KPMG

INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Report to those charged with governance

Northampton Borough Council

September 2008

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

Content

The contacts at KPMG in connection with this report are:

Mike McDonagh
Partner
KPMG LLP (UK)

Tel: 0121 335 2440
Fax: 0121 232 3578
michael.a.mcdonagh@kpmg.co.uk

David Brett
Senior Manager
KPMG LLP (UK)

Tel: 0121 232 3879
Fax: 0121 232 3578
david.brett@kpmg.co.uk

Tim Pearce
Manager
KPMG LLP (UK)

Tel: 0121 232 3149
Fax: 0121 232 3578
timothy.pearce@kpmg.co.uk

Peter Evans
Assistant Manager
KPMG LLP (UK)

Tel: 0121 232 3694
Fax: 0121 232 3578
peter.evans@kpmg.co.uk

This report is addressed to the Council and has been prepared for the sole use of the Council. 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 Michael McDonagh who is the engagement lead to the Council, telephone 0121 335 2440 email 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 246 4063, email trevor.rees@kpmg.co.uk. After this, if you 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 Team, Nicholson House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SU or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Section 1

Executive summary

Purpose of this report

To comply with the requirements of International Standard on Auditing (UK and Ireland) 260 ("ISA 260") *Communication of Audit Matters to Those Charged with Governance* and the Audit Commission's *Code of Audit Practice* ("the *Code*"), we are required to provide a summary of our work to "those charged with governance" – in other words, the Audit Committee.

We are required by the *Code* to issue an opinion on the Authority's accounts. Alongside this, we also issue a conclusion on the Authority's use of resources, certifying whether adequate arrangements are in place for each area specified by the Audit Commission. This report summarises our findings and conclusions in these two areas for the year ended 31 March 2008.

Our opinions and conclusions

Accounts and Annual Governance Statement

The Authority is responsible for putting in place systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that present fairly its financial position and its expenditure and income. It is also responsible for preparing and publishing an Annual Governance Statement with its financial statements.

We have not yet fully completed the audit of the accounts. This report, therefore, provides an update on progress to date and the main areas of ongoing work. At the present time, the most significant areas of ongoing audit work are fixed assets, benefits expenditure and the provision for doubtful debts. We are also continuing work on the Housing Revenue Account (HRA), debtors, creditors, and the cash flow statement.

Whilst the audit has exceeded its original schedule, we continue to work with officers to complete the work as soon as possible and issue our opinion by 30 September when the Authority is required to publish its accounts. This an improvement over 2007, when we were not able to issue our opinion until 18 October. The 2006/07 audit took longer than planned because, as our work progressed, there was a large number of queries which proved time-consuming to resolve; the clarity of the working papers provided to us was a factor in this. Therefore, to help improve the audit process, we held five discussions with officers from January 2008 onwards to discuss emerging accounting issues and our working paper requirements. This included a workshop for finance staff on working papers and the accounts closedown process. We also visited the Authority in June, in advance of our main visit, to review working papers and to select samples for our detailed audit testing. Our main visit commenced on 28 July.

The progress of the 2007/08 audit has been delayed because we did not receive a complete set of working papers at the start of our visit. One contributory factor was that officers had identified errors in transactions generated by the fixed asset system and needed to correct these, with the result that we received the corrected working papers on the Authority's fixed assets in the fifth week of the audit. Working papers on the HRA and benefits expenditure were also not all received until late August and early September.

The Authority has taken a range of actions to strengthen its accounting processes during the year. This has included recruitment of additional qualified and part-qualified staff. This has enabled improvements to be introduced to significant areas of financial management – for instance, in-year budget reporting has become established for both capital and revenue expenditure. In terms of financial reporting processes, officers have introduced a quality assurance process to improve the quality of working papers. This has resulted in some improvements, though, as noted above, it has, in some cases, delayed the finalisation of a significant number of working papers. Where queries arise in the course of our work, we have agreed a protocol with officers whereby the query is documented and resolved within three working days, with revised deadlines agreed where annual leave, or the complexity of the query, makes the three-day target difficult to achieve. In some instances, the three day target has been significantly exceeded; this has been a factor in the delays to some areas of the audit.

More detail is provided in section 2 and our proposed opinion on the accounts is presented in Appendix 2.

Use of Resources conclusion

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing their adequacy and effectiveness. Our responsibility is to review whether adequate arrangements are in place. Our findings are summarised in our Use of Resources conclusion.

