



INFRASTRUCTURE, GOVERNMENT  
AND HEALTHCARE

**Report to those  
charged with  
governance  
2008/09**

Northampton Borough  
Council

September 2009

AUDIT

The contacts at KPMG in connection with this report are:

## **Mike McDonagh**

Partner  
KPMG LLP (UK)  
Tel: 0121 335 2440  
Mobile: 0790 158 0525  
michael.a.mcdonagh@kpmg.co.uk

## **Ian Skipp**

Senior Manager  
KPMG LLP (UK)  
Tel: 0121 232 3694  
Mobile: 0797 947 2213  
ian.skipp@kpmg.co.uk

## **Peter Evans**

Assistant Manager  
KPMG LLP (UK)  
Tel: 0121 232 3320  
Mobile: 0788 766 1928  
peter.evans@kpmg.co.uk

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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 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

### Scope of this report

The Audit Commission's Code of Audit Practice (the Code) requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified and we report to those charged with governance (in this case the Audit Committee) at the time they are considering the financial statements. We are also required to comply with International Standard on Auditing (ISA) 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements. It summarises the key issues identified during our audit of Northampton Borough Council's ('the Authority's') financial statements for the year ended 31 March 2009. In addition, this report summarises our assessment of the Authority's arrangements to secure value for money in its use of resources.

This report does not repeat matters we have previously communicated to you. In particular, we draw your attention to our *Interim Audit Report 2008/09*, presented to you on 23 June 2009, which summarised our planning and interim audit work. A summary of all reports we have issued in the year is set out in Appendix 9. Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

### Summary of findings

#### *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.

We are required to conclude whether the Authority has adequate arrangements in place to ensure effective use of its resources. This assessment draws on the findings from the new use of resources assessment framework introduced by the Audit Commission.

The new use of resources framework has been revised by the Audit Commission for 2008/09 and is significantly more challenging than the previous assessment. It assesses local authorities against three themes: managing finances, governing the business and managing resources. The Authority has been assessed overall as performing adequately against these themes.

Based on this, we have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have assessed the Authority as achieving a score of 2 overall and that it is fulfilling the basic requirements of the use of resources assessment. The new framework focuses on delivery of outcomes in determining that an Authority 'performs well' and goes beyond fulfilling the basic requirements.

Our key findings from this year's assessment is as follows.

The Authority continues to make improvements in all areas of the assessment and has achieved scores of 2 across all KLOEs. The Authority has improved its score with respect to financial reporting. Notably, this improvement has been achieved against more challenging assessment criteria in the current year. There has been however a reduction in scores in some sub-KLOEs. This reduction is due to a shift in the boundary of scores rather than deterioration of performance and reflects the need for the Authority to ensure that robust systems and processes deliver levels of service above the average if it wishes to achieve higher scores. Other key findings from our assessment include the need for the Authority to ensure that internal control is strengthened, for example actioning internal and external audit recommendations on the control environment in a timely manner; that it assesses its fixed assets to ensure they are being used effectively in delivery of services; and that it implements Single Status.

Our findings are detailed in Section two and Appendix two of this report and our proposed conclusion is set out in Appendix one.

#### *Financial statements*

The Authority is responsible for having in place effective systems of internal control which 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 Statement of Governance with its financial statements.

In contrast to previous years, we received a full set of working papers in support of the accounts at the start of our visit on 27 July 2009. In addition, the quality of working papers provided this year has also improved. Consequently the audit process has been smoother than in previous years and we are at a more advanced stage of completion than at the equivalent point in previous years.

Our key findings from our audit of the financial statements is as follows:

## Executive summary (continued)

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### *Impairments*

The Authority has reviewed its housing stock and determined that market values have decreased and impaired the housing stock by £105m. The valuer has also reviewed other land and building assets and impaired where there are indications that market values have decreased. We have reviewed the valuer's methodology and are satisfied that the housing stock and other land and buildings are not materially misstated.

### *Provision for doubtful debts*

We have also reviewed the Authority's provision for doubtful debts. We have previously recommended that the Authority review its methodology for providing for doubtful debts by performing a robust assessment of the recoverability of its debts, however the provision has been calculated on the same basis as in previous years. In light of changes in the economic climate we have compared the Authority's provision for Collection Fund arrears with other authorities and applied analysis of other authorities' provisions to Northampton Borough's arrears. Officers have not adjusted the accounts, however we do not consider the level of potentially unprovided bad debts to be material to the accounts.

### *Single Status*

The Authority has agreed with Unions an implementation date for Single Status of 1 April 2010. Pay modelling is not yet complete, therefore the Authority will need to closely monitor progress to determine the actual financial implications of implementing Single Status.

### *Changes to the 2008 Local Government Statement of Recommended Practice ('SORP')*

The 2008 SORP includes a number of changes, including a change in the valuation basis for pension assets and prohibiting the revaluation of fixed assets on disposal. The Authority has implemented most of the changes correctly. Deferred charges have been removed and replaced with revenue expenditure funded from capital under statute. The change in valuation basis of pension fund assets has been correctly accounted for, as has the introduction of Area Based Grant. We have requested a change related to a clarification in the SORP on revaluing council houses prior to sale which officers have agreed to change.

### *Disposal of trade waste service*

The Authority has accounted for the sale of this service to a third party during the year for £840,000 as a capital disposal. The sale comprised the sale of the business and associated assets. The assets were limited to the bins used in collection. We have reviewed this treatment and agree that it is correct.

### *Unallocated cash*

Included in the accounts are approximately £650,000 of unallocated cash balances. We identified unallocated balances in the 2007/08 accounts of approximately £760,000 and made a recommendation that the Authority allocate it to debtor accounts. Some progress has been made in clearing this balance however further receipts in 2008/09 have not been allocated to accounts and the amount is still significant.

Our findings are detailed in section 3 and our proposed opinion on the accounts is presented in Appendix 4.

### *Status of the audit*

At the date of this report our audit of the financial statements is substantially complete subject to resolution of a small number of queries relating the HRA and benefits expenditure and completion of our final audit procedures such as whether our audit differences have been actioned and the review of any post balance sheet events that may affect the financial statements for the year ended 31 March 2009 up to the date we sign our audit opinion. In addition, prior to us issuing our audit opinion, we require a signed management representation letter, and have provided a draft version as Appendix 12.

