

# Annual Governance Report

Rutland County Council

Audit 2009/10

**September 2010**

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## Status of our reports

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.
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## **2009/10 Annual Governance Report**

I am pleased to present the results of my financial statements audit work for 2009/10. My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 9);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Neil Bellamy  
District Auditor

28 September 2010

# Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements. The report also explains the status of my Value for Money Conclusion for the year.

<b>Financial statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	7
Financial statements free from material error	Yes	7
Adequate internal control environment	Yes	7
<b>Value for money</b>	<b>Results</b>	<b>Page</b>
Adequate arrangements to secure value for money	TBC	10

## Audit opinion

- 1 My work on the audit opinion is substantially complete. Subject to satisfactory clearance of the remaining issues I expect to issue an unqualified opinion on the Council's financial statements.

## Financial statements

- 2 The financial statements are to be amended to correct errors identified during the audit.

## Value for money

- 3 I am still considering matters brought to my attention during the course of my audit regarding the Council's Better Schools for All programme. Until I have done so I am unable to reach a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources or to certify completion of the audit.

## Audit fees

- 4 The revised audit fee for 2009/10, which I reported to the Committee in June 2010, is expected to be sufficient to cover the core audit work required. I will re-assess the position once I have completed outstanding work on my value for money conclusion.

## Key messages

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### Independence

- 5 I can confirm that there were no relationships giving rise to a threat to independence, objectivity and integrity.

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# Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

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**6** I ask the Audit and Risk Committee to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 9);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

# Financial statements

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

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## Opinion on the financial statements

- 7 My work on the audit opinion is substantially complete. Subject to satisfactory clearance of outstanding matters, I expect to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
  - 8 I will update members of the Audit and Risk Committee at the meeting.
- 

## Errors in the financial statements

- 9 The draft statements are to be amended by management to correct non-trivial errors identified during the course of the audit. The corrections to be made are summarised at Appendix 2. There are non-trivial errors which have not been corrected and these are reported separately at Appendix 3.
- 

## Letter of representation

- 10 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.
- 

## Important weaknesses in internal control

- 11 In June 2010 I reported to the Audit and Risk Committee that, given the concerns raised through Internal Audit reports in the year, we would need to carry out additional substantive transaction testing on all material systems and their reconciliation procedures. This work is complete and I did not identify any material errors in the financial statements in the course of that work.
  - 12 Internal Audit has already reported a number of recommendations designed to address the system control weaknesses identified. The Audit and Risk Committee has a key role in overseeing management's response to these reports and in implementing the recommended improvements to the control framework.
-

## Recommendation

- R1** Monitor management's progress in addressing the internal control weaknesses identified by Internal Audit.

## Key areas of judgement and audit risk

- 13** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. These were reported to the Audit and Risk Committee in June 2010 in my Audit Opinion Plan. The findings in relation to these risk and issues are summarised in table 1 below.

**Table 1 Key areas of judgement and audit risk**

Issue or risk	Finding
The Council introduced a new suite of financial information systems in April 2009. Internal Audit's review of these systems identified significant concerns regarding the systems' implementation and operation of key control and reconciliation procedures.	We needed to carry out additional substantive transaction testing on all material systems and test the significant items in the year's bank and suspense account reconciliations. We did not identify any material errors in the draft financial statements in the course of this additional work.
The Large Scale Voluntary Transfer of the Council's houses to Spire Homes was a major event which impacted on the year's financial statements. The accounting adjustments were material and complex.	We engaged specialist advice from colleagues in our Technical Unit to inform our audit work. We identified a number of errors in the accounting entries and the draft financial statements are to be amended to show the correct entries.
The Big Build is in the construction phase and the Council needs to have effective arrangements for recording and valuing the expenditure and other transactions as the scheme progresses.	We reviewed the entries as part of our audit of the Assets under Construction balance and did not identify any material errors.
The Council's £1m Icelandic investment is still mostly outstanding and the Council needed to follow relevant valuation and accounting advice.	The Council has correctly applied the relevant advice.
SORP 2009 introduced changes to the Council Tax and NNDR accounting arrangements. The Council needed to apply this change of policy as a Prior Period Adjustment.	We did not identify any material errors. However, the draft statements are to be amended to include the additional disclosures required by the SORP.



### Audit Certificate

- 14** I am considering matters brought to my attention during the course of my audit. Until I have done so I am unable to reach a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources or to certify completion of the audit. I am satisfied that these matters do not have a material effect on the financial statements.