Section 1
Executive summary

For each of 12 criteria specified by the Audit Commission, we review whether the criterion has been met. Where all criteria have been met, we issue an unqualified conclusion; where a small number of criteria are not met, we issue a conclusion which states in which criteria the deficiencies lie.

In 2007, we concluded that eight criteria were not met. We are currently completing our work on the current year's assessment and will update the Audit Committee verbally on our intended conclusion.

Exercise of other powers

We have a duty under section 8 of the Audit Commission Act 1998 to consider whether to report in the public interest on any matter that comes to our attention to bring it to the public's attention. In addition we have a range of other responsibilities under the 1998 Act, including investigating questions or objections on the accounts received from electors of the Borough. We did not receive any questions or objections, or issue a report in the public interest, in 2007/08.

Certificate

We are required to certify that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the *Code of Audit Practice*. If there are any circumstances under which we cannot issue a certificate, such as when there is a question or objection outstanding on the accounts, we are required to report them to the Authority and to issue a draft opinion on the financial statements. We will, therefore, be able to issue the certificate as part of our audit report, once the remaining work for the accounts opinion and Use of Resources conclusion has been completed.

Declaration of independence and objectivity

In relation to the audit of the financial statements of Northampton Borough Council for the financial year ending 31 March 2008, we confirm that there were no relationships between KPMG LLP and Northampton Borough Council , its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 7 in accordance with ISA 260.

Section 2

Accounts and Annual Governance Statement

Introduction

The main stages in the audit of the Authority's accounts is summarised in the table below. The current status of each stage is indicated.

Work Performed	Current status
Task 1 – Risk analysis: Review the Authority's operations.	✓
Task 2 – Controls: Assess the control framework.	✓
Task 3 – Agree working paper requirements: Issue our Accounts Audit Protocol.	✓
Task 4 – Accounting standards: Establish the impact of any new accounting standards.	In progress
Task 5 – Accounts production: Review the accounts production process.	✓
Task 6 – Testing: Test and confirm relevant transactions, balances and disclosures.	In progress
Task 7 – Opinions and representations: Seek and provide representations before issuing our opinion and conclusion.	In progress

We have commented on these steps below where there are issues which we wish to bring to members' and officers' attention.

Task 1: Risk analysis

In our 2007/08 Annual Audit and Inspection Plan, we noted that the key issue for the 2007/08 accounts is the need to comply with changes to the Local Government Statement of Recommended Practice ("SORP") which take effect this year.

The quality of working papers supporting the accounts is an area which we have identified for further development in previous years. We have commented on the actions we have taken to assist the Authority and on the working papers produced to support the 2007/08 accounts below.

Another issue we identified is the effect the implementation of Single Status has on the accounts. The Authority has decided that since it is not at a stage where it can make a reasonable estimate of the costs of implementation so therefore has not made a provision in its accounts.

The Authority replaced its rents system during the financial year. Our work has therefore needed to cover the processes and controls operated while the old system was in place, the new processes introduced and also the migration of data from the old to the new system.

Task 2: Assessment of the control framework

We undertook the majority of our controls work during our visit in April. This included reviewing internal audit's work and where appropriate relying on their findings. Owing to the availability of staff during April, we completed the remainder of this work during our main visit over the summer.

In previous years, we have identified a larger number of control weaknesses than at comparable authorities; our 2006/07 *Report to those charged with governance* contained 16 recommendations, of which several related to opportunities to improve financial control.

Section 2

Accounts and Annual Governance Statement

The Authority has made progress in addressing our past recommendations. For example, the recruitment of additional qualified and part-qualified staff. This has enabled improvements to be introduced to significant areas of financial management – for instance, in-year budget reporting has become established for both capital and revenue expenditure.

For example, the arrangements around capital expenditure have been significantly strengthened, with a new team of officers in place to support and monitor capital expenditure. This has allowed capital expenditure monitoring at member level to become established during 2007/08. However, some of our recommendations have not been fully addressed. Where they continue to be relevant, we have reiterated them in the text below.

Tasks 3 and 5: Working papers and the accounts production process

The working papers supporting the accounts have been an area for improvement in previous audit years. In the 2006/07, to a significant degree there have been cases where some working papers were not available by the agreed time, were unclear or did not adequately serve their intended purpose. This creates additional work for officers during our main audit visits and leads to additional audit time and cost.

