



PUBLIC SECTOR

Annual Audit Letter 2008/09

Rugby Borough Council
8 December 2009

AUDIT

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This report is addressed to the Authority 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 Saverio DellaRocca who is the engagement director to the Authority, telephone 0115 935 3481, email Saverio.DellaRocca@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 Rugby 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 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 <http://www.rugby.gov.uk/site/index.php>

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 included 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 in this area is summarised in section 2; and
- *accounts* – the Financial Statements and the Annual Governance Statement, summarised in section 3.

Key Messages

The key messages from our work which we draw to your attention to are:

- We assessed the Council against a new use of resources assessment process for 2008-09 which is a harder test than the previous process. It was assessed as performing adequately (level 2) for the three themes of managing finances, governing the business and managing resources. Moving forward, the Council will need to focus on:
 - Ensuring that it understands the cost and performance of all its services and back-office functions and has benchmarked them against similar organisations;
 - Determining its future strategy for how it will deliver its services to the public and back office functions. This will need to consider the best ways of delivering services to ensure that they are high quality and deliver value for money;
 - Developing a plan for future workforce requirements and ensuring that the initiatives it is taking are improving the productivity and working lives of the workforce; and
 - Strengthen arrangements over data quality ensuring that adequate processes are in place to collect and monitor some performance indicators.
- We issued an unqualified opinion on the 2008-09 financial statements and on the value for money conclusion. There were no significant issues which we need to bring to your attention.
- The Council had invested £3m in Icelandic banks when the Icelandic banking system collapsed. It has included an estimate in its 2008-09 accounts of the amount that it expects to recover which has resulted in an impairment charge of £364k, calculated based on guidance provided by CIPFA. The final cost will not be known with certainty for some time and the Council, like all authorities affected, is working to the repayment plan set out by the bank's administrators which will see the Council recovering its funds over a number of years. It has taken advantage of the Capital Finance Regulations to defer the impact of the impairment on the General Fund and council tax. Our work on treasury management has confirmed that the Council has good treasury management arrangements in place and there are no recommendations which we wish to raise.

Future Issues

- From 2010/11 local government bodies are required to prepare their financial statements under International Financial Reporting Standards (IFRS). This will require the Council to restate its opening balance sheet at 1 April 2009 and the 2009-10 accounts under IFRS to form the comparatives in the 2010/11 accounts. We are aware that the Council has produced a project plan and is keeping the Audit Committee informed of progress.
- Public expenditure forecasts indicate that there will be significant pressure on local authorities' funding in the medium term increasing the need for local authorities to have comprehensive efficiency programmes supported by sound financial management arrangements. The Council has already started to review a number of key areas to identify potential efficiencies which it will need to explore further and factor into its medium term financial planning. This will build on the recent end to end service reviews which have already identified and, in some cases, delivered, efficiencies.

Executive Summary (continued)

- The Carbon Reduction Commitment scheme requires Local Authorities who spend around £500,000 on electricity to report their carbon usage from 1 April 2010 and to record these transactions within their financial statements with effect from 1 April 2011. The Council will need to determine if it falls within the criteria for the application of the scheme and consider the implications for data quality, cash flow, and reporting.
- Sustainability performance - The Treasury is developing guidance for 2010/2011 which will require all public sector bodies to report publicly on sustainability performance in their annual reports. CIPFA is in discussion with the Treasury about when and in what form this requirement will be formalised for local authorities and the audit requirements. Sustainability reporting will be difficult to implement and the Council will need to ensure that it has adequate information processes to collect and report the data.

Fees

Our fee for the audit is £122,000. We are still completing our certification of the Council's 2008-09 grant claims and will advise the Council of the final fees on completion of this work.

Acknowledgement

2008/09 was KPMG's final year as the Council's external auditor. We would like to thank the Council's management and staff for the help, support and co-operation they have provided throughout the period of our appointment.

Use of resources

The main elements of our use of resources work are:

- *Use of Resources* – we assess how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people; and
- *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 Use of Resources assessment.

The findings from this work are summarised below.