### *Declaration of independence and objectivity*

In relation to the audit of Northampton Borough Council for the year ending 31 March 2009, we confirm that there were no relationships between KPMG LLP and Northampton Borough Council, its directors and senior management and its affiliates that 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 10 in accordance with ISA 260.

## Executive summary (continued)

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### *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, then we are required to report them to you and to issue a draft opinion on the financial statements.

At present there are no issues that would cause us to delay the issue of our certificate of completion of the audit.

### *Fees*

Our fee for the audit is £221,500. This has been contained within the fee agreed with you in our audit plan. In addition to our external audit fee, the Authority have engaged us on a time and cost basis to prepare and submit a claim to HMRC on behalf of the Authority for overpaid VAT. Our work in relation to this claim is ongoing.

### **Acknowledgements**

We would like to take this opportunity to thank officers and members for their continuing help and co-operation throughout our audit work.

## Use of resources

**We are required to conclude whether the Authority has adequate arrangements to ensure effective use of its resources. This assessment draws on the new use of resources assessment framework introduced by the Audit Commission.**

**The new framework assesses local authorities against three themes: managing finances, governing the business and managing resources and the Authority has been assessed as performing adequately against these themes**

**Based on this, we concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.**

### Introduction

In our *Annual Audit and Inspection Plan 2008/09* we outlined the work streams which we complete to assess the adequacy of your arrangements which ensure that your resources are deployed effectively. Our conclusion is based on these work streams, our cumulative audit knowledge and any specific local risk work, as detailed below.

### The new use of resources assessment

The Audit Commission introduced a new assessment this year. This assesses how well organisations are delivering value for money and better and providing sustainable outcomes for local people. This new assessment forms part of the Comprehensive Area Assessment (CAA) framework. It defines use of resources in a broader way than previously, embracing the use of natural, physical and human resources. It also places a new emphasis on commissioning services for local people. This is wider than the previous assessment which focused on systems and processes and is a significantly harder test and outcome focussed. As a consequence it is not possible to make direct comparisons with the previous year's assessment.

The assessment is based on three Key Lines of Enquiry (KLOEs) themes which cover:

- **Managing finances** - focusing on sound and strategic financial management;
- **Governing the business** - focusing on strategic commissioning and good governance; and
- **Managing resources** - focusing on the effective management of natural resources, assets and people.

The scoring of the themes ranges from one (performing inadequately) to four (performing exceptionally).

### Findings

We have assessed the Authority as an overall score of level 2 which means the Authority is performing adequately.

The table below shows our Use of Resources assessment across the three themes.

KLOE	Theme Score
1 – Managing finances	2
2 – Governing the business	2
3 – Managing resources	2

The scores have been quality checked by KPMG's national quality control processes, through a local area based challenge process. In addition these scores will be subject to review and sign off by the Audit Commission as part of their quality control and consistency procedures.

The Authority continues to make improvements in all areas of the assessment and has achieved scores of 2 across all KLOEs. The Authority has improved its score with respect to financial reporting. Notably, this improvement has been achieved against more challenging assessment criteria in the current year. There has been however a reduction in scores in some sub-KLOEs. This reduction is due to a shift in the boundary of scores rather than deterioration of performance and reflects the need for the Authority to ensure that robust systems and processes deliver levels of service above the average if it wishes to achieve higher scores. Other key findings from our assessment include the need for the Authority to ensure that internal control is strengthened, for example actioning internal and external audit recommendations on the control environment in a timely manner; that it assesses its fixed assets to ensure they are being used effectively in delivery of services; and that it implements Single Status.

## Use of resources (continued)

### Recommendation 1: Use of Resources assessment

The Authority should review the findings of the Use of Resources assessment and put in place an action plan to improve areas where the assessment highlighted weaknesses. In particular the Authority should focus on:

- systematically reviewing services to understand costs, drive efficiencies and improve performance;
- improve management of its asset base;
- ensure that robust performance information drives service improvements;
- strengthen its system of internal control;
- tackle staff sickness levels;
- and implement Single Status.

The action plan should be monitored by the Audit Committee.

The Authority should also implement recommendations from our 2007/08 assessment which have not yet been implemented.

### Use of resources (value for money) conclusion

We are required to give an annual conclusion on the adequacy of the Authority's arrangements to ensure effective use of its resources. This is the use of resources or value for money (VFM) conclusion

For 2008/09, the KLOEs for the scored use of resources assessment directly map to the criteria for the VFM conclusion. The Audit Commission has specified which of the KLOEs will form the relevant criteria for the VFM conclusion and these are summarised in Appendix 3.

Based on our use of resources assessment, we conclude that the Authority has appropriate arrangements in place to ensure the effective use of its resources. Our proposed conclusion is set out in Appendix 1.

## Financial statements

The Authority is responsible for having effective 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 Statement of Governance with its financial statements.

We have substantially completed our work on the 2008/09 financial statements.

We have noted an improvement in the quality of the accounts and the supporting working papers. There are a small number of areas where our work is continuing. Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2009.

We will also report that the wording of your Annual Statement of Governance accords with our understanding of the Authority.

### Introduction

Our financial statements work can be split into four phases. We previously reported on our work on the first two stages in our *Interim Audit Report 2008/09* issued 23 June 2009.

Stage	Tasks	Timing	Completed
Planning	<ul style="list-style-type: none"> <li>Updating our business understanding and risk assessment</li> <li>Assessing the organisational control environment</li> <li>Issuing our accounts audit protocol</li> </ul>	December 2008 to February 2009	✓
Control evaluation	<ul style="list-style-type: none"> <li>Reviewing the accounts production process</li> <li>Evaluating and testing controls over key financial systems</li> <li>Review of internal audit</li> </ul>	March to April 2009	✓
Substantive testing	<ul style="list-style-type: none"> <li>Planning and performing substantive work</li> <li>Evaluating the accounts production and audit process</li> <li>Concluding on critical accounting matters</li> <li>Identifying audit adjustments</li> <li>Reviewing the Annual Governance Statement</li> </ul>	July to September 2009	✓
Completion	<ul style="list-style-type: none"> <li>Declaring our independence and objectivity</li> <li>Obtaining management representations</li> <li>Reporting matters of governance interest</li> <li>Ensuring any outstanding audit queries are resolved</li> <li>Forming our audit opinion</li> </ul>	September 2009	-

This report focuses on the substantive testing and completion stages.