During 2008, we sought to help the Authority address this issue by:

- discussing with officers any areas which were unclear in our working paper request in previous years;
- issuing our working paper request in March and discussing it with officers; and
- giving a presentation to the wider finance team in February to help them to understand what information we need and why.

We visited the Authority at the end of June, in advance of our main visit, to review working papers and to pick samples for our detailed testing, as agreed in advance with officers. Working papers made available to us at this point were limited and we were unable to pick samples as we had not been provided with transaction breakdowns at that stage.

The progress of the audit has been delayed because we did not receive a complete set of finalised working papers at the start of our visit. One contributory factor was that officers had identified errors in transactions generated by the fixed asset system and needed to correct these, with the result that we received the final versions of working papers on the Authority's fixed assets in the fifth week of the audit. Final versions of working papers on the HRA and benefits expenditure were also not received until late August and early September.

Officers have introduced a quality assurance process to improve the standard of working papers. This has resulted in some improvements, though it has contributed to delays in finalising a significant number of working papers.

Where queries arise in the course of our work, we have agreed a protocol with officers whereby the query is documented and resolved within three working days or a revised deadline agreed where annual leave, or the complexity of the query, makes the three-day target difficult. In some instances, the three day target has been significantly exceeded, and this has also been a factor in the delays to some areas of the audit.

We provided officers in advance of our visit with an indicative timetable of when we would be auditing each section of the accounts. However we experienced problems in access to key members of staff during the course of the audit.

We also experienced delays due to working papers provided in support of debtor and creditor balances. We had discussed in advance with officers that we required transaction level breakdowns for these balances and detailed as such in our working paper requirements list. However we were not provided with this and consequently spent additional time working through the records provided.

We made a recommendation in our report last year that working papers should be available at the beginning of the audit and reiterate the importance of this.

Recommendation 1: Working papers and the accounts closedown process

The Authority should review its accounts closedown timetable and consider whether sufficient time is built into the timetable to produce working papers.

Accounts and Annual Governance Statement

Task 6: Testing

As outlined above, our testing is not yet complete. At the present time, the most significant areas of ongoing audit work are fixed assets, benefits expenditure and the provision for doubtful debts. We are also continuing work on the HRA, debtors, creditors, and the cash flow statement.

We have commented on the main issues arising from the audit below.

Prior period adjustment

The Authority has included a prior period adjustment in its accounts. The adjustment relates to the premium paid on early redemption of two loans, in 2002/03 and 2003/04.

The Authority is required to split the premia between the HRA and the General Fund on the basis of the opening credit ceiling – a measure of the indebtedness of these two areas of the Authority's activities – for the year in question. It has been identified that the credit ceilings used at the time to apportion the premia were incorrect and, as a result, the costs were split incorrectly between the General Fund and HRA. The Authority has concluded that an adjustment is required between the General Fund and HRA to correct this.

To verify the adjustment, it is necessary to check the revised opening credit ceiling calculations for 2002/03 and 2003/04. Officers have identified that the records for the original calculations have not been retained. We are currently reviewing the available evidence for the revised calculations. We may require a representation from management to confirm their understanding of the adjustment and the supporting figures.

HRA and General Fund arrears

Our review of the Authority's provisions for doubtful debts showed that they have been determined using guidance from CIPFA which has since been withdrawn, by using percentages specified in this guidance applied to debtor balances according to their age. We recommended in our *Report to those charged with governance* relating to the 2006/07 that the Authority follow current guidance and perform an exercise assessing the recoverability of its debtor balances and provide for doubtful debts on the basis of this. We re-iterate this recommendation.

Recommendation 2: Provision for doubtful debts

The Authority should assess the recoverability of its debtor balance and should use this information to determine its provision for doubtful debts.

Total HRA rent arrears (including former tenant arrears) as at the 31 March 2008 stood at £4,291,000, which represented 9.7% of the gross debit for 2007/08. This compares with 7.6% of the previous year's debit as at 31 March 2007. Both of these figures represent a high level of arrears compared to the Authority's peers and, given the significant sums involved, this is a key issue for the financial management of the HRA.

The Best Value Performance Indicators (BVPIs) relating to rent collection and arrears are regularly reported through to senior management and Cabinet. These provide information at a summary level only. However, we understand that arrears monitoring is not routinely included within HRA financial monitoring reports.

