

# Annual Audit Letter

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Rutland County Council

Audit 2009/10

**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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# Key messages

**This report summarises my findings from the 2009/10 audit. My audit comprises two elements:**

- **the audit of your financial statements (pages 4 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 9).**

## **Audit opinion and financial statements**

**1** I issued an unqualified opinion on the County Council's 2009/10 accounts on 29 September 2010.

**2** The accounts were presented for audit before the required statutory date and were free from material error.

**3** The Council is on track to produce IFRS-compliant accounts for 2010/11 by 30 June 2010.

## **Value for money**

**4** I concluded the Council has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources and issued an unqualified value for money conclusion on 28 October 2010.

## **Audit Fees**

**5** I charged an additional fee of £6,315 during the year. This was due to additional accounts audit work required by changes to the Council's financial systems and the housing stock transfer in the year. The detailed fee is reported in Appendix 1.

## **Current and future challenges**

**6** The Council is forecasting a small budget overspend in 2010/11. Managers are taking action to address overspending and to deliver the savings already planned for the year.

**7** The Council has dealt with in-year cuts in 2010/11 government grants and has made good progress in planning its response to the further reductions indicated by the latest Comprehensive Spending Review. The Council has a programme to deliver the £3 million savings it forecasts as needed to balance its medium term financial plan. The Council has delivered savings in 2010/11 and identified further proposals to free up further resources to be used directly in front line services.

**8** The challenge will be to continue to maintain and manage core services in line with strategic objectives as income from central government falls. The Council's current financial health and strategy provides a solid basis for future planning.

# Financial statements and annual governance statement

**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

**I gave an unqualified opinion on the 2009/10 financial statements on 29 September 2010.**

## Overall conclusion from the audit

**9** I issued an unqualified opinion on the County Council's 2009/10 accounts on 29 September 2010.

**10** The closedown arrangements for producing the financial statements were effective. The accounts were presented for audit by the required statutory date of 30 June 2010. No material errors in the draft statements were identified in the course of the audit although amendments were agreed to correct non-material errors and to more fully disclose the significant financial transactions in the year, such as the Large Scale Voluntary Transfer of the Council's housing stock.

**11** The matters arising from the audit and the agreed adjustments to the draft financial statements were reported in my Annual Governance Report to the Audit and Risk Committee on 28 September 2010.

**12** I certified the annual Whole of Government Accounts (WGA) return on 29 September 2010.

## Significant weaknesses in internal control

**13** The Council introduced a suite of new financial information systems from April 2009. During the year Internal Audit reported weaknesses in the Council's implementation of its new financial systems and concluded that key controls were not operational for a significant part of the financial year. In June 2010 I reported to the Audit and Risk Committee that, given these reported weaknesses, we would need to carry out additional substantive transaction testing on all material systems and their reconciliation procedures. I reported the results of this work in my Annual Governance Report and recommended that the Committee monitor progress made in addressing the internal control weaknesses identified by Internal Audit.

## Readiness for IFRS

**14** During the year, I reviewed the Council's preparations for the introduction of International Financial Reporting Standards (IFRS) in the current financial year.

**15** The Council is on track to produce IFRS-compliant accounts for 2010/11 by 30 June 2011. Officers have assessed the areas which are subject to changes in accounting treatment under the new standards and have been preparing the information required. Officers are expected to complete the restatement of the Council's audited 2009/10 accounts by early January 2011 in readiness for our audit of the restated accounts and agreement of the revised opening balances.

## Annual Governance Statement

**16** The challenges and changes faced by the Council over the next few years will require the maintenance of sound and effective governance arrangements. These are reported each year in the Annual Governance Statement which forms part of the financial statements. The 2009/10 Statement provided a clear assessment of the framework in place, the review arrangements and the actions being taken in relation to the significant governance issues identified. Risk management and internal control processes form a key element in decision taking and the Audit and Risk Committee will have a key role to play in overseeing these arrangements in a period of significant change.

