



PUBLIC SECTOR

Annual Audit Letter 2008/09

Reading Borough Council
27 January 2010

AUDIT

Content

The contacts at KPMG in connection with this report are:

Andy Bostock
Director
KPMG LLP (UK)

Tel: 0121 232 2315
andrew.bostock@kpmg.co.uk

Ross Tudor
Senior Manager
KPMG LLP (UK)

Tel: 020 7311 1542
ross.tudor@kpmg.co.uk

Emma Foy
Manager
KPMG LLP (UK)

Tel: 020 7311 6535
emma.foy@kpmg.co.uk

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This report is addressed to the Council and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document. External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Greg McIntosh, who is the engagement director to the Authority, telephone 020 7311 6430, email greg.mcintosh@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

Executive Summary

Purpose

This Annual Audit Letter (the Letter) summarises the key issues arising from our 2008/09 audit at Reading Borough Council (the Council). Although this Letter is addressed to the Members of the Council, it is also intended to communicate these issues to key external stakeholders, including members of the public. The Letter will also be published on the Audit Commission website at www.audit-commission.gov.uk. It is the responsibility of the Council to publish the letter on its website at www.reading.gov.uk. Throughout our audit we have highlighted areas of good performance and also provided recommendations to help you improve performance. A summary of our key recommendations is set out in Appendix 1. We have reported all the conclusions in this letter to you throughout the year and a list of all reports we have issued is provided in Appendix 2.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's *Code of Audit Practice* (the Code) which requires us to review and report on your:

- *use of resources* - whether you have made proper arrangements for securing economy, efficiency and effectiveness (value for money) in your use of resources (UoR). Our work is summarised in section 2; and
- *accounts* – the Financial Statements and the Annual Governance Statement, summarised in section 3.

Key Messages

- Our **use of resources** assessment, the first under the Audit Commission's new UoR regime, demonstrated that the Council had processes in place for all elements of the assessment. Scores of level three ('performing well') were achieved in respect of the 'Managing Resources' and a level two ('performing adequately') in respect of 'Managing Finances' and 'Governing the Business'. We concluded that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Our value for money conclusion was therefore unqualified. To improve performance in future years, the Council needs to build on work already started to drive efficiency savings throughout the organisation. Greater use should be made of benchmark information, both in respect of financial and service performance, to improve service performance.
- We issued an unqualified opinion in respect of the **audit of the accounts**. Some amendments were required, however, these had no impact on the general fund and were not considered to significantly impact on the reader's interpretation of the accounts.
- We have reported more fully on both the Use of Resources assessment and accounts audit in our *Report to Those Charged With Governance* issued in September. Messages from this report are summarised in this letter.
- In addition, we have completed certification of all relevant claims and returns. We received one question from an elector during the year which was answered by the Council. Consequently we have now concluded all of our statutory work for the 2008/09 year.

Fees

Our fee for the audit was £229,100. This was at the level agreed in the Audit and Inspection Plan.

Future Issues

- Public expenditure forecasts indicate that there will be significant pressure on local authorities' funding in the medium term. Future financial settlements will be tight, increasing the need for local authorities to have comprehensive efficiency programmes supported by sound financial management arrangements. It is likely that bold measures will be required to generate sufficient savings to mitigate the impact on priority services. More than ever before, officers and Members will need to focus on identifying these significant savings measures and ensuring that robust arrangements are in place to monitor their delivery to ensure they are realised. The Council has a good track record in delivering such efficiency and savings targets. It will, however, be necessary to continually assess and update the Council's plans to ensure that you can deliver the levels of savings required for the future, particularly as pressure increases to minimise council tax rises.
- From 2010/11, local government bodies are required to prepare their financial statements under International Financial Reporting Standards (IFRS), which contain a number of significant differences from the current financial reporting regime. The Council has started preparing for this transition, and has a detailed implementation plan in place.

