

Annual governance report

Rutland County Council

Audit 2010/11



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Key messages

This report summarises the findings to date from the 2010/11 audit which is substantially complete. It includes the messages arising to date 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.

Status of the Audit and this Report

The Council's 2010/11 financial statements and this report are to be considered by the Audit and Risk Committee on 27 September 2011. My audit of the Council's draft financial statements is substantially complete. We have raised a number of issues with officers in the course of the audit and the main changes to the draft statements are summarised in this report. There are some outstanding issues relating to the accounts which are expected to be resolved by the date of the Committee's meeting. I will update the Committee at its meeting on the progress made in relation to the remaining audit enquiries and any further matters arising.

Audit opinion and financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the Council's financial statements.

Value for Money Conclusion

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

Audit Fee

My updated audit plan for 2010/11 set out the key assumptions used in setting the audit fee. The plan assumed that we would be provided with the restated 2009/10 financial statements before the detailed final accounts audit visit and that no significant difficulties would arise in the course of the audit. The accounts closure process has been challenging for all councils this year, given the other calls on officers' time and the requirements of the

new IFRS accounting framework. The restated 2009/10 accounts were not available to us until the time of the main audit visit and the restatement audit work needed to be carried out alongside other audit work. The draft 2010/11 financial statements provided at the start of the main audit visit were incomplete and included a number of errors and inconsistencies. The matters arising from the audit have required us to do additional audit work, had an impact on the progress made and resulted in several changes to the draft 2010/11 financial statements. I am monitoring the impact of the additional work required on the original audit fee estimate and I will report back to the Audit and Risk Committee if the fee needs to change.

Before I complete my audit

I confirm to you

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

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

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

I ask you to confirm to me

I ask the Audit and Risk committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
 - consider and respond to the recommendation made in this report; and
 - approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion.
-

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. It is important that you consider my findings before you approve the financial statements on behalf of the Council

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 report.

The outstanding matters largely relate to residual audit procedures where audit work is in progress. These include:

- checking the agreed amendments to the statements and supporting disclosure notes, to correct errors identified in the course of the audit;
- further information required from officers to help resolve remaining queries regarding the Council's accounting under IFRS for plant, property and equipment and other matters; and
- other routine audit closure steps required by auditing standards or the Accounts and Audit Regulations.

We expect to complete the remaining work and obtain from officers the further information and explanations required by the date of the Audit and Risk Committee meeting. I will update the Committee at its 27 September 2011 meeting on the progress made in relation to the remaining audit queries and any further matters arising.

Errors in the financial statements

Errors in the draft financial statements have been identified in the course of the audit work completed to date. We have brought these errors to officers' attention to enable them to make the necessary corrections to the statements. The significant errors which have been corrected in the audited statements are summarised in Appendix 2 for your information. I will update the Audit Committee at its 27 September 2011 on any additional issues arising from the remaining audit queries and any further changes to the statements.

I will also update the Committee at its meeting if there are any errors which management has decided not to correct (Appendix 3) so that you can consider them and management's response into account in approving the financial statements and the Letter of Representation.

Key areas of judgement and audit risk

In planning my audit I identified specific risks and areas of judgement that I needed to consider as part of my audit. These were reported to the Audit and Risk Committee in July 2011. I have set out below the outcome of my audit work.

Key audit risk and our findings

Audit Plan - Key audit risk and our planned response	Finding
<p>2010/11 is the first year that the code of practice for local government accounting is based solely on CIPFA's International Financial Reporting Standards (IFRS) Code of Practice. Incorrect interpretation/adoption of IFRS could potentially lead to material misstatement within the financial statements.</p> <p>We will review the restatement of opening balances for compliance with the IFRS 2010/11 Code of Practice. We plan, subject to being provided with the restated 2009/10 statements in sufficient time, to carry out this work in advance of the main financial statements audit so that any corrections or improvements can be incorporated into the published draft financial statements.</p>	<p>The restated 2009/10 statements were not available in time for us to complete any detailed audit work in advance of the main audit visit. Much of the audit work on the 2009/10 restatements had to therefore be carried out alongside the planned 2010/11 post statements audit work. In relation to the specific changes under the Code, we found that:</p> <ul style="list-style-type: none">■ Plant, Property and Equipment – we have some remaining queries which we expect to resolve with officers by the date of the Audit Committee 27 September 2011. We will update the Committee at the meeting on any additional matters arising.■ PFI and leases – we did not identify any material arrangements which needed to be reflected in the financial statements. The Council had followed a reasonable process in identifying, classifying and accounting for its leases and we did not identify any material errors.■ Grants – the council had taken reasonable steps to identify any 2009/10 grants which needed to be restated and we did not identify any material errors in the accounting treatment of grants.■ Employee Benefits – we identified errors in the Council's estimate of the value of unused leave at the year end. The accounts have been amended to show the correct values.
<p>The Council continues to have a number of significant capital schemes in progress or expected to complete in 2010/11. The expenditure on these schemes and the asset values are material. The Council needs to ensure it correctly categorises and values the assets and has adequate arrangements for accounting for the relevant revenue and</p>	<p>We have examined the accounting entries and tested material balances and transactions. We have some remaining queries which we expect to resolve with officers by the date of the Audit Committee 27 September 2011. We will update the Committee at the meeting.</p>

Audit Plan - Key audit risk and our planned response

Finding

capital expenditure.