Given the high level of arrears and the costs to the Authority which arise from delayed collection or non-collection of rents, we recommend that the Authority ensures that full details of rent arrears are regularly reported to senior management and members.

Recommendation 3: HRA rent collection reporting

The Authority's HRA financial monitoring should systematically include details on rent collection and arrears. The reports should include details of arrears for both current and former tenants.

Accounts and Annual Governance Statement

Bank reconciliation

The Authority has worked extensively during 2007/08 and since year end to improve its bank reconciliation process. Because of the way that details of transactions on the bank account were held on the Agresso ledger, it was difficult to complete a full reconciliation of each bank account per Agresso through to bank statements. In particular, historic differences existed which officers had extensively investigated but had not been able to reconcile fully.

To allow for a fully reconciled position in future, officers have created the "true" year-end Agresso position starting from the bank statement, and have adjusted the difference as an expense to the I&E Account – an amount of approximately £200,000. We understand that this adjustment was authorised by the Director of Finance.

We understand that regular bank reconciliations have been performed since the end of the year since the year-end reconciliation was completed; we will test the new reconciliation process as part of our 2008/09 audit.

Debtor and creditor records

Significant amounts of debtor and creditor balances are recorded using manual records which are journalled onto the ledger at year end. This has resulted in the audit of these areas taking longer than expected and consequently used more audit resource than expected. We experienced difficulties in testing debtor and creditor balances in our 2006/07 and made a recommendation in our report. Recording balances on the ledger would both reduce audit resource spent on this area and facilitate access to information for both audit and management.

Recommendation 4: Records of debtor and creditor balances

The Authority should review its year-end accounting processes for debtor and creditor balances to ensure that there is a clear trail to supporting evidence.

Building control account

The Authority has a statutory obligation to maintain an account for building control services and must set charges which enable the chargeable areas of the service to break even over a three-year period. The Authority's building control account has a cumulative deficit over the three years ending March 2008 of £962,000.

In 2006/07, we recommended that the Authority review its charges for work operated through the account to ensure that they reflect actual costs. We reiterate this recommendation.

Recommendation 5: Building control account charges

The Authority should undertake a review of charges for work operated through its building control account so that regulations are complied with and the account breaks even over a three year period.

Capitalisation of expenditure on void properties

The Authority capitalised significant amounts of expenditure on void properties in 2006/07 but was unable to provide information on the exact nature of the expenditure or which properties it related to. We therefore obtained management representation that this expenditure was capital in nature and made a recommendation that a policy be written on what expenditure on voids would be capitalised.

The Authority has provided us with a policy and also provided a breakdown of works capitalised this year. The policy states that expenditure which maintains, rather than enhances, properties, such as redecoration and gas servicing, is not capitalised. Our testing identified that some expenditure of this nature that has been capitalised, though we do not believe that the total amount would be material.

Recommendation 6: Capitalisation of voids expenditure

The Authority should consistently apply its accounting policy for capitalisation of expenditure on void property, ensuring that expenditure which only maintains, and does not enhance, properties is excluded.

Accounts and Annual Governance Statement

Disclosures

The SORP requires authorities to make various disclosures in its accounts. The Authority's statement of accounts is long in comparison with other authorities'. Whilst our main task is to assess accounts for compliance with accounting standards and the requirements of the SORP, we also assess whether the accounts provide useful and accessible information to the reader. Given the length of the Authority's financial statements, it would be beneficial to consider where simplifications can be made.

Recommendation 7: Accounts disclosure

The Authority should review disclosures in accounts and determine whether any information included is not needed or could be presented in a more user-friendly way.

Task 7: Opinions and Representations

As part of the finalisation process we are required to provide the Authority with representations concerning our independence and ability to act as its auditors. We have provided this at Appendix 7.

The responsible financial officer, duly authorised by the Audit Committee, is required to provide us with representations on specific matters such as the Authority's financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We provided a draft of this representation letter in Appendix 8. Once we have received this we will issue our audit opinion.

Section 3

Use of resources

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing their adequacy and effectiveness. Our responsibility is to review whether adequate arrangements are in place. Our findings are summarised in our Use of Resources conclusion.