Executive Summary (continued)

Future Issues (cont)

- Those local authorities in the Carbon Reduction Commitment scheme will need to start reporting their usage from 1 April 2010 and recording these transactions within their financial statements with effect from 1 April 2011. There will be implications for cash flow, energy bills, and investment decisions and these could be significant. There are opportunities in addressing sustainability with clear cost reduction benefits from saving energy which will become more significant over time. There are also opportunities to use the sustainability agenda to support the achievement of business challenges. It puts carbon reduction firmly amongst the priority areas for local authorities, with the opportunities outlined above applying even for those authorities who are not captured by the scheme.
- Sustainability performance - The Treasury is developing guidance for 2010/2011 which will require all public sector bodies to report publicly on sustainability performance in annual reports. CIPFA is in discussion with the Treasury about when and in what form this requirement will be formalised for local authorities. The reported information will be subject to audit and scrutiny. Sustainability reporting will be difficult to implement and many organisations will need to act quickly to implement new information gathering processes.

Acknowledgement

We would like to thank the Council's management and staff for the help, support and co-operation they have provided throughout our audit.

Section two

Use of resources

The main elements of our use of resources work are:

- *Use of Resources* - from 2008/09, the Audit Commission introduced a new UoR assessment framework which forms part of the Comprehensive Area Assessment (CAA). This replaced the former UoR assessment which was predominantly focused on processes. The scope of the new regime is wider as it also considers whether public bodies have achieved significant and sustainable outcomes. UoR assessment comprises three themes which consider:
 - Managing finances – focusing on sound and strategic financial management;
 - Governing the business – focusing on strategic commissioning and good governance; and
 - Managing resources – focusing on the management of natural resources, assets and people.
- *Value for money conclusion* – we issue a conclusion on whether we are satisfied that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is based on the UoR assessment.
- *Specific risk based work* – we did not carry out any specific risk area reviews in 2008/09.

The findings from this work are summarised below.

Element of work	Key findings								
Use of Resources	<p>Our assessment of the Council against the three themes resulted in the following scores on a scale of one (inadequate) to four (performing strongly):</p> <table border="1"> <thead> <tr> <th>Area</th> <th>Score</th> </tr> </thead> <tbody> <tr> <td>Managing finance</td> <td>2</td> </tr> <tr> <td>Governing the business</td> <td>2</td> </tr> <tr> <td>Managing resources</td> <td>3</td> </tr> </tbody> </table>	Area	Score	Managing finance	2	Governing the business	2	Managing resources	3
	Area	Score							
Managing finance	2								
Governing the business	2								
Managing resources	3								
	<p>Overall, the Council demonstrated processes in place against all assessment areas, and successfully demonstrated how these were being used to generate outcomes. Key areas for focus going forward include:</p> <ul style="list-style-type: none"> • Building on the positive start of Project Discovery, demonstrate a comprehensive and rigorous approach to the identification and delivery of efficiencies to support the Authority's medium-term financial plan (considering both the Authority's approach to procurement and asset management); • Building on the recent use of wider benchmarking data, improve financial and performance reporting through closer integration of finance and benchmarked performance data to drive service improvement; and • Building on the development of a data quality strategy, demonstrate assurance across the range of data through regular spot-checks to ensure that performance reporting is supported by high quality, reliable and timely data. <p>Specific recommendations and our detailed assessment are included in our Report to Those Charged with Governance (ISA 260).</p>								
Value for money conclusion	<p>We issued an unqualified value for money conclusion for 2008/09.</p> <p>This means that we are satisfied that you put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.</p>								

Financial statements

Audit opinion

We issued an unqualified opinion on your accounts on 30 September 2009. This means that we believe the accounts give a true and fair view of the financial affairs of the Council and of the income and expenditure recorded during the year.

Before we give our opinion on the accounts, we are required to report to 'those charged with governance' any significant matters identified. We did this in our report to the Governance and Audit Committee meeting on 28 September 2009 and the key issues are summarised here.

Accounts production and adjustments to the accounts

- We received a complete set of draft accounts by the 30 June deadline.
- Our audit identified several adjustments, none of which impacted on the general fund balance. The most significant of these in monetary terms included a reinstatement of an impairment of £7.3 million. This had not been treated correctly under the Statement of Recommended Practice ("SORP").
- We identified a capital accrual which was £0.3 million overstated. This difference was not corrected as it was considered to be not material.
- The Authority received a significant refund of VAT during September 2009 further to a claim lodged with HMRC related to a number of years. This was reflected in the accounts as an adjusting post-balance sheet event and increases the Authority's General Fund balances.
- Our audit resulted in seven recommendations regarding financial controls.