We will review the accounting for these schemes as part of our year end audit of the Plant, Property and Equipment reported in the Council's draft financial statements.

The Council has become a member of the Rutland County College Trust and additional group financial statements may be required.

We will review the Council's assessment and, if necessary, carry out additional audit work on the group financial statements.

Officers have determined that group accounts need not be prepared. We do not disagree with this assessment but additional disclosures have been included in the financial statements to more clearly show the Council's relationship and dealings with the Trust.

Significant weaknesses in internal control

I have not identified any significant weakness in the design or operation of an internal control that might result in a material error in the County Council's financial statements of which you are not aware.

I have not provided a comprehensive statement of all weaknesses which may exist in internal control, or of all improvements which may be made. I have reported only those matters which have come to our attention because of the audit procedures we have performed.

Quality of the Council's financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures. The accounts closure process has been challenging for all councils this year, given the other calls on officers' time and the requirements of the new IFRS accounting framework. The draft 2010/11 financial statements were incomplete and included a number of errors and inconsistencies. The matters arising from the audit have required us to do additional audit work, had an impact on the progress made and resulted in several changes to the draft 2010/11 financial statements. The Council needs to ensure it has effective arrangements in place for preparing its 2011/12 financial statements.

Recommendation

R1 Ensure effective arrangements are in place for the preparation of a complete and IFRS compliant set of accounts by 30 June 2012.

Other significant matters relating to the audit

There were no other significant difficulties encountered during the audit of the Council's accounts that I need to bring to your attention in this report. There are no other significant matters discussed with or subject to correspondence with management, or other matters relevant to the reporting process which I need to bring to your attention in this report.

Letter of Representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. The proposed Letter of Representation is to be agreed at the Audit and Risk Committee's meeting on 27 September 2011.

Value for money

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

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources. My overall conclusion on each of the two areas is set out below.

Value for money criteria and our findings

Criterion	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>I have concluded that the Council has adequate arrangements in place and there are no exceptions or points of concern that I need to raise with you here or reflect in my audit report. Financial governance arrangements are established. The medium term financial strategy has continued to be updated and reflects significant service pressures and financial risks. The strategy is underpinned by arrangements to deliver significant financial savings over the period of the plan. The steps taken to maintain the Council's financial standing have been effective and action has been taken promptly in year to address any reported overspends. Financial monitoring and forecasting arrangements are in place. The arrangements for compiling the annual statement of accounts have been less successful this year but an unqualified audit opinion is expected. Internal Audit found that the Council's overall internal control arrangements provide a sound level of assurance.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency</p>	<p>I have concluded that the Council has adequate arrangements in place and there are no exceptions or points of concern that I need to raise with you here or reflect in my audit report. Funding is targeted at priority areas and savings targets are widely understood. The</p>

Criterion	Findings
<p>and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>Council has introduced a new management structure in the year, which is now established and has delivered savings. Good progress is being made in service and financial plans. The Council has a good record of delivering through partnerships and these have been maintained in the year. The Council works hard to keep capital projects within budget. Comparative and benchmarking information is used to inform decisions and manage performance. The Council has an understanding and control of its costs and is delivering efficiency savings.</p>

In my Audit Plan to the Audit and Risk Committee in July 2011 I identified three specific risks which I planned to consider in the course of VFM Conclusion work. I have summarised below the outcome of my audit work on these issues.

VFM Conclusion risks and our findings

Audit Plan - Risk area and our planned response	Finding from the Audit
<p>The Rutland County College Trust is acknowledged by officers and members to be a relatively high risk venture. The Council has committed to providing cash flow support over the early years of the business plan and is acquiring a replacement site to enable the college to relocate.</p> <p>We will review the Council's arrangements for managing the financial risks associated with the Trust and for assuring itself that it is achieving value for money from its involvement.</p>	<p>The Council had adequate arrangements in place in 2010/11 for managing its Rutland County College Trust proposals and I have not identified any specific concerns that I need to report to you here. The Trust's governance arrangements were established in the year and the business plan revised to reflect changes to the funding regime and updated forecasts of costs and pupil numbers. The financial model has continued to be monitored by the Trust and kept up to date. The Council has taken steps to cap its financial commitment to the Trust over the life of the seven year business plan and responsibility for the plan and the risks associated with it has been accepted by the college and its governors. The Council's financial commitment to the college is reflected in its financial planning. The Council has withdrawn its formal membership of the Trust in 2011/12, reflecting the College's move to become an Academy. The Council has followed a reasonable process during 2010/11 in identifying and purchasing a suitable site for the replacement college, with the decision based on cost and other operational factors following an option appraisal. The Council has started to progress its refurbishment plans in 2011/12 and the reports to members acknowledge that refurbishment project is relatively high risk given the time available for its completion. We will continue to monitor the college refurbishment project as part of the</p>

Audit Plan - Risk area and our planned response

Finding from the Audit

In common with other other public bodies, the Council faces the significant challenge of managing the delivery of its priorities at a time of financial constraints and cuts in government grants.