## Financial statements (continued)

### Substantive testing – accounts production and audit process

As part of our use of resources assessment we assess the Authority's process for preparing the accounts and its support for an efficient audit. We considered these against three criteria:

Element	Commentary
Completeness of draft accounts	The draft set of accounts was presented to Cabinet on 29 June. These accounts did not include a complete Cashflow; however a complete set of accounts was available at the start of our audit on 27 July.
Quality of supporting working papers	Our Accounts Audit Protocol, which we issued in March, set out our working paper requirements for the audit. The quality of working papers has improved from previous years.
Response to audit queries	The majority of additional audit queries were resolved in a reasonable time. We had weekly meetings with finance officers to discuss progress and adjustments identified.

### Substantive testing – critical accounting matters

Our Interim Audit Report included the key accounting issues for 2008/09 financial statements. We have now completed our testing of these areas and the outcome of our work is summarised in Appendix 6. The key findings arising are:

#### *Accounting estimates and valuations*

The Authority has reviewed its housing stock and determined that market values have decreased and impaired the housing stock by £105m. This level of impairment is consistent with other local authorities. The valuer has also reviewed other land and building assets and impaired where there are indications that market values have decreased. We have reviewed the valuer's methodology and are satisfied that the housing stock and other land and buildings are not materially misstated.

We have also reviewed the Authority's assessment of the recoverability of debt and its provision for doubtful debts. With the exception of the Collection Fund debts we are satisfied that other provisions are adequate.

#### *Single Status*

The Authority has agreed with Unions an implementation date for Single Status of 1 April 2010. Pay modelling is not yet complete, therefore the Authority will need to closely monitor progress to determine the actual financial implications of implementing Single Status.

#### *Compliance with the 2008 Statement of Recommended Practice on Local Authority Accounting the UK (SORP):*

The 2008 SORP includes a number of changes, including a change in the valuation basis for pension assets and prohibiting the revaluation of fixed assets on disposal. The Authority has implemented most of the changes correctly. Deferred charges have been removed and replaced with revenue expenditure funded from capital under statute. The change in valuation basis of pension fund assets has been correctly accounted for, as has the introduction of Area Based Grant. We have requested a presentational change related to the sale of council dwellings.

#### *Disposal of trade waste service*

The Authority has accounted for the sale of this service to a third party during the year for £840,000 as a capital disposal. The sale comprised the sale of the business and associated assets. The assets were limited to the bins used in collection. We have reviewed this treatment against the SORP and are satisfied that the disposal has been correctly accounted for.

## Financial statements (continued)

### Substantive testing – adjustments to the accounts

In accordance with ISA 260 we are required to report non-trifling uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We have identified a number of adjustments which, in aggregate, we consider material. Officers have agreed that these are all to be adjusted. These adjustments are highlighted in appendix 5.

We have also identified the following issues which have not resulted in adjustments.

#### *Accruals for expenditure at year end*

Our testing of creditor balances identified numerous small errors:

- orders raised across more than one ledger code caused errors in the goods received process resulting in duplicate good received notices (GRNs) on the ledger and causing an accrual to be raised where payment had been made;
- some invoices received after the year end had been accrued for as 2008/09 expenditure in error; and
- some accruals for expenditure from orders raised on the Uniclass system have been made in error where orders have been cancelled.

Our audit testing established that the error is not material to the accounts. Accordingly, we have not requested an adjustment.

#### **Recommendation 2: Year end accruals**

The Authority should review the process for making accruals. The ledger should be amended to allow orders to be raised across more than one code without duplicate accruals being made.

The Authority should ensure that staff posting accruals at the year end have sufficient training and knowledge as to when an accrual is needed.

The Authority should also ensure that staff processing orders on Uniclass have the necessary knowledge to process order cancellation.

#### *Revaluation of fixed assets*

The SORP requires that all fixed assets are revalued within a five year period. The Authority has a programme of revaluations to cover all assets over this timeframe. Our testing identified assets which had not been revalued in the past five years. Our audit testing established that any revaluation of these assets would not create a material adjustment to the accounts.

#### **Recommendation 3: Rolling revaluation programme**

The Authority should revise the process for its programme of rolling revaluations to ensure that all assets are covered in a five year period.

#### *Unallocated cash balances*

Our testing of credit balances on debtor accounts identified approximately £650k of cash which had not been allocated to individual debtor accounts. Whilst this does not result in an misstatement of the Authority's net financial position, it can lead to difficulties when trying to recover debt that has already been paid. We identified the same issue in 2007/08. Whilst some progress has been made in reducing the level of unallocated cash, the volume of unallocated cash is still significant and we have therefore repeated last year's recommendation below.

#### **Recommendation 5: Allocation of cash receipts**

In order to ensure accurate debt recovery is being made, the Authority should ensure that unallocated cash is linked to the relevant debtor's account. Given the size of the unallocated cash and the length of time this recommendation has been outstanding, the Authority should set itself a deadline of clearing the unallocated cash within three months.

## Financial statements (continued)

### HRA, General Fund and Collection Fund arrears

The Authority calculates its provisions for doubtful debts by applying percentages to debtor balances by age on the basis of guidance from CIPFA which has since been withdrawn. We recommended in 2007/08 and 2006/07 that the Authority undertake an assessment of the real recoverability of its debt to calculate its provisions. We therefore reiterate this recommendation.

#### Recommendation 6: Provisions for doubtful debts

The Authority should review the recoverability of its debts with regard to historical trends and other factors such as the current economic climate and provide for doubtful debts on this basis.

