

Annual Audit Letter

Northampton Borough Council

Audit 2010/11



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Traffic light explanation

Qualified  Unqualified 

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

Area of work	Our findings
Audit opinion on your financial statements	●
Arrangements to secure value for money	●

Audit opinion and financial statements

I issued an unqualified opinion on your financial statements on 28 September 2011.

- The financial statements were prepared for the first time on the basis of International Financial Reported Standards (IFRS) and the work involved in their preparation and auditing has increased considerably.
- The statements had not been finalised by 30th June deadline but were certified on the basis that they were substantially complete.

- Some errors in the draft financial statements submitted for audit were identified and subsequently corrected by management but there was no overall impact on either net expenditure or the net balance sheet position.
- The working papers to support the financial statements were of a good standard and officers were responsive and supportive throughout the audit.

Value for money

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 28 September 2011.

Current and future challenges

Financial position and economic downturn

The ongoing economic downturn and reductions in government funding are creating severe financial pressures for all councils. For Northampton, this provides a further challenge to the Council's ambition to be amongst the best councils in terms of public service delivery by 2013.

The Council's medium term financial strategy shows that the budget can be balanced over the three years from 2011 to 2014. This has been achieved through a number of measures, including:

- Seeking savings and efficiencies wherever possible within a framework of clear corporate and service priorities aimed at protecting and enhancing front-line services wherever possible.
- Seeking new funding streams and new ways of working, including partnership working and collaboration with other councils.
- Annual risk assessment of reserves and balances to manage the impact on services and council tax levels.
- A programme of strategic business reviews to deliver better service outcomes and efficiencies.

As part of preparing the 2011/12 budget the Council identified efficiency savings of £4.8 million which, together with the use of approximately £1.5 million of reserves, effectively eliminated the budget gap for the next three years. Nevertheless, there remains considerable uncertainty and a number of key risks in relation to the council's financial position over short to medium term. In particular, the potential for a prolonged period of economic stagnation, increased demand for council services, tight government funding settlements and potential financial reforms.

The financial position of the HRA is also challenging for a number of reasons, not least the need to meet and maintain the decent homes standard with approximately half of the council's housing stock assessed as non-decent. In addition the Council will be faced with the introduction of a new national self financing regime for council housing from April 2012.

Latest projections for 2011/12 show a forecast general fund under-spend of £525k and an HRA under-spend of £159k.

As reported in my VFM conclusion (page 7), the Council's arrangements for preparation and management of its budgets are robust. Members will need to ensure that the focus on strong financial management is maintained for the foreseeable future.

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.

Overall conclusion from the audit

I issued an audit report including an unqualified opinion on the financial statements on 28 September 2011.

The draft accounts submitted for audit were incomplete but I was able to prioritise my work to minimise the impact on the efficiency of the audit. The working papers to support the accounts were of a good standard and officers were responsive and supportive throughout the audit.

I identified errors in the draft financial statements submitted for audit but all were corrected by management and had no impact on either net expenditure or the net balance sheet position. I reported details of the errors to the Audit Committee on 26 September 2011.

I made two recommendations for improvement in respect of the allocation of cash at the year-end and clarification of accounting requirements in respect of expenditure on council dwellings. Both recommendations were agreed by management.

Weaknesses in internal control

I identified and reported one weakness due to the lack of documentation to support internal journal transfers. This was attributed by management to a temporary problem associated with the recent office move.

I will follow-up all issues arising from the audit as part of my work on your 2011/12 financial statements.

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.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria

Criterion	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>Adequate</p> <p>The 2010/11 outturn was delivered within budget leading to a net increase in the general fund (GF) balance of £474k. The GF balance at 31 March 2011 increased to £2,480k in accordance with plans to achieve a minimum balance of £3m over the next 3-5 years.</p> <p>The Council set a balanced budget for 2011/12. Effective preparations were made to deliver budget savings in advance of the anticipated government funding cuts.</p> <p>The Medium Financial Strategy (MTFS) is reviewed and updated on an annual basis together with an annual review and risk assessment of balances and reserves.</p> <p>Budgetary control arrangements remain robust.</p>

Criterion	Findings
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>Adequate</p> <p>The Council has a good track record of reviewing its services and management arrangements to deliver economy, efficiency and effectiveness through, for example, its programme of strategic business reviews and development of partnership working.</p> <p>It has recently completed a joint procurement exercise with Daventry District Council to deliver environmental services. Leisure services have been transferred to a charitable trust and office space has been rationalised through the sale of Cliftonville House.</p>

Closing remarks

Ongoing independent support

During the year we have continued to support the Council by:

- attendance at Audit Committees to inform Members about progress on the audit, report our key findings and provide an update on emerging local and national issues;
- hosting our annual final accounts workshop for finance staff; and
- ongoing development of joint working arrangements and local training on housing benefit testing.

Summary

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 7 November 2011 and will provide copies to all members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit fee letter	28 April 2010
Audit opinion plan	12 April 2011
Annual governance report	23 September 2011
Audit opinion on the financial statements and value for money conclusions	28 September 2011
Annual audit letter	October 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Neil Bellamy

District Auditor

October 2011

Appendix 1 - Fees

	Actual	Proposed	Variance
Audit fee	£204,500	£204,500	£0
Inspection work	£0	£8,320	- £8,320
Non-audit work	£0	£0	£0
Total	£204,500	£212,820	- £8,320

In July 2009, in recognition of the financial pressures that public bodies are facing, the Commission confirmed that it would give a “one-off” subsidy to cover the additional cost of transition to IFRS for local authorities in 2010/11 only. A refund of £9,455 against the above audit fee was issued in April 2010. The Audit Commission issued a further rebate of 1.5% (£2,921) in December 2010.

The planned inspection fee was not charged as a result of the government’s decision to abolish Comprehensive Area Assessment in May 2010.

The fee for certification of claims and returns is charged at published daily rates. The work is ongoing and our latest estimate is that the fee will be in the region of £34,000 (£41,990 in 2009/10).

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 financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

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 resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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