Element of work	Key findings								
<p>Use of Resources</p>	<p>From 2008/09, the Audit Commission introduced a new use of resources (UoR) assessment framework which forms part of the Comprehensive Area Assessment. The assessment considers how well organisations are managing and using their resources to deliver value for money and better and sustainable outcomes for local people. The assessment focuses on three themes:</p> <ul style="list-style-type: none"> ● sound and strategic financial management; ● strategic commissioning and good governance; and ● the management of natural resources, assets and people. <p>The Council's performance is assessed against a number of key lines of enquiry which are supported by detailed guidance. The Council's performance is summarised below.</p> <table border="1" data-bbox="325 841 1029 1069"> <thead> <tr> <th data-bbox="329 845 721 886">KLOE</th> <th data-bbox="725 845 1025 886">Theme Score</th> </tr> </thead> <tbody> <tr> <td data-bbox="329 893 721 944">1 – Managing finances</td> <td data-bbox="725 893 1025 944">2</td> </tr> <tr> <td data-bbox="329 951 721 1002">2 – Governing the business</td> <td data-bbox="725 951 1025 1002">2</td> </tr> <tr> <td data-bbox="329 1009 721 1060">3 – Managing resources</td> <td data-bbox="725 1009 1025 1060">2</td> </tr> </tbody> </table> <p>We have assessed the Council as an overall score of level 2 which means the Council is performing adequately. This represents an improvement on the previous year, given that this assessment is a harder test.</p> <p>The Council has some good arrangements in place at a sub KLOE level such as training and development for councillors and employee performance management. However to move to level 3 the Council will need to demonstrate that it has an increased focus on demonstrating delivery of outcomes for local people and staff. In particular, the Council should consider:</p> <ul style="list-style-type: none"> ● Ensuring that it understands the cost and performance of all its services and back-office functions and has benchmarked them against similar organisations; ● Determining its future strategy for how it will deliver its services to the public and back office functions. This will need to consider the best ways of delivering services to ensure that they are high quality and deliver value for money; ● Developing a plan for future workforce requirements and ensuring that the initiatives it is taking are improving the productivity and working lives of the workforce; and ● Strengthen arrangements over data quality as our spot check reviews of a number of performance indicators highlighted that the Council needs to ensure adequate processes are in place to collect and monitor some performance indicators. <p>We have recommended that the Council improves its internal assessment process for use of resources and focuses on providing case studies to demonstrate outcomes. We have also recommended that it produces an action plan setting out how it will improve its processes and scores which should be monitored by the Audit Committee.</p> <p>Our detailed report, issued in September 2009, highlights the areas on which the Council should focus its efforts.</p>	KLOE	Theme Score	1 – Managing finances	2	2 – Governing the business	2	3 – Managing resources	2
KLOE	Theme Score								
1 – Managing finances	2								
2 – Governing the business	2								
3 – Managing resources	2								
<p>Value for money conclusion</p>	<p>We issued an unqualified value for money conclusion for 2008/09. 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 29 September 2009. This means that we believe the accounts gave a true and fair view of the financial affairs of the Council and of the income and expenditure recorded during the year.

Before we gave our opinion on the accounts, we were required to report to 'those charged with governance' any significant matters identified. We did this in our ISA 260 report to the Audit Committee on 22nd 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 30th June deadline which were supported by good quality working papers.
- We did not identify any material errors in the accounts. However, we identified three issues that have been not been adjusted by management as they did not have a material effect on the financial statements. These related to a VAT claim under Fleming and updated guidance on the likely recovery of deposits and interest on Icelandic banks investment, both of which were uncertain at the time of preparation of the draft accounts. The Council also adjusted the accounts for a number of presentational matters.
- We raised three recommendations to strengthen the Council's closedown process, none of which were considered significant.

Whole of Government accounts

We issued our opinion on the Whole of Government Accounts on 1 October 2009 confirming that they were consistent with the statutory accounts of the Council.

Treasury Management

As we reported in last year's Annual Audit Letter, the Council had invested £3m in Icelandic banks. The Council had invested £3m in Icelandic banks when the Icelandic banking system collapsed. It has included an estimate in its 2008-09 accounts of the amount that it expects to recover which has resulted in an impairment charge of £364k, calculated based on guidance provided by CIPFA. The final cost will not be known with certainty for some time and the Council, like all authorities affected, is working to the repayment plan set out by the bank's administrators which will see the Council recovering its funds over a number of years. It has taken advantage of the Capital Finance Regulations to defer the impact of the impairment on the General Fund and council tax. Our work on treasury management has confirmed that the Council has good treasury management arrangements in place and there are no recommendations which we wish to raise.

Grants Certification

We have certified five of the six grant claims for 2008-09. Of these, two have required amendments, and none have been qualified. We will certify the remaining claim (Housing Revenue Account subsidy) by the due date of 31 December 2009.

Appendix 1: Key recommendations

This appendix summarises the high priority recommendations that we have identified during 2008/09, along with your response to them.

Recommendation	Management Response / Timescale for implementation
<p>The Authority should build on the 2008-09 self assessment process and develop a more focused assessment which:</p> <ul style="list-style-type: none"> • contains an executive summary setting out a balanced assessment of the Authority’s progress against the KLOEs over the last year; • is supported by evidence and is clearly signposted to the assessment; • is accompanied by case studies to demonstrate outcomes; and • is approved by the Leadership and Operations Team and has been subject to challenge by the Audit Committee. 	<p>Leadership Team and councillors will need to consider the merits and opportunity cost of submitting a self-assessment for 2009/10 against the value gained.</p> <p>Head of Resources March 2010</p>
<p>The Authority should develop an action plan in response to the findings of this report. The action plan should have named responsible officers and a timescale for implementation.</p> <p>The action plan should be discussed and challenged by the Audit Committee and progress reports should be submitted to the Audit Committee during the year</p>	<p>Leadership Team and councillors will need to consider the merits and opportunity cost of submitting a self-assessment for 2009/10 against the value gained.</p> <p>Head of Resources March 2010</p>

We also raised three recommendations which were medium or low priority. These related to strengthening the accounts process around month end adjustments to bank reconciliations, reviewing the process for establishing the bad debt provision and complying with year end procedures over posting of invoices.

Appendix 2: Audit reports issued

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

Report	Date issued
Audit and Inspection plan 2008-09	May 2008
ISA260 report to those charged with governance	September 2009
Annual Audit Letter	November 2009