

# Annual Audit Letter

Rutland County Council

Audit 2010/11



# Contents

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- Key messages.....3**
  - Audit opinion and financial statements.....3
  - Value for money .....3
- Current and future challenges .....4**
- Financial statements and annual governance statement.....5**
  - Overall conclusion from the audit.....5
  - Significant weaknesses in internal control.....5
- Value for money.....6**
- Closing remarks .....8**
  - Ongoing independent support.....8
  - Summary.....8
- Appendix 1 - Fees.....10**
- Appendix 2 - Glossary.....11**

**Traffic light explanation**

Red  Amber  Green 

# Key messages

**This report summarises the findings from my 2010/11 audit. My audit comprises two elements:**

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

Key audit risk	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

## **Audit opinion and financial statements**

I issued an unqualified opinion on the Council's 2010/11 accounts on 29 September 2011.

- The audited financial statements included a number of agreed amendments to meet the new International Financial Reporting Standards and to correct errors.
- I did not identify any significant weaknesses in your internal control arrangements.

## **Value for money**

I concluded that the Council had adequate arrangements in 2010/11 for securing economy, efficiency and effectiveness in its use of resources and issued an unqualified value for money conclusion on 29 September 2011.

- The medium term financial strategy has continued to be updated and reflects the significant service pressures and financial risks faced. The Council has taken steps to maintain its financial standing.
- The Council has an understanding and control of its costs and is delivering efficiency savings. Funding is targeted at priority areas. The Council has continued to support a significant capital programme.

# Current and future challenges

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The state of the economy, cuts in government funding and increasing demands in priority services continue to put severe pressure on the Council and its finances. The Council took many important actions in 2010/11 that have enabled it to prepare for current and future challenges. The Council has restructured its management and made significant savings in pay and non-pay spending. The Council is consolidating the improvements to its performance and financial management arrangements around its new structure.

The Council set a balanced budget for 2011/12 which took into account emerging service pressures and savings opportunities. Mid way through the year the forecast year-end surplus was around £883,000 more than the original budget and the reasons for the underspend have been reported to Cabinet. The underspending areas include waste management, due to good recycling performance, and residential care costs for older people. The Council was reporting good progress in achieving savings in 2011/12, with around £466,000 in total declared in the mid year monitoring report. The capital programme is overall within budget but an outturn overspend of up to £0.5m on Catmose Campus has been forecast. The replacement 6<sup>th</sup> Form college project is acknowledged to still be relatively high risk due to the tight timetable and budget and will need to be carefully managed through to its completion in 2012/13.

The medium term outlook however remains challenging for the Council. The Medium Term Financial Plan is monitored and has been updated as necessary to take into account services' budget needs and anticipated income sources. The latest five year plan sets out a realistic assessment of the Council's financial standing with an indicative £1.4m deficit for 2013/14 projected to increase to £2.7m in 2015/16. The plan acknowledges the need to plan for further savings and sets out the financial risks and uncertainties, including increased demand for priority services, tight government funding settlements and potential financial reforms.

As reported in my VFM conclusion, the Council has had proper arrangements for preparing and managing its budgets and it has delivered savings through redesigning and transforming services. The Council needs to continue to improve these arrangements if it is to respond effectively to the severe financial difficulties faced. Members should continue to monitor performance and the financial plan, and ensure the focus on improving efficiency and sound financial management is maintained.

# Financial statements and annual governance statement

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

## **Overall conclusion from the audit**

I issued an unqualified opinion on the Council's accounts on 29 September 2011. The audit has been formally concluded.

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 provided at the start of the main audit visit included a number of errors and inconsistencies and the matters arising from the audit required us to do additional audit work. I reported the findings from the audit in my Annual Governance Report to the Audit and Risk Committee on 27 September 2011 before it approved the financial statements on the Council's behalf. Officers have accepted my recommendation to ensure effective arrangements are in place for next year's accounts closure and I will monitor progress during the 2011/12 audit.

The annual Whole of Government Accounts (WGA) return was not certified by the 30 September 2011 deadline as the Council's original submission needed to be amended to reflect the changes required to the draft financial statements. I certified the WGA return on 25 October 2011.

## **Significant weaknesses in internal control**

I did not identify any significant weaknesses in your internal control arrangements.

