



PUBLIC SECTOR

## **Annual Audit Letter 2008/09**

Northampton Borough  
Council

January 2010

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 Mike McDonagh, who is the engagement partner to the Authority, telephone 0121 335 2440, email [michael.a.mcdonagh@kpmg.co.uk](mailto:michael.a.mcdonagh@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](mailto: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](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

## Executive Summary

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### Purpose

This Annual Audit Letter (the letter) summarises the key issues arising from our 2008/09 audit at Northampton 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](http://www.audit-commission.gov.uk). It is the responsibility of the Council to publish the letter on its website. Throughout our audit we have highlighted areas of good performance and also provided recommendations to help improve performance. A summary of our key recommendations is summarised 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 3.

### 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 areas which we draw to your attention to are:

- Our Use of Resources assessment, the first under the Audit Commission's new UoR regime, demonstrated that the Council has got satisfactory processes in place and there is evidence of positive outcomes in all three themes (managing finances, governing the business and managing resources). The Council has been assessed as level 2 (performing adequately) against each of these themes ('KLOEs'). The Council also achieved scores of 2 in each of the sub-KLOEs within the themes. Despite there being a reduction in scores in some sub-KLOEs from the 2008 assessment, these scores represent recognition that the Council has continued to improve in all areas under assessment since the new assessment is a 'harder test'. The Council has also improved its score for the Financial Reporting sub-KLOE with a score of 2 for 2008/09 (2007/08: 1). Scores of 2 under the new regime indicate that an authority has satisfactory processes in place and shows evidence of delivering outcomes. In order to improve on these scores in the future, the Council must use robust processes to deliver strong outcomes and provide high levels of service while maintaining financial integrity.
- We issued an unqualified opinion on the Council's accounts on 25 September. We identified a number of adjustments to the accounts which in aggregate we considered material. Officers amended the accounts for these adjustments and we issued our opinion in advance of the statutory deadline for publication of local authority accounts. We were provided with a complete set of working papers at the start of our audit on 27 July 2009. This contrasts with previous years where this has not been the case; also, we noted an improvement in the quality of working papers. Consequently the accounts audit ran more smoothly than in previous years.

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 and our *Interim Report* issued in July 2009. Messages from these reports are summarised in this letter.

In addition we received a question from two electors in relation to processes for setting taxi licence fees who contended that the Council had acted unlawfully in setting fees. We concluded that the Council had acted within its powers but recommended that it review its processes for recovering costs where fees are charged.

### Fees

Our fee for the audit is £231,330 (excluding fees for certification of grants and other returns). This includes fees of £4,630 for answering a question raised by electors regarding taxi licence fees; our main audit work was contained within the original planned fee of £226,700

## Executive Summary (continued)

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### Future Issues

- From 2010/11 local government bodies are required to prepare their financial statements under International Financial Reporting Standards (IFRS) and therefore the Council will need to be preparing for this transition.
- Sustainability performance - The Treasury is developing guidance for 2010/11 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 now to implement new information gathering processes.
- Public expenditure forecasts indicate that there will be significant pressure on local authorities' funding in the medium term. Future financial settlements will be extremely tight, increasing the need for local authorities to have comprehensive efficiency programmes supported by robust financial management arrangements. It is likely that initiatives will be required to generate sufficient savings to mitigate the impact on priority services. The Council will need to continue to remain focussed on maintaining financial stability in light of future uncertainties over resources.

### Acknowledgement

This has been KPMG's final year as the Council's external auditor having been appointed by the Audit Commission in 2004. We would like to thank the Council's management and staff for the help, support and co-operation they have provided over the past five years and wish them continued success for the future.

## 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 – focussing on 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.

The findings from this work are summarised below.