# Value for money

**I considered whether the Council is managing and using its money, time and people to deliver value for money.**

**I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

## **2009/10 use of resources assessments**

**17** At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

**18** However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion. I have also reviewed the Council's arrangements for managing the rebuilding of Oakham CE Primary School (the 'Little Build') following concerns raised with me by a local elector.

**19** I report the significant findings from the work I have carried out to support the VFM conclusion relating to the Council's arrangements in place in 2009/10.

## **VFM conclusion**

**20** I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

**21** My findings are summarised on the following pages.



Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good Governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural Resources	Yes
Strategic asset management	Yes
Workforce	Yes

**22** My vfm conclusion was initially delayed to allow me to consider the concerns raised in respect of the 'Little Build'. I issued an unqualified conclusion on 28 October stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

**23** My overall conclusions based on the my earlier work were that:

### **Managing Finances**

**24** 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. Overall Rutland's unit costs continue to be lower than most other unitary authorities and performance levels generally higher than the national average. 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 good supporting working papers. Published reports provide an objective understandable assessment of performance but contain little environmental and diversity information.

## **Governing the Business**

**25** The Council has a clear vision of intended outcomes for local people which shapes commissioning and procurement. It encourages involvement from local people on commissioning and procurement and the Council reviews the competitiveness of services. Service redesign and electronic access is developing. The Council produces reliable information and its approach to working with partners to ensure data quality is developing. Information is well used for performance management against priorities and data security arrangements are adequate. The Council promotes good governance both internally and in its partnerships. There is no evidence of significant ethical breaches or fraud and corruption but the Council could develop more proactive approaches to counter fraud. There have been difficulties in implementing the new financial systems in the year. The Audit and Risk Committee has been formally constituted in May 2010.

## **Managing Resources**

**26** 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 and is delivering major projects such as the Catmose Campus.

**27** The Council has adequate arrangements for managing its workforce with some key areas being developed for instance completing a full skills assessment and agreeing an overall workforce strategy. Sickness absence levels are average and the Council has a management development programme. It could look to strengthen corporate monitoring and management of agency costs and continue to develop its equalities framework.

## **The 'Little Build'**

**28** In July I received concerns from a local elector in respect of the Council's arrangements for managing the rebuilding of Oakham CE Primary School, known locally as the 'Little Build'. In the main these related to the Council's arrangements for submitting the bid to the Department for Children, Schools and Families for capital funding, and its management arrangements following funding confirmation.

**29** The Council's bid for capital funding from the 'Better Schools for All' programme was submitted in 2008 and followed the national guidance issued to all local authorities. The guidance requested bids from all education authorities identifying the 5 per cent of primary schools in the worst condition for rebuilding or taking out of use, with the next worst 45 per cent for refurbishment. A number of other factors such as future growth in pupil numbers, access to services and deprivation were also considered. Based on the evidence provided the Council's submission followed the national guidance and it was considered and approved by the DCSF in November 2008.

**30** Having had the funding confirmed the Council has worked with the East Midlands Property Alliance (EMPA) in procuring the rebuild. EMPA exists to enable local authorities to improve the delivery of property services by, amongst other things, sharing knowledge and providing access to more efficient methods of project delivery. The Council has followed an accepted methodology recognised (and promoted by EMPA) to streamline procurement for major capital contracts. The process allows councils to work with a preferred bidder, pre assessed by EMPA as having relevant experience and capacity, to develop an outline design and overall cost estimate through an agreed 'open book' contract. The preferred bidder then works with the Council, its advisors and appointed architect to separately and competitively let different elements of the contract through the course of the build. The contract arrangements are incentivised to encourage savings to be made against the overall cost estimate, and also limit the exposure of the Council to any overall overspend. The Council's contract was signed in August 2010.

**31** The project is more complex than a normal rebuild as it incorporates a Special Educational Needs unit and a hydrotherapy pool, but early cost comparisons by the Council show the cost of the basic school rebuild element to be within acceptable ranges. On this basis I conclude the Council's arrangements are adequate and I have not qualified my 2009/10 value for money conclusion.