In light of the current market conditions, for example increasing unemployment and increasing fuel and utility costs, we compared the provision with other authorities' provisions for doubtful Collection Fund debts and analysed provisions as a percentage of the total arrears. Whilst the current level of debt write offs has not materially changed and the Authority's credit control function has not deteriorated, given the current pressures faced by the Authority on debt collection due to wider economic factors, we consider that a review of the bad debt provisioning policy is appropriate. We have discussed this with officers who have not agreed to amend the provision. We do not however consider the level of potentially unprovided bad debts to be material to the accounts.

Rent arrears at 31 March 2009 stood at £3,386,000 representing 8.1% of annual rent debit, compared with a position at 31 March 2008 of 9.7% of annual debit. However £791,000 of arrears were written off during 2008/09. After adjusting for this write off, the percentage of arrears to rent debit would have increased by 1.9% to 10%. We raised a recommendation in our ISA 260 report for 2007/08 that HRA arrears be regularly reported to senior management and members. A report was presented to Audit Committee on 2 June 2009 on the level of rent arrears; however reporting should be scheduled on a regular basis, therefore this recommendation has been repeated below.

#### Recommendation 7: HRA rent arrears

The Authority's HRA financial monitoring should include details on rent collection, arrears and write-offs. This should cover both current and former tenants.

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2008: A Statement of Recommended Practice* ('SORP'). Officers have agreed to amend the accounts for these adjustments.

We have provided a summary of audit differences in Appendix 5.

We note that a number of our recommendations from our ISA 260 report and Annual External Audit Report for 2007/08 have not been implemented. To ensure that issues identified in this and our other reports, the Audit Committee should monitor implementation of our recommendations.

#### Recommendation 8: Implementation of external audit recommendations

Recommendations from external audit should be input onto the Authority's recommendation tracker system. Audit Committee should monitor implementation and set officers timeliness for their implementation.

### Substantive testing – Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements and knowledge of the authority, subject to amendment following discussion with officers.

## Financial statements (continued)

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### Completion – declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Northampton Borough Council for the year ending 31 March 2009, 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 10 in accordance with ISA 260.

### Completion – management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have included a copy of a representation letter as Appendix 11. We require a signed copy of your management representations before we issue our audit opinion.

For 2008/09 we are seeking specific assurance that sufficient and appropriate consideration has been given to potential impairments of the assets included in the accounts in light of the current macro economic climate and that, where any such impairment has been identified, it is reflected accordingly in the accounts. This includes compliance with the accounting policy for periodic revaluation of assets (under FRS 15), as well as the need for management to undertake a review of assets to determine whether there is any impairment to their value in accordance with FRS 11.

### Completion – other matters

ISA 260 requires us to communicate "audit matters of governance interest that arise from the audit of the financial statements" to you which includes:

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc); and
- other audit matters of governance interest.

There are no others matters which we wish to draw to your attention.

### Completion – opinion

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion by 30 September 2009.

Our proposed opinion on the financial statements is presented in Appendix 4.

## Appendix 1: Proposed use of resources conclusion

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### Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

#### Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice. Having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, we are satisfied that, in all significant respects, made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

**Michael McDonagh**

**for and on behalf of KPMG LLP**

Chartered Accountants

Statutory Auditor

2 Cornwall Street

Birmingham

B3 2DL

## Appendix 2: Use of resources key findings

This appendix summarises key messages from the use of resources assessment by theme and recommendations. The recommendations have been included in appendix 7.

### **KLOE 1 – Managing finances: overall score - 2**

The Authority has strengthened financial planning, management and reporting processes in recent years and fulfils the basic requirements across all areas of the KLOE. It now needs to use management of finances to drive improvements in key service areas and deliver corporate priorities.

As the Authority has scored level 2 for all criteria, it has met the requirements for the VFM conclusion.

#### **KLOE 1.1 – Financial planning – score: 2**

The Authority has developed its financial planning processes and has a track record of achieving its budget over recent years. It seeks to allocate resources to priorities through appraisal of policy decisions which rank options according to priorities though constraints on resources has limited the authority's ability to significantly invest in priorities. The Authority makes some use of sensitivity analysis in its Medium Term Financial Strategy though it is expanding this for future revisions. The Authority did not hold any investments with Icelandic banks during the year, though it has reviewed and revised its treasury management policies and procedures following the collapse of those banks.

The Authority needs to develop asset management to maximise utilisation of its assets and dispose of those which are not needed. It provides information on fees and charges though it needs to be able to demonstrate that these are set on a reasonable and robust basis.

#### **KLOE 1.2 – Understanding costs and achieving efficiencies – score: 2**

The Authority has an understanding of its costs and cost drivers but needs to ensure that analysis of costs is systematic and consistent across services and needs to understand and demonstrate whether its costs are comparable with other authorities with respect to the quality of service it provides. Four Strategic Business Reviews have commenced in 2009/10; the Authority needs to develop a programme of service reviews to develop this understanding for key services and use this information to drive service improvements and efficiency.

#### **KLOE 1.3 – Financial reporting – score: 2**

The Authority has improved its financial reporting processes. We received a full set of working papers in support of the accounts at the start of our audit and the audit process has gone more smoothly in previous years. The quality of working papers has also improved. This has contributed to an improvement of the Authority's score for this area from a score of 1 in previous years.

The financial statements are available in summary form and in formats for minority groups. It has also produced some information on its environmental impact. No annual report is produced and whilst performance reporting is accessible via the Authority's website, it is not presented in such a way as to easily assess how the Authority is performing with regard to its priorities.

The Authority's internal financial monitoring is timely and accurate. It now needs to use this to drive improvements in service delivery.

## Appendix 2: Use of resources key findings (continued)

### KLOE 2 – Governing the business: overall score - 2

The Council achieves the basics in all areas has shown leadership in the area in developing partnership arrangements. It needs to continue to strengthen its internal control and ensure that performance information is robust and drives service improvements.

As the Authority has scored level 2 or all criteria, it has met the requirements for the VFM conclusion.

#### KLOE 2.1 – Commissioning and procurement - score: 2

The Authority has set up in November 2008 and hosts the Northamptonshire Area Procurement Service (NAPS) in partnership with the other Northamptonshire local authorities. This has driven through some savings for the 2008/09 year, however the service has the potential to deliver outcomes and support corporate priorities going forward.

The Authority needs to systematically review how it delivers its key services and then use this information to explore how services could be better delivered through procurement.