Element of work	Key findings								
<p><b>Use of Resources</b></p>	<p>Our assessment of Northampton Borough Council against the three themes resulted in the following scores on a scale of one (inadequate) to four (performing strongly):</p> <table border="1" data-bbox="448 845 1176 1027"> <thead> <tr> <th>Theme</th> <th>Score</th> </tr> </thead> <tbody> <tr> <td>Managing money</td> <td>2</td> </tr> <tr> <td>Governing the business</td> <td>2</td> </tr> <tr> <td>Managing resources</td> <td>2</td> </tr> </tbody> </table> <p>These scores build on last year's UoR assessment when the Council scored level 1 (below minimum requirements) against the financial reporting theme, level 2 (performing adequately) against the financial standing, internal control and value for money themes and level 3 (performing well) against financial management. It should be noted, however, that direct comparisons cannot be made between the previous UoR scores and those awarded this year due to the differences in each assessment framework.</p> <p>The three themes are broken down into further areas for the purposes of the assessment. The Council achieved scores of 2 in all areas of the assessment.</p> <p>In achieving a score of 2 for Managing Finances, the Council has shown a significant achievement in improving its score since the new assessment is a 'harder test'. The improvements in the quality and timeliness of working papers and information in support of the accounts audit enabled this increase. We have provided Senior Officers with detailed feedback on how scores can be further improved. The key areas where improvements can be made to aid increased scores are by demonstrating that the Council is prioritising its finances to deliver its corporate objectives, that it instigate a systematic process of service reviews to ensure that services are delivering value for money, and that it utilises its asset base more effectively.</p> <p>In achieving a score of 2 for Governing the Business, the Council has demonstrated that it has sound processes in place for procurement, use of information, governance and risk management. To further improve in this area, the Council needs to ensure that it is using accurate information to drive improvements in services, that it implements internal and external audit recommendations more quickly and consistently, and that it understands cost drivers in services in order to inform innovative service commissioning and delivery. It also needs to use its risk management processes to enable it to deliver more risky projects.</p> <p>For Managing Resources, districts are assessed on one of the three sub KLOEs on a rolling basis. In 2009 they were assessed on Managing People. The key area of improvement required for the Council is in reducing sickness absence. In 2010, districts will be assessed on Strategic Asset Management. The Authority will need to demonstrate it is making improvements in this area to maintain a score of 2.</p>	Theme	Score	Managing money	2	Governing the business	2	Managing resources	2
Theme	Score								
Managing money	2								
Governing the business	2								
Managing resources	2								

## Use of resources

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Element of work	Key findings
<b>Value for money conclusion</b>	<p>We issued an unqualified value for money conclusion for 2008/09.</p> <p>This means that we are satisfied that the Council put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.</p>

### Audit opinion

We issued an unqualified opinion on the Council's accounts on 25 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 Audit Committee meeting on the 23 September 2009 and the key issues are summarised here.

### Accounts production and adjustments to the accounts

- We received a set of draft accounts by the 30<sup>th</sup> June deadline supported by good quality working papers.
- Our audit identified adjustments which in aggregate we considered material. These were adjusted by the Council and we issued an unqualified audit opinion on 25<sup>th</sup> September, in advance of the statutory deadline for publication of authorities' accounts. We were provided with a full set of working papers at the beginning of our audit on 27 July 2009; we noted an improvement in the quality of working papers from previous years and in the timeliness and quality of requests for supplementary information and clarification during the audit.
- Our audit resulted in ten recommendations regarding financial controls. We also made a recommendation that our recommendations be implemented in a more timely manner as we identified several from our 2007/08 work which remained outstanding.

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

### Future issues

From 2010/11 local government bodies are required to prepare their financial statements under IFRS. There is a transitional process that needs to be followed, starting with assessing the areas where IFRS will require re-statement of aspects of the Council's accounts to comply with IFRS. The Council will need to prepare for this transition and ensure that its financial systems and other arrangements have been reviewed and updated as necessary, and that finance staff receive necessary training.