There were no other issues raised for the attention of the Governance and Audit Committee.

Appendix 1: Key recommendations from financial statement audit

This appendix summarises the main recommendations that we identified during 2008/09, along with your response to them. Only the medium priority recommendation have been included here (no high priority recommendations were raised). Other lower priority recommendations are contained, as appropriate, in our audit reports (which are listed in Appendix 3).

Issue/ Recommendation	Management Response / Timescale for implementation
Financial statements audit	
<p>Fixed Asset Register (FAR)</p> <p>The Authority's FAR is maintained on a series of large Excel spreadsheets which are manually updated for all changes.</p> <p>Our audit identified a number of errors in the FAR which led to material misstatement of the Authority's fixed assets within the accounts.</p> <p>The introduction of IFRS-based financial reporting will require authorities to record more information relating to the Authority's assets.</p> <p>We understand that the Authority is considering investing in specialist asset management software and would encourage it to do so, to reduce staff time spent managing the spreadsheet and ensure greater accuracy in financial reporting.</p>	<p>The Authority recognises the need to move from Excel spreadsheets to a specialist asset management system that is IFRS compliant. IFRS financial reporting is only one requirement of an Asset Management systems that needs to meet the asset management requirements of the Authority.</p> <p>We have therefore been investigating appropriate software solutions that integrate asset information required for accounting, valuation and property management purposes. Were it solely for the accounting reasons, we would not advocate this solution, but we believe there will be wider benefits to the authority from appropriate specialist software. The implementation of this is however subject to identifying appropriate resource to purchase, and more particularly implement and run it.</p> <p>2010/11</p>

Appendix 2: Key recommendations from Use of Resources assessment

This appendix summarises the main recommendations that we identified during 2008/09, along with your response to them. Only the medium priority recommendation have been included here (no high priority recommendations were raised). Other lower priority recommendations are contained, as appropriate, in our audit reports (which are listed in Appendix 3).

Issue/ Recommendation	Management Response / Timescale for implementation
Use of Resources	
<p>Managing Finances</p> <p>Efficiency savings included within the budget should be subject to separate monitoring and reporting, to increase corporate awareness of whether savings targets have been met, or whether there are barriers to delivery which require management action.</p>	<p>A mid year review of efficiency savings is undertaken to enable the Council to report the value of savings to Government in accordance with the required timetable. The outcome of the review currently been undertaken for 2009/10 will be included in the appropriate budget monitoring report later in the year. On-going.</p>
<p>Managing Finances</p> <p>Budget monitoring reports for all directorates should consistently provide activity data and links to changes in income and expenditure when analysing the outturn to date. This analysis should also be provided to support forecast outturn. Where cost pressures emerge, these should be clearly identified as recurrent, or non-recurrent. Remedial actions identified should be similarly classified.</p>	<p>Budget Monitoring reports currently include activity data in order to set budget variances in context. During 2008/09 and for 2009/10 budget monitoring reports have been enhanced to cover greater information in Treasury Management, capital and budget risk. As recommended we will also seek to identify recurrent and non recurrent variances, and consider where it is helpful to add further activity information.</p> <p>On-going</p>
<p>Managing Finances</p> <p>In taking forward the efficiency agenda the Authority should explore opportunities to achieve greater economies of scale (for example, through outsourcing and shared service) over the next twelve months.</p>	<p>The Council has refreshed its efficiency program, a major strand being "Project Discovery".</p> <p>A council wide VFM officer group chaired by the Director of Resources has also been set up to drive forward the Council's overall work to generate key efficiency savings.</p> <p>On-going</p>

