

Annual Audit Letter

Northampton Borough Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Contents

Key messages	2
Audit opinion and financial statements	2
Value for money	2
Current and future challenges	2
Financial statements and annual governance statement	3
Overall conclusion from the audit	3
Value for money	5
2009/10 use of resources assessments	5
VFM conclusion	5
Approach to local value for money work from 2010/11	7
Current and future challenges	8
Financial position	8
Closing remarks	10
Appendix 1 Audit fees	11
Appendix 2 Glossary	12

Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (page 3 and 4); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 7).**

Audit opinion and financial statements

1 I issued an unqualified opinion on the Council's 2009/10 financial statements on 5 October 2010. Along with five other district councils in Northamptonshire the opinion was late due to delays in receipt of information from the auditor of the Northamptonshire pension fund.

Value for money

2 I concluded that the Council has adequate arrangements for securing economy, efficiency and effectiveness in its use of resources and issued an unqualified value for money conclusion on 5 October 2010.

Current and future challenges

3 Across the country, councils face severe financial challenges over the next few years. Income from investments, fees and charges has been reducing as a result of the economic downturn. Income from government grants has also reduced and is due to be cut by significantly more over the next four years following the 2010 Spending Review.

4 For Northampton, there is a significant funding gap in 2011/12. The proposed cuts announced in the spending review could increase the funding gap considerably, although the complex nature of the proposals means it is difficult to predict the precise impact at this stage. The Council will inevitably have to make tough choices about how services are to be delivered in future.

5 In line with other local authorities the Council will need to ensure internal control remains strong whilst managing the current financial constraint.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 5 October 2010.

Overall conclusion from the audit

6 I issued an unqualified opinion on the Council's 2009/10 financial statements on 5 October 2010. Both the Council and ourselves were in a position to issue the opinion by the statutory deadline of 30 September but were unable to do so due to delays in the receipt of information from the auditor of the Northamptonshire pension fund.

7 The Council's overall arrangements for preparation of the financial statements are good. Working papers were clear and comprehensive. All significant issues arising from my audit were reported to members of the Audit Committee on 27 September 2010.

Amendments to the draft financial statements

8 The draft financial statements submitted for audit included three material errors that were corrected by management prior to issue of my audit opinion. Mis-statements in respect of unallocated cash of £0.693 million and Payzone cash of £0.09 million were not corrected by management on the basis that they were not material to the financial statements and the benefit of correcting them did not justify the work involved. This decision was approved by the Audit Committee on 27 September 2010.

Accounting practice and internal controls

9 We made recommendations for improvements in the Council's arrangements for:

- calculation of the provision for bad debts in respect of housing rents;
- calculation of depreciation on fixed assets;
- minimising unallocated cash; and
- retention of supporting evidence for the sundry creditors control account reconciliation.

10 All recommendations were agreed by management and the Audit Committee.

International Financial Reporting Standards (IFRS)

11 During the year I reviewed the Council's preparations for the introduction of IFRS. I am satisfied that the Council is on track to produce IFRS compliant accounts by 30 June 2011.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

12 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

13 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

14 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

15 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

16 I issued an unqualified conclusion stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources on 5 October 2010.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Governing the business	Yes
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes
Workforce	Yes

17 My detailed findings were reported to members of the Audit and Committee on 27 September 2010 in my Annual Governance Report. A summary of the key issues is provided below.

Managing finances

18 The Council has developed and improved its financial planning processes and has a track record of remaining within budget. Processes are efficient and effective, and **continue to improve. It has a good understanding of its costs and has achieved savings in a number of areas, assisted by the work of the Strategic Business Reviews and use of value for money (VFM) profiles.** Plans for further efficiencies are in place but it is too early to measure the impact.

19 Financial reporting has continued to improve and is now meeting the needs of most users. Statements are accessible and reports are easy to read. Good management support is **provided for Heads of Services and budget holders.** Financial reports are **available in a variety of formats, and include some environmental and performance information.** Improvements in presentation are expected following the introduction of new performance management software, although this is not yet available to the public. The quality of the Council's working papers supporting the annual financial statements was good, and officers responded promptly to audit queries and requests for additional information.

Governing the business

20 Savings and efficiencies have been achieved through improvements in procurement. The Council has a good performance management framework that is underpinned by a data quality strategy. Governance arrangements are sound and responsibility and ownership for standards and ethical issues is clear. Governance in partnerships is less clear and reporting arrangements vary across the council. Work is ongoing to improve this.