#### KLOE 2.2 – Data quality and use of information – score: 2

The Authority has good data quality governance arrangements; responsibilities for data quality are defined, training programmes are in place and formal action plans are devised where weaknesses are identified. We undertook testing of two performance indicators and identified errors in in-year data. The performance team were aware of weaknesses in these areas and had put in place actions to rectify these going forward; however the Authority needs to ensure that training programmes for staff involved in the collection and processing of performance data is robust so that data used in the decision making process is accurate.

The Authority is able to demonstrate that performance information is being used to drive performance improvement; however it needs to demonstrate that this is delivering improved outcomes in key service areas.

#### KLOE 2.3 – Good governance – score: 2

The Authority has robust governance arrangements and it reviewed its Constitution in May 2008. It has training and development programme and appraisal process for Members, however it needs to extend this so that it covers all Members. Presently this is optional except for new Members. Member bodies should also more consistently review their own effectiveness. Staff and members are encouraged to report unethical behaviour and there are codes of conduct in place however the staff code is in need of updating.

The Authority has taken the lead in the Northamptonshire area in partnership working with other authorities, such as driving the creation of NAPS and the West Northamptonshire Joint Planning Unit. It needs to ensure that these partnership arrangements have defined and robust governance arrangements agreed with partners.

#### KLOE 2.4 – Risk management and internal control – score: 2

The Authority has improved its risk management processes and has updated its risk strategy during the year. Risk workshops are held for management to better align the risk register with corporate priorities and the Audit Committee have received training on risk management from Internal Audit. As the Authority improves risk management will need to support the delivery of more risky activities.

There remain weaknesses in the Authority's system of internal control. A recommendation tracker has been introduced which tracks implementation of Internal Audit recommendations to drive improvements in this area. The Authority's Internal Audit function complies with the CIPFA Code and we are able to place reliance on their work.

## Appendix 2: Use of resources key findings (continued)

### KLOE 3 – Managing resources: overall score - 2

The Council achieves the basics and has evidence of outcomes such as increased staff satisfaction. It needs however to address sickness absence and implement Single Status.

As the Authority has scored level 2 for 3.3, it has met the requirements for the VFM conclusion. District councils are not assessed on KLOEs 3.1 or 3.2 in 2009.

### KLOE 3.3 – Workforce planning - score: 2

The Council has restructured the senior management team to drive service improvement and has a formal HR strategy along with a formal competency assessment and personal development programme. A staff survey has shown improved levels of staff satisfaction; however the Authority acknowledges that staff sickness levels are too high and that this needs to be addressed.

Single Status has not yet been implemented, and although an implementation date of 1 April 2010 has been agreed with Unions, job evaluation and pay modelling is not yet complete. The Authority must therefore monitor the implementation plan closely over the coming months.



## Appendix 3: Use of resources criteria and link to VFM conclusion

The Audit Commission has specified which of the use of resources KLOEs form the criteria for the VFM conclusion. These criteria are summarised below.

Use of resources KLOE	Relevance to the Authority
<b>Managing finances</b>	
1.1 – Financial planning	✓
1.2 – Understanding costs and achieving efficiencies	✓
1.3 – Financial reporting	✓
<b>Governing the business</b>	
2.1 – Commissioning and procurement	✓
2.2 – Data quality and use of information	✓
2.3 – Good governance	✓
2.4 – Risk management and internal control	✓
<b>Managing resources</b>	
3.1 – Use of natural resources	X*
3.2 – Strategic asset management	X *
3.3 – Workforce planning	✓

\* District councils are not assessed on KLOEs 3.1 and 3.2 in 2008/09. Authorities are assessed on a rolling programme for Managing Resources. Next year the Authority will not be assessed on workforce planning.

## Appendix 4: Proposed audit report

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### Independent auditors' report to the Members of Northampton Borough Council

#### Opinion on the accounting statements

We have audited the accounting statements and related notes of Northampton Borough Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, and the Collection Fund. The accounting statements have 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 Northampton Borough 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 auditors

The Responsible Financial Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the accounting statements and related notes 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 accounting statements and related notes present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority and its income and expenditure for the year.

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 financial statements. 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.

We read other information published with the accounting statements and related notes and consider whether it is consistent with the audited accounting statements and related notes. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements and related notes. Our responsibilities do not extend to any other information.

## Appendix 4: Proposed audit report (continued)

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### 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 accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements 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 accounting statements 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 accounting statements and related notes.

### Opinion

In our opinion the accounting statements and related notes present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

**Michael McDonagh (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants  
Statutory Auditor  
2 Cornwall Street  
Birmingham  
B3 2DL

## Appendix 5: Audit differences

We are required by ISA 260 to report 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 have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

### Corrected audit differences

The following table sets out the significant audit differences identified by our audit of Northampton Borough Council's financial statements for the year ended 31 March 2009.

Income and expenditure	Statement of Movement on GF Balance	Impact			Basis of audit difference
		Assets	Liabilities	Reserves	
£3,083k Dr – HRA income £3,083k Cr – HRA expenditure					The HRA I&E has been consolidated incorrectly into the main I&E statement.
£232k Dr HRA General Management Expenditure £232k Cr HRA non-dwelling rents					General management expenditure has been incorrectly netted off non-dwelling rents in the HRA I&E.
		£666k Dr Surplus asset disposals and Council house transfers £666k Cr Council house disposals and surplus asset transfers			Council Houses have been incorrectly transferred to surplus assets prior to disposal.




## Appendix 6: Accounts risk areas

This appendix summarises the key accounting issues for the 2008/09 financial statements and our final findings following our substantive work.

