting of the actual savings achieved by the Better programme to those planned needs to be improved to clearly demonstrate what savings have been realised and, if not, what specific action is to be taken and by when.

Responsibility

Priority

Date

Comments

Recommendations

Recommendation 3

Members need to satisfy themselves that savings planned are realistic and achievable within the timescale set and the impact on service delivery.

Responsibility

Priority

Date

Comments

Recommendation 4

Procurement and directorates should work closely in setting performance criteria when agreeing contracts so that they reflect the operational delivery and set appropriate performance measures. Mechanisms to measure and monitor performance should be in place at the start of the contract.

Responsibility

Priority

Date

Comments

Recommendations

Recommendation 5

The reporting of contract performance to members should be improved to ensure that they are aware of the performance for all major contracts. The reports should include:

- whether the intended benefits from the contract have been realised;
- whether robust contract monitoring arrangements are in operation; any issues and risks arising; and
- any remedial action being taken.

Responsibility

Priority

Date

Comments

Recommendation 6

Members need to ensure that momentum is maintained to reduce the number of care home places the Council provides, both to reduce its costs in the face of reduced demand and to ensure the facilities provided meet the more complex needs of those individuals who are unable to be cared for in the future in their own homes.

Responsibility

Priority

Date

Comments

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