# Value for money

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**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.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

I reported the detailed findings from my value for money conclusion in my Annual Governance Report to the Audit and Risk Committee in September 2011. My report set out the conclusions from my assessment of the specific value for money risks highlighted in my audit plan. These included the arrangements for updating the medium term financial strategy, progressing the Rutland County College Trust proposals and delivering the new Oakham CoE Primary School.

My conclusion on each of the two criteria specified by the Audit Commission is summarised below.

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## Value for money criteria and key messages

Criterion	Key messages
<p><b>1. Financial resilience</b> <b>The organisation has proper arrangements in place to secure financial resilience.</b> Focus for 2010/11: 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 has adequate arrangements in place. Financial governance arrangements are established. The medium term financial strategy has continued to be updated and reflects the significant service pressures and financial risks faced. The strategy is underpinned by arrangements to achieve significant financial savings over the period of the plan and the Council is working towards delivering the savings required. The steps taken to maintain the Council's medium term financial standing have so far been effective and action has been taken promptly in year to identify and manage any reported overspends. Financial monitoring and forecasting arrangements are in place. An unqualified audit opinion was issued and the Council is acting on my recommendation to strengthen the closedown arrangements in 2011/12. Internal Audit found that the Council's overall internal control arrangements provide a sound level of assurance.</p>

Criterion	Key messages
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p><b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b></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>The Council has adequate arrangements in place. Funding is targeted at priority areas and savings targets are widely understood. The 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 has continued to support a significant capital programme and it works hard to deliver projects and keep within budget. The Oakham CoE Primary School opened as planned and the scheme was underspent. The Council has continued its involvement in the Rutland County College Trust, it has progressed the replacement facility proposals and it is taking steps in 2011/12 to manage the continuing financial and operational risks. Comparative and benchmarking information is used to inform decisions and manage performance and the performance management and reporting arrangements are being developed further in 2011/12. The Council has an understanding and control of its costs and is delivering efficiency savings.</p>

The Audit Commission has specified the same criteria for the 2011/12 value for money conclusion and my approach to the assessment will be similar to that carried out for this year. My Audit Plan will set out any specific issues I need to include in my assessment and I expect to again consider and report on the Council's arrangements for managing the continuing risks associated with its medium term financial standing and the refurbishment of the replacement Rutland County College.

# Closing remarks

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## Ongoing independent support

During the year we have continued to support the Council by:

- attendance at Audit and Risk Committees to inform Members about progress on the audit and report our key findings; and
- hosting our annual final accounts workshops which are attended by accountancy staff.

## Summary

I have discussed this letter with the Chief Executive and the Strategic Director for Resources. I will present this letter at the Audit and Risk Committee and will provide copies to all members of the Council.

Detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit fee letter	April 2010
Audit opinion plan	June 2011
Annual governance report	September 2011
Audit opinion on the financial statements and value for money conclusion	September 2011
Annual audit letter	November 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Neil Bellamy

District Auditor

November 2011

# Appendix 1 - Fees

	Actual	Planned	Variance
Audit fee	£161,700	£159,700	£2,000*
Inspection Fee	£0	£16,630	-£16,630
Non-audit work	£0	£0	£0
<b>Total</b>	<b>£161,700</b>	<b>£176,330</b>	<b>-£14,630</b>

\* As reported in my Annual Governance Report to the Audit and Risk Committee in September 2011, the matters arising from the financial statements audit and the unexpectedly large number of amendments required meant we had to carry out additional work before the opinion could be given on the accounts

\*\* The planned inspection fee was not charged as a result of the government's decision to abolish Comprehensive Area Assessment in May 2010.

In July 2009, in recognition of the financial pressures that public bodies are facing, the Commission confirmed that it would give a subsidy to cover the additional cost of transition to IFRS for local authorities in 2010/11 only. A refund of £9,932 against the above audit fee was issued in April 2010. The total refund was increased to £15,522 when the Audit Commission issued a further rebate of £5,590 in December 2010.

The fee for certification of claims and returns is charged at published daily rates. The work is ongoing and our latest estimate is that the fee will be in the region of £22,000 (£30,113 in 2009/10).

# Appendix 2 - Glossary

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## **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 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.

## **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.

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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