For each of 12 criteria specified by the Audit Commission, we review whether the criterion has been met. Where all criteria have been met, we issue an unqualified conclusion; where a small number of criteria are not met, we issue a conclusion which states in which criteria the deficiencies lie. Where only a small number of criteria are not met, we conclude that the Authority does have adequate arrangements overall, except for certain specified criteria (an "except for" conclusion); where a greater number of criteria are not achieved, we conclude that arrangements are not adequate (an "adverse" conclusion).

In 2007, we concluded that eight criteria were not met and issued an adverse conclusion. The Authority has implemented a range of measures which should help improve in the areas of deficiency, so we will need to assess whether these were sufficiently embedded to enable the Authority to pass more criteria this year. This work is still in progress at present, so have not yet determined what conclusion we will be give. Our intention is to issue the conclusion alongside the accounts opinion prior to the end of September 2008. We will update officers and the Audit Committee orally as work progresses.

Appendix 1: Proposed audit report

Independent auditor's report to the members of Northampton Borough Council

Opinion on the statement of accounts

We have audited the authority statement of accounts and related notes of Northampton Borough Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority's statement of accounts comprises the Explanatory Foreword, Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the authority Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. The statement of accounts has been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to Northampton Borough Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Northampton Borough Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than [name of Council], as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Responsible Financial Officer and auditor

The Responsible Financial Officer responsibilities for preparing the statement of accounts in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the statement of accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Authority statement of accounts presents fairly the financial position of Northampton Borough Council and its income and expenditure for the year in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007.

We review whether the governance statement reflects compliance with "Delivering Good Governance in Local Government: A Framework" published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the statement of accounts. we are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the *Code of Audit Practice* issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority's statement of accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the authority statement of accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Authority's statement of accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Authority's statement of accounts and related notes.

Opinion

In our opinion:

The Authority's statement of accounts presents fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

KPMG LLP

Chartered Accountants

Appendix 2: Audit differences

We are required by ISA (UK and Ireland) 260 *Communication of Audit Matters to Those Charged with Governance* to communicate all uncorrected misstatements, other than those that we believe are clearly trivial, to the Audit Committee. We are also required to report all material misstatements that management has corrected but that we believe should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

This appendix sets out the audit differences identified by our audit of Northampton Borough Council for the year ended 31 March 2008.

Adjustments to the accounts

Adjustments arising from the audit are detailed below. Officers have agreed to adjust the accounts in each case; there are no unadjusted differences at this stage.

Impact		Basis of audit difference
Income and expenditure	Balance sheet	
Dr Collection Fund – Bad debt expense £35k	Cr Collection fund debtors – NNDR bad debt provision £35k	Arrears arising in 2007/08 have been omitted from the calculation of the NNDR bad debt provision
	Dr Creditors £81k Cr Debtors £81k	Construction Industry Tax has incorrectly been credited to debtors accounts.
Dr HRA I&E – rent rebates transfer to GF £65k	Cr Creditors – government departments £65k	Rent rebate subsidy limitation has been calculated on incorrect basis.
	Dr Useable capital receipts £390k Cr Creditors – government departments £390k	The Authority has agreed to repay housing capital receipts that were under dispute with DCLG.
	Dr Creditors – deposits £196k Cr Useable capital receipts £196k	The Authority has a deposit in its creditor balances from a contractor dating back to 1982. The contractor has since gone bust and it is very unlikely that these liability will be realised.

Appendix 3: Action plan

This appendix summarises our recommendations. We have given each one a risk rating (as explained below) and agreed with management what action they will take.

Priority rating		
Priority one: issues that are fundamental and material to the Authority's system of internal control.	***Priority two***: issues that have an important effect on internal controls.	***Priority three***: issues that would, if corrected, improve internal control in general but are not vital to the overall system.