Appendix 2: Key recommendations from Use of Resources assessment

Issue/ Recommendation	Management Response / Timescale for implementation
Use of Resources	
<p>Governing the Business</p> <p>The Authority should develop its Procurement Strategy to demonstrate a clear approach to managing different markets, setting clear targets for efficiencies to be achieved including through outsourcing, joint procurement with other authorities or through different ways of working. The level of non-pay expenditure incurred 'off-contract' should be corporately monitored and plans put in place to reduce.</p>	<p>This is part of on-going work programs to improve service delivering and drive forward efficiency across the Council which is led by CMT supported by the VFM and Procurement Groups.</p> <p>The Council will continue to develop its Procurement Strategy to identify key markets and its approach to managing those markets to improve efficiency and effectiveness, as outlined in the Corporate Procurement Strategy 2008-2011</p> <p>Social care markets, including supply of temporary agency staff and markets with a significant sustainability impact are likely to be the highest initial priority.</p> <p>Joint procurement and other efficiency initiatives are monitored and progressed through the Berkshire wide Efficiency Champions Group and the Berkshire Procurement and Shared Services Unit.</p> <p>Monitoring of off contract spend will be reported regularly to the Procurement and Partnerships group.</p> <p>On-going</p>
<p>Governing the Business</p> <p>The quality of performance reports to Members could be improved through inclusion of additional commentary detailing:</p> <ul style="list-style-type: none"> • Whether the PI is contextual, cost, input, output, outcome; • Whether the target is imposed, or set locally • Where Reading sits against is peers/top quartile performers • Whether the PI has been subject to data quality checks (e.g. by internal/external audit) <p>Exception reporting should also be considered for PIs outside the 'Top Ten' included in the Balanced Scorecard where performance falls outside agreed parameters, for example, 10% above/below target.</p> <p>Reports to members have often been a verbal presentation. Whilst these are useful, formal written reports would enable Members to consider the information in advance (to better inform scrutiny) and provide a written record against which future reports can be compared.</p>	<p>The quarterly benchmarking returns enable in year comparisons for statutory indicators. This comparative information has been included in reports to officer and members from 2009/10. Additional commentary will be considered.</p> <p>Exception reporting will be considered as part of the review of performance management and data quality strategy.</p> <p>The hard copy overview performance reports and presentations go to CCEA Scrutiny panel, as part of a rolling program of performance presentations by Directors to the relevant scrutiny panel.</p> <p>On-going</p>
<p>Governing the Business</p> <p>Internal spot checks should be increased where data quality issues have been noted and training given to staff to ensure that arrangements for calculating the PI are reliable.</p>	<p>An increase in internal spot checks will be considered as part of the updated data quality action plan. Spot checks will be included in the 2010/11 internal audit plan.</p> <p>Data quality, integral to specific roles, is managed through assessment and training processes. Appropriate training to job roles and to address issues arising is identified and actioned via the appraisal process.</p> <p>On-going</p>

Appendix 2: Key recommendations from Use of Resources assessment

Issue/ Recommendation	Management Response / Timescale for implementation
Use of Resources	
<p>Governing the Business</p> <p>Member development plans should be introduced to ensure that members' training needs are identified and appropriately addressed.</p>	<p>RBC has worked with the LGIU on producing a Councillor Development Training Programme, including Personal Learning Plans and a mentoring scheme. This Programme has been submitted to the Councillor Liaison Group along with details of support available from the Council's Learning & Development and Councillor Services Teams. It has also been discussed with Group Leaders. Individual groups are co-coordinating their responses for take up of the training offered.</p> <p>On-going</p>
<p>Governing the Business</p> <p>The Authority should make completion of the fraud awareness survey compulsory for all staff by 31 December 2009 (273 members of staff have completed it) to help raise awareness and mitigate the risk of fraud and corruption.</p>	<p>Agreed in principle, although in practice this would be very difficult to administer and achieve. We will however look at making it compulsory within specific targeted areas based on a risk assessment. We will re-launch the training package in the Autumn 2009 and repeat the exercise again in the spring of 2010. We will also look at ways at incorporating the online training programme as part of corporate induction of new employees.</p> <p>On-going</p>
<p>Managing Resources</p> <p>Asset data should be benchmarked against similar authorities to inform the Authority's capital strategy and asset management plans.</p> <p>The Authority should continue to explore opportunities to share more of its assets with other public sector bodies.</p>	<p>We are developing our Asset Management planning and will include consideration of benchmarking as part of this work.</p> <p>VFM Group/ongoing.</p> <p>We already work with a range of partners and will continue to explore opportunities for sharing facilities.</p> <p>On-going</p>

Appendix 3: Audit reports issued

A summary of the reports issued in the year to date is set out below.

Report	Date issued
Audit and Inspection Plan 2008/09	June 2009
Report to those charged with governance (ISA 260)	September 2009
Annual Audit Letter	January 2010