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# Value for money

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

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## Value for money conclusion

- 15** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 5.
- 16** I am still considering matters brought to my attention during the course of my audit regarding the Council's Better Schools for All programme. Until I have done so I am unable to reach a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources or to certify completion of the audit. I will update the Audit and Risk Committee on the outcome of my work when it is completed.

# Glossary

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## Annual governance statement

- 17** Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 18** It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.
- 19** The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
- 

## Audit closure certificate

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

## Audit opinion

- 21** On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:
- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
  - whether they have been prepared properly, following the relevant accounting rules; and
  - for local probation boards and trusts, on the regularity of their spending and income.
- 

## Qualified

- 22** The auditor has some reservations or concerns.
- 

## Unqualified

- 23** The auditor does not have any reservations.
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**Value for money conclusion**

- 24** The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

# Appendix 1 – Independent auditor’s report to Members of Rutland County Council

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## Opinion on the accounting statements

I have audited the Authority accounting statements and related notes of Rutland County Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Rutland County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

## Respective responsibilities of the Director of Corporate Services and auditor

The Director of Corporate Services’ responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks

and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

### Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

### Opinion

In my opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

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### Delay in issuing conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources and certificate of completion of the audit

I am considering matters brought to my attention during the course of my audit. Until I have done so I am unable to reach a conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in the use of resources or to certify completion of the audit. I am satisfied that these matters do not have a material effect on the financial statements.

Neil Bellamy  
Officer of the Audit Commission  
Rivermead House  
7 Lewis Court

## Appendix 1 – Independent auditor’s report to Members of Rutland County Council

Grove Park  
Enderby  
Leicester  
LE19 1SU

30 September 2010

# Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and managers have agreed to make the following adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities. Table 3 summarises the changes to the Income and Expenditure and Balance sheet.

**Table 2**

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Expenditure on Services and Expenditure Not Specific to Services	To separately disclose the loss on disposal of assets, arising from the LSVT	737	737		
Long Term/Short Term Debtors and Deferred Capital Receipts	To recognise the income due from the VAT Sharing Agreement following the LSVT			1,360	1,360
Debtors and Creditors	To adjust for internal schools balances			58	58

Changes are also to be made to the following statements:

- Statement of Movement on General Fund Balance - to more clearly disclose the accounting transactions required by the LSVT (that is, the impairment of the VAT Shelter expenditure, the loss on disposal and the use of the receipt to meet transfer costs).



## Appendix 2 – Amendments to the draft accounts

- Statement of Total Recognised Gains and Losses - to show the correct totals for the movements on the values of fixed assets and the pension assets and liability, and to separately disclose the non-material 'other' gains/losses in the statements.

Several narrative disclosure notes are also to be amended to correct misstatements or meet the SORP disclosure requirements. The main additional notes were:

- LSVT - to include a note explaining the background to the stock transfer and its impact on the financial statements; and
- Prior Period Adjustments - to explain the reasons for the prior year balances being restated, as required by the SORP.

# Appendix 3 – Unadjusted misstatements in the accounts

The following misstatements have been identified which management does not plan to adjust in the final statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell me why in the representation letter. If you believe the affect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter.

**Table 3**

Description of error	Accounts affected	Value £000s
The Valuer's reported value at 1 April 2009 for one school does not agree with the corresponding value recorded on the fixed asset register. The Valuer's report is £48,000 higher.	Balance Sheet (Fixed Assets and Revaluation Reserve)	48
A small number of non-material Balance Sheet movements have not been fully reflected, where appropriate, in the Income and Expenditure Account. These have now been separately disclosed as 'other' gains in the Statement of Recognised Gains and Losses. The items include:	Income and Expenditure Account and Balance Sheet	
<ul style="list-style-type: none"> <li>• pre-ballot set up expenditure on the LSVT charged against capital receipt rather than revenue;</li> <li>• a repaid long term debtor (a mortgage) balance; and</li> <li>• a brought forward Government Grant Deferred balance which has been written back.</li> </ul>		88
		16
		90

# Appendix 4 – Draft letter of representation

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To:

Neil Bellamy  
District Auditor  
Rivermead House  
7 Lewis Court  
Grove Park  
Enderby  
Leicestershire  
LE19 1SU

## **Rutland County Council - Audit for the year ended 31 March 2010**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Rutland County Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010.

### **Compliance with the statutory authorities**

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

### **Uncorrected misstatements**

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed 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 included in the schedule.

### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council, Cabinet and other Committee meetings, have been made available to you.

### **Irregularities**

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

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

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; and
- 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.

### **Law, regulations, contractual arrangements and codes of practice**

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### **Fair Values**

I confirm the reasonableness of the significant assumptions within the financial statements.

### **Assets**

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

### **Compensating arrangements**

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. We have no other lines of credit arrangements.

## Appendix 4 – Draft letter of representation

### **Contingent liabilities**

There are no contingent liabilities that need to be recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation;
- there are no material commitments or contractual issues; and
- no material financial guarantees have been given to third parties.

### **Related party transactions**

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

### **Post balance sheet events**

Since the date of approval of the financial statements by the Audit and Risk Committee, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

### **Specific representations:**

I have reviewed all contracts to identify any that involve both service provision and the use of assets. These have then been examined to determine whether any may fall within the scope of IFRIC 12 as service concessions. There are no contracts that fall within this scope.

### **Signed on behalf of Rutland County Council.**

I confirm that the this letter has been discussed and agreed by the Audit and Risk Committee on 28 September 2010.

Debbie Muddimer  
Strategic Director of Resources  
28 September 2010

# Appendix 5 – Value for money criteria

KLOE	Met
<b>Managing finances</b>	
<p>Planning for financial health</p> <p>The Council continues to have adequate arrangements for managing its finances. Financial planning, strategic and service planning are well integrated and the Council manages its finances within available resources. There are good links between consultation, the Council's priorities and financial planning.</p>	<b>Yes</b>
<p>Understanding costs and achieving efficiencies</p> <p>The Council has a sound understanding of its overall costs and is focused on keeping them at lower levels than the national and family group averages. Significant improvements were been made in its historically weaker services particularly housing repairs and waste and recycling, and the improved performance levels have been continued into 2009/10. We have not concluded audit enquiries in relation to the Better Schools for All programme, which are relevant to this Key Line of Enquiry.</p>	<b>TBC</b>
<p>Financial reporting</p> <p>The Council produces solid reliable financial information for monitoring and forecasting and financial performance is well integrated into its performance management system. Accounts meet statutory requirements with efficient closedown and supporting working papers. Published reports provide an objective understandable assessment of performance.</p>	<b>Yes</b>
<b>Governing the business</b>	
<p>Commissioning and procurement</p> <p>The Council has a clear vision of intended outcomes for local people which shapes its commissioning and procurement and understands its supply markets. There is good involvement from local people on commissioning and procurement and the Council reviews the competitiveness of services and achieves value for money. Service redesign and electronic access is developing. We have not concluded audit enquiries in relation to the Better Schools for All programme, which are relevant to this Key Line of Enquiry.</p>	<b>TBC</b>
<p>Use of information</p> <p>The Council produces reliable information and its approach to working with partners to ensure data quality is developing. Information is well utilised for performance management against priorities and targets. Arrangements for</p>	<b>Yes</b>

## Appendix 5 – Value for money criteria

<b>KLOE</b>	<b>Met</b>
data security are adequate.	
<p>Good governance</p> <p>The Council's approach to promoting and demonstrating good governance is adequate as are arrangements for governing key partnerships. There is no evidence of significant ethical breaches or fraud and corruption but the Council could develop more proactive approaches to counter fraud.</p>	<b>Yes</b>
<p>Risk management and internal control</p> <p>There have been difficulties in implementing the new financial systems in the year. The Audit and Risk Committee was formally constituted at the May 2010 Council meeting and has started its programme of meetings.</p>	<b>Yes</b>
<b>Managing resources</b>	
<p>Strategic asset management</p> <p>Overall there is a strategic approach to asset management and the Council is endeavouring to manage its asset base to ensure that assets are fit for purpose and provide value or money. It is starting to work with effectively with partners to improve asset utilisation.</p>	<b>Yes</b>
<p>Workforce</p> <p>The Council has adequate arrangements for managing its workforce. Some key skill areas are being developed and a management development programme is being implemented. Sickness absence levels are average. There is not yet an agreed workforce strategy although there are some departmental plans. The Council supports and involves the workforce in organisational change. A range of updated policies, procedures and guidance is in place</p>	<b>Yes</b>

## Appendix 6 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<b>Annual Governance Report 2009/10 - Recommendations</b>					
	Monitor management's progress in addressing the internal control weaknesses identified by Internal Audit.	3				



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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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