Issue	Risk and implications	Findings during final audit
<p><b>Single Status</b></p> <p>The process of implementing Single Status has significant potential financial implications. These include the one-off costs of settling back pay claims, and also the ongoing increased payroll costs which typically arise from the revised pay structures.</p> <p>Failure to implement the Single Status agreement would expose the Council to the risk of equal pay claims, which would in themselves have a significant effect on its financial standing.</p> <p>The Authority has faced significant challenges in its work to implement the changes, and this has caused the implementation timetable to be delayed. This increases the financial risk to the Council.</p>	<p>The Authority faces the risk of legal challenge from unions and employees if implementation does not satisfy legislation.</p>	<p>The Authority consulted with relevant trades unions and has agreed on an implementation date of 1 April 2010 and that there will be no backdate of the settlement. The Authority has therefore correctly not made any provision.</p>
<p><b>Disposal of the trade waste service</b></p> <p>The Authority is seeking to sell its trade waste service as a going concern. Officers will need to consider the correct accounting treatment for the disposal.</p>	<p>There is a risk that the disposal will not be accounted for correctly.</p>	<p>The Authority has accounted for the sale of the service as a capital disposal. We have reviewed the sale and agree with this treatment.</p>
<p><b>Changes to the 2008 SORP</b></p> <p>The 2008 SORP will bring in changes to accounting requirements for the 2008/09 financial year. Whilst it has not yet been finalised, it is expected to introduce changes including:</p> <ul style="list-style-type: none"> <li>• new requirements on accounting for back pay arising from equal pay claims;</li> <li>• abolition of the concept of Deferred Charges; and</li> <li>• amended disclosure requirements for retirement benefits following the amendment of FRS17</li> </ul> <p>The Authority will need to review the changes once the SORP is finalised and determine what additional work will be needed to ensure that its accounts comply with the totality of SORP requirements, with a particular focus on the recent changes outlined above.</p>	<p>There is a risk that changes to the 2008 SORP will not be implemented correctly, which may result in increased audit resource and cost for the financial statement audit.</p>	<p>The Authority has implemented the majority of the changes to the 2008 SORP correctly. However, we did identify one change relating to disposal of fixed assets which the Authority had not implemented correctly and the accounts were amended to reflect this.</p>
<p><b>Accounting estimates and valuations</b></p> <p>The current economic environment introduces a number of risks for the financial statements, in particular for estimates and valuations. This includes the valuation of fixed assets which are carried at market value (such as investment properties and surplus assets) and the assessment of recoverability of debts to determine appropriate provisions.</p>	<p>There is a risk that valuation of assets held at market value in the financial statements are not valued accurately. The recoverability of debts may also be misstated in the accounts.</p>	<p>We have reviewed the Authority's approach for assessing impairment to the value of its fixed assets and are satisfied with their treatment.</p> <p>We have reviewed the authority's methodology for providing for bad debts and are satisfied that adequate provision is made to cover bad debts.</p>

## Appendix 7: Recommendations

We have given each recommendation a risk rating (as explained below) and agreed what action management will need to take. We will follow up these recommendations next year.

Priority rating for recommendation		
<p><b>Priority one:</b> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p> 	<p><b>Priority two:</b> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p> 	<p><b>Priority three:</b> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p> 

No.	Risk	Issue and recommendation	Management response	Officer and due date
1	● (two)	<p><b>Use of Resources assessment</b></p> <p>The Authority should review the findings of the Use of Resources assessment and put in place an action plan to improve areas the assessment highlighted weaknesses. In particular the Authority should focus on:</p> <ul style="list-style-type: none"> <li>• systematically reviewing services to understand costs, drive efficiencies and improve performance;</li> <li>• improve management of its asset base;</li> <li>• ensure that robust performance information drives service improvements;</li> <li>• strengthen its system of internal control; and</li> <li>• tackle staff sickness levels and implement Single Status.</li> </ul> <p>The action plan should be monitored progress reported on to the Audit Committee.</p> <p>The Authority should also implement recommendations from our 2007/08 which have not yet been implemented.</p>	Agreed. Management welcome further discussions here to assist in developing an action plan.	Gavin Chambers March 2010
2	● (two)	<p><b>Year end accruals</b></p> <p>The Authority should review the process for making accruals. The ledger should be amended to allow orders to be raised across more than one code without duplicate accruals being made.</p> <p>The Authority should ensure that staff posting accruals at the year end have sufficient training and knowledge as to when an accrual is needed.</p> <p>The Authority should also ensure that staff processing orders on Uniclass have the necessary knowledge to process order cancellation.</p>	Agreed	Bill Lewis March 2010

## Appendix 7: Recommendations (continued)

No.	Risk	Issue and recommendation	Management response	Officer and due date
3	● (two)	<p><b>Rolling revaluation programme</b></p> <p>The Authority should revise the process for its programme of rolling revaluations to ensure that all assets are covered in a five year period.</p>	Process has now been revised in 2009/10 and the revaluation letter reflects this change.	Rebecca Smith
4	● (two)	<p><b>Allocation of cash receipts</b></p> <p>In order to ensure accurate debt recovery is being made, the Authority should ensure that unallocated cash is linked to the relevant debtor's account. Given the size of the unallocated cash and the length of time this recommendation has been outstanding, the Authority should set itself a deadline of clearing the unallocated cash within 3 months.</p>	Where known, cash receipts are allocated appropriately. Where received without adequate information, they are allocated once established.	Bill Lewis Immediate.
5	● (two)	<p><b>Provisions for doubtful debts</b></p> <p>The Authority should review the recoverability of its debts with regard to historical trends and other factors such as the current economic climate and provide for doubtful debts on this basis.</p>	Agreed, this does form part of the close down process, however, as requested, welcome best practice advice here.	Bill Lewis/Robin Bates March 2010.
6	● (two)	<p><b>HRA rent arrears</b></p> <p>The Authority's HRA financial monitoring should include details on rent collection, arrears and write-offs. This should cover both current and former tenants.</p>	A report was taken to the Audit Committee of the 2nd June 2009. Monitoring also takes place via Performance Monitoring targets.	Phil Morrison
7	● (two)	<p><b>Implementation of external audit recommendations</b></p> <p>Recommendations from external audit should be input onto the Authority's recommendation tracker system. Audit Committee should monitor implementation and set officers timeliness for their implementation.</p>	Agreed. External audit recommendations will be added to the Internal Audit electronic monitoring and reporting system.	Gavin Chambers/ Mundip Sohal Immediate.

## Appendix 8: Follow up of previous recommendations

This appendix summarises the progress made to implement the recommendations identified in our previous reports.

The Authority has made progress in the accounts production process and has focussed on forward financial planning in the light of the economic climate and expected future funding constraints. However implementation of recommendations has not been as timely as would be envisaged with a number of our recommendations from previous reports outstanding.