## Appendix 1: Key recommendations

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

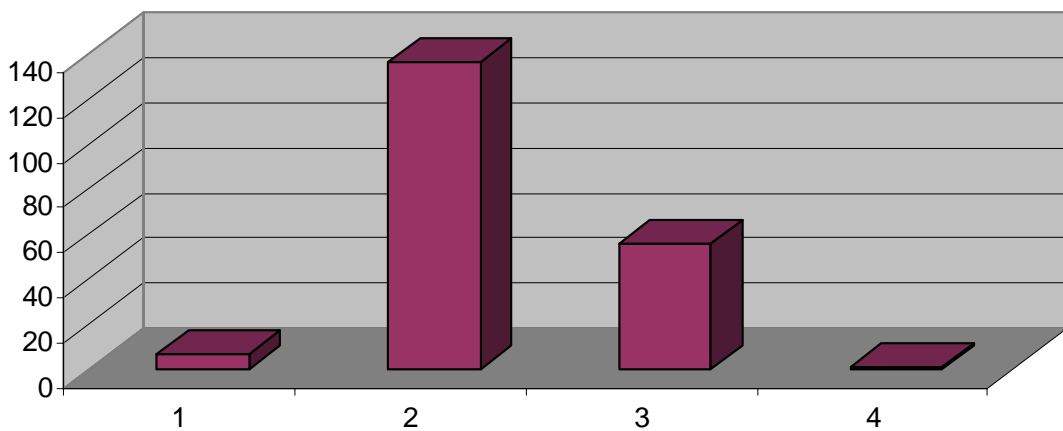
Issue/ Recommendation	Management Response / Timescale for implementation
<p><u>Issue</u></p> <p>The Authority is currently in the process of implementing Single Status but has not yet finalised the pay modelling and negotiation process. An implementation date of 1 April 2010 has been set and officers anticipate that the process will be complete by then. Until pay modelling is complete there remains considerable uncertainty of the financial costs of implementation, therefore the Authority will need to monitor progress in the process to limit the effect on financial planning.</p> <p><u>Recommendation</u></p> <p>The Authority should ensure that progress on the Single Status project plan is monitored to minimise the uncertainties within financial and organisational planning that are associated with late or non-implementation.</p>	<p>A formal project plan is in place for the Pay and Grading project. The project is sponsored by Isabell Procter and the project manager is Catherine Wilson. A Pay and Grading team within HR has also been set up and West Midlands LGA have also been contracted to provide additional capacity. The national agenda is constantly scanned by the P&amp;G team to ensure that national impacts are built into the project. A joint single status steering group- JSSG [made up of Heads of Service representatives and Trade Union representatives] has been set up that meets on a regular basis to deal with the business of the project and ensures that the timetable is adhered to. The Board is regularly updated, and each DMT has an update from the representative on the JSSG. To date the project is running to schedule.</p> <p><u>Officer and due date</u></p> <p>Catherine Wilson To be implemented April 2010</p>
<p><u>Issue</u></p> <p>The Authority's bank account was reconciled to the ledger at the year end only. Officers have found the bank reconciliation process challenging historically. In 2007/08 approximately £100,000 was written off as an expense as part of the reconciliation to adjust for historical differences between the ledger and the bank account which could not be reconciled. This write off was intended to make regular reconciliations easier going forward.</p> <p><u>Recommendation</u></p> <p>The current plan to reconcile the general ledger to bank accounts on a monthly basis should be given a priority. The reconciliation should be reviewed and signed off by a more senior officer.</p>	<p>Bank reconciliations have been given a priority and are signed off on a monthly basis by a Divisional Accountant.</p> <p><u>Officer and due date</u></p> <p>Phil Morrison May 2009</p>

## Appendix 2: Use of Resources scores

The table below shows overall Use of Resources scores for all District Council authorities and is illustrated with the graph below. The Council's overall score was 2.

Overall Use of Resources score	Number of Authorities	Percentage
1	7	3%
2	137	68%
3	56	28%
4	1	1%

Districts' overall UOR scores



## Appendix 3: Audit reports issued

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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 2008
Interim Audit Report 2008/09	June 2009
Report to those charged with governance 2008/09	September 2009