We will discuss with officers the Council's arrangements for determining its medium term financial strategy.

The Council has continued to support a significant capital programme and key projects are in progress (eg the new Oakham CoE Primary School and the development of the acquired college site at Barleythorpe).

We will discuss with officers progress made in delivering the programme and its costs and funding.

2011/12 audit.

Adequate arrangements are in place and I have not identified any specific concerns that I need to report to you here. The financial strategy has been update to reflect service pressures and financial risks, with budgets for 2011/12 and 2012/13 largely in balance. The strategy is being kept under review as part of the ongoing financial monitoring and forecasting. I will continue to monitor the Council's financial standing and budget performance during my 2011/12 audit.

Adequate arrangements are in place and I have not identified any specific concerns that I need to report to you here. The capital projects team is well established and is successfully delivering a range of significant projects. There were effective arrangements for delivering the Oakham CoE Primary school project and addressing the operational and financial risks. The scheme has been kept within budget, with a £270,000 underspend forecast, and is on time. The Barleythorpe college refurbishment project is now underway and I will monitor progress as part of my 2011/12 audit.

Report by exception

The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources. There are no significant matters that I need to report to you.

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RUTLAND COUNTY COUNCIL

Opinion on the Authority accounting statements

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

This report is made solely to the members of Rutland 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 Strategic Director for Resources and auditor

As explained more fully in the Statement of the Strategic Director for Resources Responsibilities, the Strategic Director for Resources is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing 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 accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

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

Opinion on other matters

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

Matters on which I report by exception

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

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

Authority's responsibilities

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

Auditor's responsibilities

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

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

Basis of conclusion

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

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

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

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

Conclusion

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

Certificate

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

Neil Bellamy, District Auditor
Officer of the Audit Commission
Rivermead House
7 Lewis Court
Grove Park Farm
Enderby
Leicester
LE19 1SU

September 2011

Appendix 2 – Amendments to the draft financial statements

The draft financial statements have been amended by management to correct the following misstatements identified during my audit. I bring them to your attention to aid you in fulfilling your governance responsibilities. I will update the Audit and Risk Committee at its 27 September 2011 meeting if any additional changes are required as a result of any matters arising from the remaining audit work.

Adjusted misstatement	Nature of adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Understated Holiday Pay Accrual (IFRS adjustment)	The teachers' estimate had been wrongly calculated. Service expenditure and creditors have increased, with a corresponding adjustment (as required by the Code) between the CIES and Unusable Reserves.	344			344
			344	344	
Plant, Property and Equipment (PPE) valuation understated	The valuer's report has not been processed completely - the values of 5 assets (schools' land) and the asset lives for 2 assets have been adjusted (with a net increase in the assets' values and the Revaluation Reserve balance)			2,391	
					2,391

Other changes to the statements and supporting notes include:

- The Comprehensive Income and Expenditure Statement has been amended to:
 - Include the £7.1m Exceptional Item relating to the Pension Scheme within Cost of Services (as required by the Code) rather than 'below the line' within the Surplus or Deficit on Provision of Services section; and
 - Include the £20.5m Surplus on Revaluation of PPE within the Total Comprehensive Income and Expenditure section (as required by the Code).
- The Movement in Reserves Statement and the supporting note (Note 7) has been amended to correct several errors and inconsistencies with other balances and transactions within the financial statements.
- Note 12 (Movements on PPE) has been amended to correct errors and inconsistencies with the Balance Sheet.
- Note 18 (Debtors) has been amended to show the classification of debtors required under the Code and to correct the disclosure of the Bad Debt Provision.
- Note 19 (Creditors) has been amended to show the classification of creditors required under the Code.
- Note 23 (Useable Reserves) has been amended to include the information required under the Code.
- Note 24 (Unusable Reserves) has been amended to correct errors and inconsistencies with the Balance Sheet.
- Note 35 (Officers' Remuneration) has been amended to include 2009/10 and 2010/11 information, and to disclose the Salary Banding information required under the Code.
- Note 51 (Transition to IFRS) has now been completed and disclosures required under the Code included in the Statements.

Appendix 3 – Unadjusted misstatements to the financial statements

I am required to:

- report separately to you any non-material misstatements in the financial statements identified during the course of my audit which have not been adjusted by management; and
- ask you, to respond in the representation letter if you agree with management that the effect of the uncorrected errors, individually and collectively, is immaterial.

There are no such items that I need to report to you this stage, but I will update the Audit and Risk Committee at its 27 September 2011 meeting if this changes..

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
TBC	TBC	TBC	TBC	TBC	TBC

Appendix 4 – Glossary

Annual governance statement

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

Audit closure certificate

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

Audit opinion

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

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

Opinion

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

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

Materiality and significance

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

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

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

Weaknesses in internal control

A weakness in internal control exists when:

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

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

Value for money conclusion

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

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

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

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

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0844 798 7070

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