**32** The procurement process is innovative though and elements of the project will still have to be let as work progresses through 2010/11. One of the key challenges for the Council will be to maintain active management of the process to ensure VFM is achieved, whilst having to reduce its own revenue expenditure to respond to current financial constraint. I will continue to review this as part of my 2010/11 VFM conclusion.

## **Approach to local value for money work from 2010/11**

**33** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

**34** My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**35** I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

# Current and future challenges

## Financial position

**36** The Council's latest reported forecast is that it expects total revenue spending for 2010/11 to be around £0.23 million over budget, with the main pressures relating to the increasing costs of fostering and services for older people. This level of overspending is a relatively small proportion of the services' total budget of around £29 million and the areas of overspend are consistent with cost pressures faced by other councils. Managers are taking action to address overspending and to deliver the savings already planned for the year, with the Council's Cabinet monitoring progress.

**37** Capital spending is forecast to underspend by around £4.8 million by 31 March 2011 against a net capital budget of £34.5 million, and the delivery of the programme is being carefully monitored.

## Future challenges

**38** Across the country, all councils face severe and long-term social and financial challenges over the next few years. The government plans to eliminate the structural deficit in the period 2011/12 to 2014/15. Public spending will have to fall and councils will play a major part in helping to reduce the deficit. Revenue grants (excluding schools) will fall by an approximate 28 per cent with the majority impacting in the first two years. Capital funding will also fall by 45 per cent.

**39** Like many councils Rutland faces demographic pressures on the adult care and the looked after children budgets. It has had to deal with in-year cuts in government grant for 2010/11 and has made good progress in planning its response to the further cuts indicated by the recently announced Comprehensive Spending Review. The Council already had a programme underway to deliver the £3 million savings it forecast as needed to balance its medium term financial plan. The Council has delivered savings in 2010/11, restructured its management and identified further proposals, to be implemented by 2011/12, to free up further resources to be used directly in front line services.

**40** The challenge will be to continue to maintain and manage core services in line with strategic objectives as income from central government falls, given the limited opportunities to raise income from fees and charges any increase in council tax. The Council's current financial health and strategy provides a solid basis for future planning but some uncertainties remain about future funding levels and the full implications of the comprehensive spending review. These uncertainties will become clearer over the next few months as budgets are reviewed when the provisional finance settlement is published in November or December 2010.

## Closing remarks

**41** I have discussed and agreed this letter with the Chief Executive and the Strategic Director for Resources. I will present this letter at the Audit and Risk Committee on 7 December 2010 and will provide copies to all County Councillors.

**42** Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Initial Audit Plan 2009/10	24 April 2009
Certification of Claims and Returns – Annual Report 2008/09	26 February 2010
Audit Opinion Plan 2009/10	18 June 2010
Annual Governance Report 2009/10	22 September 2010
Audit Opinion on the Financial Statements	29 September 2010
Value for Money Conclusion	28 October 2010
Whole of Government Accounts opinion	29 September 2010
Final Accounts Report	30 November 2010
Annual Audit Letter	30 November 2010

**43** The Council has taken a positive and helpful approach to our audit. I wish to thank the County Council's staff for their support and cooperation during the audit.

Neil Bellamy  
District Auditor  
November 2010

## Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£102,145	£95,830	£6,315
Value for money	£54,855	£54,855	
<b>Total audit fees</b>	<b>£157,000</b>	<b>£150,685</b>	<b>£6,315</b>

The increases in fee relate to agreed additional audit work required by changes to the Council's financial systems and the housing stock transfer in the year, as reported to the Audit and Risk Committee in June and September 2010.

## Appendix 2 Glossary

### **Annual governance statement**

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.

It comprises the systems and processes, 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.

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 opinion**

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.

### **Financial statements**

The annual accounts and accompanying notes.

### **Qualified**

The auditor has some reservations or concerns.

### **Unqualified**

The auditor does not have any reservations.

### **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.



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