	Risk	Issue and recommendation	Management response	Officer and due date
1	(two)	**Working papers and the accounts closedown process** The Authority should review its accounts closedown timetable and consider whether sufficient time is built into the timetable to produce working papers.	The accounts closedown timetable is reviewed every year to adjust for known issues. The closedown timetable for 2007/08 was affected by the changes to fixed asset accounting which had a knock-on effect on the revenue account because of capital charges. This resulted from errors in the software employed by the Council and the resultant delays affected most areas of the timetable. This issue could not have been foreseen when the timetable was produced. A review will be undertaken as normal.	Bill Lewis February 2009
2	(two)	**Provision for doubtful debts** The Authority should assess the recoverability of its debtor balance and should use this information to determine its provision for doubtful debts.	Where possible, the Authority will perform an assessment of the debtor balance and this will inform the provision for doubtful debts.	Phil Morrison March 2009
3	(one)	**HRA rent collection reporting** The Authority's HRA financial monitoring should systematically include details on rent collection and arrears. The reports should include details of arrears for both current and former tenants.	Reporting to members on the collection of rent is already being developed and will be incorporated into regular budget monitoring reports alongside the reporting on garage rents which has already been introduced as a pilot.	Phil Morrison November 2008
4	(two)	**Records of debtor and creditor balances** The Authority should review its year-end accounting processes for debtor and creditor balances to ensure that there is a clear trail to supporting evidence.	The Authority recognises that more improvements are necessary in this area. These improvements are to be built in during the review of the financial system and the in-year reconciliations of balance sheet accounts which are being introduced.	Bill Lewis January 2009

Appendix 3: Action plan

This appendix summarises our recommendations. We have given each one a risk rating (as explained below) and agreed with management what action they will take.

Priority rating		
Priority one: issues that are fundamental and material to the Authority's system of internal control.	***Priority two***: issues that have an important effect on internal controls.	***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system.

	Risk	Issue and recommendation	Management response	Officer and due date
5	● (two)	**Building control account charges** The Authority should undertake a review of charges for work operated through its building control account so that regulations are complied with and the account breaks even over a three year period.	The charges will be reviewed during the 2009/10 budget setting process. Charges will be revised if the Authority is able commercially to do so.	Ann Davies February 2009
6	● (two)	**Capitalisation of voids expenditure** The Authority should consistently apply its accounting policy for capitalisation of expenditure on void property, ensuring that expenditure which only maintains, and does not enhance, properties is excluded.	Guidelines have been drafted for Housing Capital expenditure which are subject to consultation. The council already consistently applies this policy by ensuring that only expenditure of a capital nature are capitalised. This expenditure will include ancillary works such as redecoration which are necessary as part of the project; where the work cannot be demonstrated to be part of a capital project it will remain in revenue.	N/A
7	● (two)	**Accounts disclosure** The Authority should review disclosures in accounts and determine whether any information included is not needed or could be presented in a more user-friendly way.	The Authority believes that the disclosures it makes are in compliance with SORP and any additional information includes aids the reader of the accounts. Any suggestions for removing disclosure will be considered.	Bill Lewis

Appendix 4: Prior year recommendations

This appendix summarises the progress made to implement the recommendations we identified in our previous reports. We have given each one a risk rating as explained in Appendix 4.

	Risk	Issue and recommendation	Management response	Status at Sept 2008
1	● (two)	Working Papers We issued a "Prepared by Client" (PBC) request that set out a list of supporting documentation required for our final accounts audit. A number of working papers were not available at the start of the audit and those that were available did not provide sufficient detail as required by our PBC. The Council should ensure the financial statements are supported by documentation at the start of the audit.	The working papers were improved for the 2006/07 final accounts production. It is recognised that there are still some areas for improvement and the quality of year end working papers will continue to be a focus of the year end process for 2007/08.	Whilst the quality control procedure has contributed to some improvement in working paper quality, significant delays to the audit have been caused by final versions of working papers being provided significantly after the audit start date. **Partially implemented.**
2	● (one)	Our review of the fixed asset register revealed a number of differences between the register and balances stated in the ledger, which were accounted for as 'balancing adjustments'. The Authority should seek to resolve this query and consider the impact on financial planning.	A review of the fixed asset register and the accounting for capital assets will be undertaken by the new capital accountant to incorporate the changes required in the SORP for the 2007/08 accounts.	The Authority has successfully reconciled the fixed asset register to the general ledger and in the process established the reasons for previously unexplained reconciling items. **Implemented.**
3.	● (two)	The payroll is now run through a module of the general ledger, Agresso. However there is still a need for reconciliation of the payroll module to the general ledger as not all pay related transactions are performed in the payroll ledger. No such reconciliation is currently performed. The Council should ensure that reconciliations between modules within IT packages are carried out.	A small reconciliation team has been formed as part of the new finance structure. A reconciliation process is being drawn up and reconciliations will be undertaken on a monthly basis.	The payroll has been satisfactorily reconciled to the general ledger. **Implemented.**
4	● (two)	A significant number (over 50%) of Internal Audit's recommendation raised in 2005/06 on the fundamental financial systems have not been implemented to date. Consequently, there is a risk that weaknesses in systems are not being controlled appropriately so that information included in the accounts may be inaccurate. The Council should ensure that actions agreed in response to recommendations raised by Internal Audit are implemented on a timely basis.	A monitoring system to track the progress of internal audit recommendations has been implemented in conjunction with internal audit. Actions are now being proactively tracked.	The Team Central system for tracking recommendations is now in place and will facilitate review by senior officers and the Audit Committee to ensure that recommendations are promptly implemented. Once robust information is available from Team Central, we will need to follow up whether the Authority has been able to improve the proportion of recommendations. **Implemented.**