Report	Number of recommendations that were:		
	Included in original report	Implemented in year or superseded	Remain outstanding or ongoing (re-iterated below)
ISA 260 Report 2007/08	7	4	3
Annual External Audit Report 2007/08	12	7	5
<b>Total</b>	<b>19</b>	<b>11</b>	<b>8</b>

No.	Risk	Issue and recommendation	Management response	Officer and due date	Status at September 2009
1	● (two)	<p><b>Working papers and the accounts closedown process</b></p> <p>The Authority should review its accounts closedown timetable and consider whether sufficient time is built into the timetable to produce working papers.</p>	<p>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.</p>	<p>Bill Lewis February 2009</p>	<p>Implemented. The Authority provided us with a full set of working papers in support of the accounts at the start of the audit. The quality of the working papers has improved from previous years; we will discuss with officers how working papers can be improved further following completion of the audit.</p>
2	● (two)	<p><b>Provision for doubtful debts</b></p> <p>The Authority should assess the recoverability of its debtor balance and should use this information to determine its provision for doubtful debts.</p>	<p>Where possible, the Authority will perform an assessment of the debtor balance and this will inform the provision for doubtful debts.</p>	<p>Phil Morrison March 2009</p>	<p>Not implemented. The Authority has used the same methodology as in previous years. We therefore re-iterate this recommendation on page 10.</p>
3	● (two)	<p><b>HRA rent collection reporting</b></p> <p>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.</p>	<p>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.</p>	<p>Phil Morrison March 2009</p>	<p>Partially implemented. A report was made to Audit Committee in June, however reporting should be scheduled regularly throughout the year. We therefore re-iterate this recommendation on page 10.</p>



## Appendix 8: Follow up of previous recommendations (continued)

No.	Risk	Issue and recommendation	Management response	Officer and due date	Status at September 2009
4	● (two)	<b>Records of debtor and creditor balances</b> 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 February 2009	Partially implemented. Working papers have been improved this year, however we have made recommendations on accruals and unallocated cash balances.
5	● (two)	<b>Building control account charges</b> 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	Implemented. The account returned a deficit again for 2008/09, however the Authority has revised charges with effect from 2009/10.
6	● (two)	<b>Capitalisation of voids expenditure</b> 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	Implemented. We have reviewed capitalised void expenditure and are satisfied that it is compliant with policy.
7	● (two)	<b>Accounts disclosure</b> 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	Implemented. We have reviewed the Authority's disclosure and concluded they are SORP compliant.

### Annual External Audit Report 2007/08

1	● (one)	<b>Bank reconciliations</b> The Authority should ensure that all bank accounts are reconciled to the ledger.	A Banking Review Project is currently underway	Philip Morrison May 2009	Implemented. The Authority has reconciled its bank accounts to the general ledger as at 31 March 2009
2	● (two)	<b>Allocation of cash receipts</b> The Authority should review its unallocated cash balance and determine the most appropriate treatment. It should complete this review as soon as practicable.	This is part of the Banking Review Project	Philip Morrison May 2009	Not implemented. The accounts include approximately £650k of unallocated cash. This recommendation is therefore repeated.

## Appendix 8: Follow up of previous recommendations (continued)

No.	Risk	Issue and recommendation	Management response	Officer and due date	Status at September 2009
3	● (two)	<p><b>Monitoring the impact of economic conditions</b></p> <p>The Authority should closely monitor the robustness of its income collection procedures and volatile income and expenditure streams in light of the current economic climate.</p>	This is already monitored and has been for a few years. It also forms part of our budget setting process.	Rebecca Smith Ongoing	Implemented.  The Authority has monitored volatile income and expenditure streams and reviewed its investment policies following unprecedented events in the market.
4	● (two)	<p><b>Project planning for IFRS conversion</b></p> <p>The Authority should create a project plan setting out the steps to achieving IFRS conversion and when each will be completed. The project plan should be monitored regularly by the Audit Committee.</p>	IFRS requirements are being investigated in conjunction with a number of other local Councils. A full project plan cannot be drawn up until information is received from CIPFA about how IFRS fits in with the requirements of local authority accounting. We will attend a KPMG seminar on this in February 2009.	Bill Lewis Ongoing	Implemented.  The Authority has an IFRS group who meet to discuss implementation. Ongoing.
5	● (three)	<p><b>Developing communications with the public</b></p> <p>The Authority should increase participation of stakeholders in determining the format and content of summary financial information, and whether to produce an annual report. It should also review leading practice in this area from other local authorities and organisations.</p>	As part of the budget consultation for 2009/10, I included an exercise with the focus groups to discuss annual reports and summary financial information.	Gavin Chambers Complete	Implemented.  The Authority has consulted with the public.
6	● (two)	<p><b>Asset management information</b></p> <p>The Authority should collect data on asset performance and utilisation for land and building assets and use this in future investment and disinvestment decision making.</p>	The collection of data regarding the condition of assets is undertaken as part of a rolling programme of condition surveys. The performance of buildings in terms of energy and utility costs is collected and monitored. Condition is taken into account when undertaking periodic property reviews, considering disposal decisions and in making capital investment decisions. Part of the 2008/9 Asset Management service plan is to commence collecting data about property suitability, to enable reporting on National Property Performance Management Indicator (NaPPMI) 3, to assist in future decisions.	Simon Dougall Ongoing	Not implemented.  The Authority should feed this into its Use of Resources action plan. See recommendation 1 on page 5.