21 Risk management procedures are clear, effective and well resourced. Operational risks are reviewed locally every month and quarterly across the Council. Business continuity has improved and developed. Internal controls have improved in a number of areas and are now considered sound. The Council tracks progress against audit recommendations and officers are called to account by the Audit Committee if implementation is delayed.

Managing resources

22 The Council has taken action to improve sustainability and reduce its impact on the environment. It has established a clear baseline and action plan for improvements. CO2 emissions are down and savings are being reinvested in further carbon reduction initiatives.

23 The Council has adequate arrangements in place for workforce management.

Approach to local value for money work from 2010/11

24 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

25 My work will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

26 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Financial position

27 The ongoing economic downturn and demographic changes have resulted in severe financial pressures for all councils. Demand for local services is growing whilst income from investments and fees and charges is reducing. Income from government grants has reduced in 2010/11 following the emergency budget and is due to be cut further over the next four years following the 2010 Spending Review.

28 The government plans to eliminate the structural deficit by 2015/16. Public spending is planned to fall by £81 billion per annum and councils are expected to deliver a significant proportion of the savings. Government proposals also include:

- freezing council tax in 2011/12 with funding for the equivalent of a 2.5 per cent rise;
- removing ring-fencing for a number of grants;
- reform of the Housing Revenue Account;
- an increase in PWLB interest rates for new long term loans;
- a 45 per cent reduction in capital funding;
- changes to public pensions; and
- changes to housing related benefits, including a 10 per cent reduction in council tax benefit.

29 Many councils, including Northampton, have been working on proposals to cut costs both as part of the ongoing efficiency agenda and in anticipation of the government's announcement. The details on how individual councils will be affected by the spending review are still not known but will become clear over the next few weeks. There will inevitably be tough choices on how services are to be delivered in future and a clear assessment of priorities will be essential. Good financial management will also be very important.

30 For Northampton, like many other councils, there is an ongoing gap between spending pressures and projected resources over the medium term. The Medium Term Financial Strategy 2010-2013 approved in November 2009 identified a budget gap of approximately £3.1 million for 2010/11 rising to £5.2 million in 2011/12.

31 As part of preparation of the 2010/11 budget the Council identified efficiency savings of £4.9 million, leaving a revised budget gap of £1.1 million in 2011/12 rising to £2.5 million in 2012/13. The latest budget monitoring information for 2010/11 indicates that the Council will remain within budget overall.

32 The proposed cuts announced in the spending review could increase the funding gap considerably, although the complex nature of the proposals, including changes in housing investment plans, means it is difficult to predict the precise impact at this stage. The Council's overall financial position will clearly need to be reviewed in the light of the government's announcement and emerging details of the specific consequences for Northampton. The medium term financial strategy for 2011-2014 is currently under review.

33 In times of significant financial constraint internal control arrangements can sometimes become stretched. I reported in my VFM conclusion above that internal control arrangements had improved. The Council, particularly via the Audit Committee, has an important role in ensuring this improvement is maintained.

Closing remarks

34 I have discussed and agreed this letter with the Chief Executive and the Director of Finance and Support. I will present this letter at the Audit Committee on 10 January 2011 and will provide copies to all council members.

35 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit plan (fee letter)	8 June 2009
Audit opinion plan	11 May 2010
Annual governance report	23 September 2010
Audit opinion and value for money conclusion	5 October 2010
Annual Audit Letter	November 2010

36 The Council has taken a positive and helpful approach to our audit. I wish to thank the Council staff for their support and cooperation during the audit.

Neil Bellamy
District Auditor
November 2010

Appendix 1 Audit fees

	Planned	Actual	Variance
Financial statements and annual governance statement	£147,332	£147,332	£0
Value for money *	£80,000	£80,000	£0
Whole of government accounts	£3,668	£3,668	£0
Total	£231,000	£231,000	£0

* The value for money fee relates to the use of resources assessment for 2009 undertaken and billed separately by your outgoing auditor, KPMG.

Appendix 2 Glossary

Annual governance statement

Governance is about how local **government bodies** ensure that they are doing the **right things**, in the **right way**, for the **right people**, in a **timely, inclusive, open, honest and accountable manner**.

It comprises the **systems and processes, cultures and values**, by which local **government bodies** are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The **annual governance statement** is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the **audit of the accounts**, auditors must give their opinion on the financial statements, including:

- whether they give a **true and fair view** of the **financial position of the audited body** and its **spending and income for the year in question**;
- whether they have been **prepared properly**, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their **spending and income**.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on **whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness** in its use of money, people and time.

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