Appendix 4: Prior year recommendations

No.	Risk	Issue and recommendation	Management response	Status at Sept 2008
5	● (two)	The bad debt provision is calculated using percentages set out in guidance which is several years out of date. Current CIPFA guidance says that the provision for bad debts should be set on the basis of a local assessment of the recoverability of debts. An assessment of the recoverability of different classes of a debt should be performed to allow a more accurate provision for bad debts to be set (or to confirm the Authority is content with the current approach).	The calculation of and accounting for the bad debt provision and write offs was reviewed during the 2006/07 financial year and was implemented for the 2006/07 closedown. A further review will be carried out when the Sundry Income system is upgraded to identify improved management information.	The Authority has not reviewed its methodology for providing for bad debts. **Not implemented.**
6	● (two)	The Authority introduced a new computer system (Northgate) in January 2006 to process Council Tax and Benefits. It is currently possible for a new property to be created on the system without linking to a liable individual. There is therefore a risk that new properties are input on the system without a bill being produced. Reconciliation should be performed of the number of properties to liable individuals. This will ensure that all properties are billed for.	Reconciliations and controls to mitigate any risks discovered will be implemented.	We are satisfied that there are adequate compensating controls in place. **Implemented**
7	● (two)	HRA rent arrears as at 31st March 2007 represented 7.6% of the year's gross debit. Current tenant arrears have increased by 11% since the year end. A review should be undertaken of the arrears recovery process to ascertain what steps could be taken to reduce the level of arrears.	A new Housing Management System is currently being implemented. This system will allow for the improved management of rent arrears.	The arrears position at 31 March 2008 is worse than the corresponding position a year ago. This is subject to a recommendation. **Not implemented.**
8	● (two)	We identified a number of debtor and creditor balances requiring amendment. 'Contra' accounts are used in the general ledger to track reallocation between codes. However, this current system does not provide a clear audit trail as to the final debtor and creditor balances. The system for reallocation should be reviewed to reduce the number of debtor and creditor accounts and to ensure accounts record the correct balance.	Reconciliations and the presentation of information will be reviewed for 2007/08.	We have again experienced difficulties in testing debtor and creditor balances, though not directly related to this point. **Not implemented.**
9	● (two)	The Cash flow statement was compiled using a complicated model. Efficiencies could be realised by simplifying the compilation of the cash flow. The method for compiling the Cash flow statement should be reviewed with a view to simplifying it.	This Cash flow Statement model was first implemented for 2006/07 final accounts and will be reviewed before using the model for the 2007/08 final accounts.	We are yet to review the cash flow statement.