## Appendix 8: Follow up of previous recommendations (continued)

No.	Risk	Issue and recommendation	Management response	Officer and due date	Status at September 2009
7	● (two)	<p><b>Backlog maintenance</b></p> <p>The Authority should develop a fully resourced plan to address the maintenance backlog on all assets.</p>	Asset Management have brought the backlog position to the attention of Management Board in September 2008 and will be reporting to Cabinet in February 2009. Funding considerations will need to be taken into account.	Simon Dougall Report to Cabinet by 31st March 2009	Not implemented. The Authority should feed this into its Use of Resources action plan. See recommendation 1 on page 5.
8	● (two)	<p><b>Monitoring sundry debts</b></p> <p>Member reporting should include all types of arrears, including sundry debtors. Additionally, an appropriate member group should receive regular reports on progress to clear the unallocated cash balance (see Section 2).</p>	The Audit Committee meeting of 2nd December 2008 received a debt report. I will schedule on the Audit Committee forward plan debt reports and the unallocated cash balance for 2009/10 as well as at the year end.	Gavin Chambers Reported and ongoing	Partially implemented. A report was made to Audit Committee in December 2008, however reporting should be scheduled regularly throughout the year. We therefore re-iterate this recommendation.
9	● (three)	<p><b>Employees' conduct</b></p> <p>The authority should be more proactive in its promotion of the employees' code of conduct and whistleblowing policy. Employees should be required to positively confirm understanding of and compliance with the code and the whistleblowing policy and these could be promoted through internal poster campaigns and staff briefings.</p>	These will be promoted within this financial year.	Francis Fernandes/ David Kennedy March 2009	Partially implemented. The Authority has taken steps to promote the whistleblowing policy. However it has not revised or promoted its employee code of conduct. The Authority should feed this into its Use of Resources action plan. See recommendation 1 on page 5.
10	● (two)	<p><b>Fraud assessment</b></p> <p>The Authority should undertake a comprehensive review of fraud risks to understand whether it has adequate processes and controls that mitigate those risks.</p>	This is included as part of the annual Internal Audit plan and will also be incorporated into service planning sessions with the Risk Manager.	Gavin Chambers Audit Plan Feb 2009, Service planning by 31st March 2009	Implemented. The Authority has reviewed its work in relation to fraud.
11	● (two)	<p><b>Planning for CAA Use of Resources</b></p> <p>The Authority should review the KLOEs and guidance for the CAA Use of Resources framework and should identify the areas where new requirements not yet in place at the Authority could be implemented to benefit its services. It should also review how to demonstrate the impact of existing arrangements in areas where it believes scores of 3 or 4 are achievable.</p>	A CAA Use of Resources Group was set up in 2008/09 and has had a number of meetings/issued work, in preparation for the revised inspection.	Gavin Chambers Ongoing to prepare for the submission in spring 2009.	Implemented. The Authority presented us with a self-assessment against the Use of Resources criteria in May 2009.

## Appendix 8: Follow up of previous recommendations (continued)

No.	Risk	Issue and recommendation	Management response	Officer and due date	Status at September 2009
12	● (two)	<p><b>Data quality arrangements</b></p> <p>The Authority should extend target setting for quality in data from Benefits staff to other business areas to ensure high quality data.</p>	<p>Head of Performance will work with Head of HR to progress individual objective and target setting for Data Quality through the appraisal and 1 to 1 processes within the Council's Performance Management framework for 2009/10.</p>	<p>Dale Robertson from April 2009</p>	<p>Implemented.</p> <p>However our work on data quality and performance indicators is subject to further comment in our 2008/09 assessment. The Authority should feed this into its Use of Resources action plan. See recommendation 1 on page 5.</p>

## Appendix 9: 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

## Appendix 10: Declaration of independence and objectivity

### Declaration of Independence and Objectivity 2008/09

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 10: Declaration of independence and objectivity (cont'd)

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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 2009, we confirm that there were no relationships between KPMG LLP and the 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.

## Appendix 11: Draft management representations letter

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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 Authority, 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 2009.

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 Authority 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 Authority 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 2009.

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 Authority 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 Authority'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 Authority 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 11: Draft management representations letter (contd)

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With reference to the specific issues on which you have requested assurances from Members, we confirm that:

- For 2008/09 we consider that sufficient and appropriate consideration has been given to potential impairments of the assets included in the accounts in light of the current macro economic climate and that, where any such impairment has been identified, it is reflected accordingly in the accounts. This includes compliance with the accounting policy for periodic revaluation of assets (under FRS 15), as well as the need for management to undertake a review of assets to determine whether there is any impairment to their value in accordance with FRS 11.

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 23 September 2009.

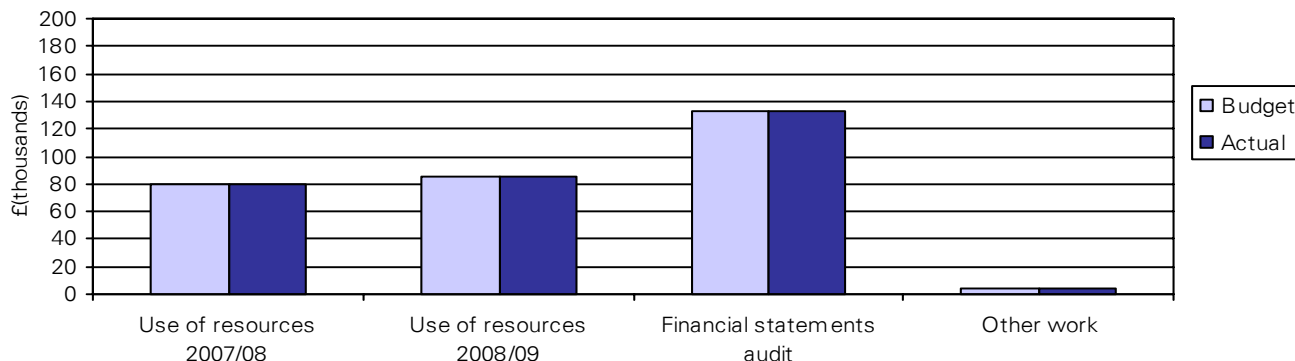
Yours faithfully

On behalf of Northampton Borough Council

## Appendix 12: Audit Fee

To make sure that there is openness between us and your Audit Committee about the extent of our fee relationship with you, we have summarised below the out-turn against the 2008/09 agreed external audit fee:

### External audit fee for 2008/09



The outturn fee for the financial statements audit represents an increase on the original fee agree in June 2008 following completion of the 2007/08 accounts audit and reassessment of the level of risk associated with the audit.

Our agreed audit fee for the year included our fee for the 2007/08 Use of Resources assessment. We agreed with the Authority to undertake the 2008/09 assessment for an additional fee, as shown above.