Appendix 4: Prior year recommendations

No.	Risk	Issue and recommendation	Management response	Status at Sept 2008
10	● (two)	There is an ongoing (since 2004/05) query with DCLG regarding the pooling of HRA capital receipts. The Authority should seek to resolve this query and consider the impact on financial planning.	The Authority has retained a level of capital receipts to enable repayment of the disputed amount and there will therefore be no detrimental impact on financial planning. The Authority is currently in discussion with its advisors to seek resolution of this matter.	The Authority has agreed to repay those receipts under dispute. **Implemented.**
11	● (one)	Capital expenditure is not monitored by Cabinet during the year. An outturn report had not been presented to Council as at 19th September 2007. Performance reporting to Members should be enhance to include key financial information including capital expenditure against the capital programme and collection rates of Council Tax and NNDR.	A capital outturn report will be produced for the November Cabinet meeting and capital monitoring reports will be produced for Cabinet on a monthly basis. The introduction of performance reporting to include key financial information will be considered.	Capital expenditure is now monitored and reported to Cabinet through the year. **Implemented.**
12	● (one)	In pursuing rental arrears, some cases are referred to court. Current practice is that cheques payable to HMCS are written in bulk, stored in a drawer and sent to HMCS when required. Cheques should only be produced when required.	The system has been reviewed and cheques are now requested when required.	We understand this practice has now ceased. **Implemented.**
13	● (one)	Our review of the bank reconciliation revealed a number of errors and issues. Reconciling items were incorrectly recorded, BACS transfers were shown as unpresented and several cancelled cheques were shown as unpresented. The Authority should review its quality control process over the bank reconciliation and ensure an effective review of the completed reconciliation is performed.	Bank reconciliations were improved for 2006/07 and the review process is still underway. Quality control procedures and management review are being introduced.	The Authority has performed one bank reconciliation covering the whole year. Whilst we are happy that reconciliation has been performed satisfactorily, we would expect this control to be performed each month. This is subject to a recommendation. **Partially implemented.**
14	● (two)	We identified a number of leases which were not disclosed in the accounts. The SORP contains requirements on disclosing all leases and their classification as either operating or finance leases. A central register of all leases should be maintained. This will facilitate the accounts production process and enable effective monitoring of leases.	A central register of leases will be implemented.	The Authority maintains a central register of leases. We have not identified any leases not disclosed in the accounts. **Implemented.**

Appendix 4: Prior year recommendations

No.	Risk	Issue and recommendation	Management response	Status at Sept 2008
15	● (one)	The Authority operates a Building Control Account. Government regulations state that authorities must ensure income matches expenditure over a three year period on chargeable work. The chargeable account has operated at a deficit for the past three years with a cumulative deficit of £211,000. The Authority should review income and expenditure making up charges for the chargeable work operated through the Building Control account in the context of Government regulations.	Building Control charges and related expenditure will be reviewed during the 2008/09 budget setting process.	The Authority has not reviewed charges and consequently has operated the function at a deficit again in 2007/08. **Not implemented.**
16	● (one)	In 2006/7 major works were carried out on void properties within the HRA amounting to approximately £2m which was capitalised. The Authority does not have a policy for determining what works should be capitalised nor is there a schedule, by property, showing the works undertaken and the related costs. We obtained management representation that the expenditure was capital in nature. The Authority should determine what its policy is for capitalising such works and maintain schedules by property of what has been capitalised.	The Authority has retained a level of capital receipts to enable repayment of the disputed amount and there will therefore be no detrimental impact on financial planning. The Authority is currently in discussion with its advisors to seek resolution of this matter.	The Authority has written a policy and provided us with a breakdown of capitalised expenditure. However our testing identified that items of expenditure are being capitalised which are not within the scope of its policy, though the amount is not likely to be significant. **Partially implemented.**

Appendix 5: Declaration of independence and objectivity

Declaration of Independence and Objectivity 2007/08

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* ("the *Code*") which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Audit Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired"

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the *Code*, the detailed provisions of the Statement of Independence included within the Audit Commission's *Annual Letter of Guidance and Standing Guidance* (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The *Code* states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 *Communication of Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

Appendix 5: Declaration of independence and objectivity

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor Declaration

In relation to the audit of the financial statements of Northampton Borough Council for the financial year ending 31 March 2008, we confirm that there were no relationships between KPMG LLP and the Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

Appendix 6: Draft management representation letter

Dear KPMG LLP,

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other members of the Council, the following representations given to you in connection with your audit of the financial statements for Northampton Borough Council for the year ended 31 March 2008.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by Northampton Borough Council has been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management and Board meetings, have been made available to you.

We confirm that we have disclosed all material related party transactions relevant to the Council and that we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Council to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2008.

We acknowledge that we are responsible for the fair presentation of the financial statements in accordance with the Local Government Statement of Recommended Practice ("SORP") and wider UK accounting standards. We have considered and approved the financial statements.

We confirm that we:

- understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;
- are responsible for the design and implementation of internal control to prevent and detect fraud and error;
- have disclosed to you our knowledge of fraud or suspected fraud affecting the Council involving:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others; and
- have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with applicable reporting standards. The amounts disclosed represent our best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures.

We confirm that there are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

Appendix 6: Draft management representation letter

- Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter was tabled at the meeting of the Audit Committee on 25 September 2008.

Yours faithfully

[Name of Executive Director signing letter on behalf of Council]

On behalf of the Council