



INFRASTRUCTURE, GOVERNMENT AND
HEALTHCARE

**External Audit: Audit
Memorandum – Report
to those charged with
governance**

Northampton Borough Council
September 2007

AUDIT

Content

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This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Will Carr who is the engagement partner to the Council, telephone 0121 232 3392, email william.carr@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 still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Team, Nicholson House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SU or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Section one

Executive summary

Purpose of this document

The Audit Commission's Code of Audit Practice (the Code) requires us to provide a summary of the work we have carried out to discharge our statutory audit responsibilities together with any governance issues we have identified. We report to those charged with governance. In Northampton Borough Council's case the Audit Committee at the time they are considering the financial statements.

We are also required to comply with an International Standard on Auditing which sets out our responsibilities for communicating with those charged with governance (ISA260).

This report meets the requirements of the Code and the ISA260. It summarises, for the benefit of the Audit Committee of Northampton Borough Council, the key issues identified during the course of our audit of the financial statements for the year ended 31 March 2007. It has been prepared for presentation to the Audit Committee on 24th September 2007.

Once we have finalised our opinions and conclusions we will prepare our External Audit Annual Report to conclude on our audit work for 2006/07. This will feed into Annual Audit and Inspection Letter jointly prepared with your Audit Commission Relationship Manager.

Respective responsibilities of the appointed auditor and the audited body

Use of Resources

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing the adequacy and effectiveness of these arrangements.

Our responsibility is to satisfy ourselves that the Council has put in place proper arrangements by reviewing and, where appropriate, examining evidence that is relevant to its corporate performance management, and also its financial management arrangements and reporting on these arrangements.

We are required to be satisfied that you have put proper arrangements in place to secure economy, efficiency and effectiveness in your use of resources. We will reach this conclusion by considering the Use of Resources (UOR) assessment for 2006/07. We will arrive at our conclusion in December 2007.

Accounts and Statement on Internal Control

The Council is responsible for putting into place systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that present fairly its financial position and its expenditure and income for the relevant financial year. The Council is also responsible for preparing and publishing with its financial statements a statement on internal control.

We have now substantially completed the audit in line with the deadline. We have not identified any issues in the course of the audit that are considered to be material. Subject to completing the final stages of the audit and receiving your management representations letter we therefore aim to issue an unqualified audit opinion on 28th September 2007. We have also provided you with a summary of the accounts production process and how this can be improved in the future (assuming no further issues arise). Our findings are set out in more detail in section three of this report and our proposed opinion on the accounts is presented in Appendix 2.

Reports

We have a duty under section 8 of the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to their attention in the course of the audit in order for it to be considered by the body concerned or brought to the attention of the public.

We did not issue a report in the public interest in 2006/07.

Certificate

We are required to certify that we have completed the audit of the accounts 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 those charged with governance and to issue a draft opinion on the financial statements.

We are unable to issue our certificate of completion of audit until we have completed the work on Use of Resources as outlined above.

Continued overleaf

Section one

Executive summary

Audit status

At the date of issue of this memorandum our detailed audit work is substantially complete subject to completion of audit work on the following areas:

- HRA repairs and maintenance;
- Capital additions and depreciation;
- Capitalisation of pension costs; and
- Benefits reconciliation

We now require from you a signed management representation letter, as set out in Appendix 8. In addition to this we are also asking for specific assurance from you that DSO trading with WS Atkins has ceased and Far Cotton Community Centre has been completed satisfactorily in accordance with the contract.

Declaration of independence and objectivity

In relation to the audit of the financial statements of Northampton Borough Council for the financial year ending 31 March 2007, we confirm that there were no relationships between KPMG LLP and the Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have set out a more detailed declaration of our independence and objectivity in Appendix 6 in accordance with ISA 260.

Fees

Our fee for the accounts audit is approximately £150,000. This exceeds the figure included in the Annual Audit and Inspection Plan by £30,000 for a number of reasons as detailed in Appendix 7.

We have not performed any other non-audit work.

Use of Resources

We are required to be satisfied that you have put proper arrangements in place to secure economy, efficiency and effectiveness in your use of resources. We will reach this conclusion by considering the Use of Resources (UOR) assessment for 2006/07. We expect to issue our conclusion in December 2007.

Introduction

Within our audit plan we outlined the various work streams we use to assess the Authority against the 12 criteria specified by the Audit Commission to ensure that your resources are deployed effectively. The 12 criteria are:

- Setting strategic and operational objectives
- Consultation with stakeholders
- Monitoring and scrutiny of performance
- Data quality
- System of internal control
- Risk management
- Managing and improving value for money
- Medium term financial planning and budgeting
- Managing spending within available resources
- Managing performance against budgets
- Asset management
- Probity and propriety

Although we would normally have issued our conclusion by 30th September 2007, the Audit Commission has agreed with us that it would be more appropriate to delay issuing the opinion to Northampton Borough Council until the Use of Resources assessment for 2006/07 is concluded. This assessment is underway.

In November 2007 we will submit our assessment of the 2007 Use of Resources to the Audit Commission who will issue the score in January 2008.

Other work

If we are asked to do so, or if we identify a need for it, as auditors we are expected to perform other work as necessary to meet our responsibilities under the Audit Code of Practice. We have not undertaken any other work.

Accounts and Statement on Internal Control

We have now completed the audit in line with the deadline. We have not identified any issues in the course of the audit to date that are considered to be material. On receiving your management representations letter we therefore propose to issue an unqualified audit opinion on 28th September 2007 subject to completing the outstanding elements of the audit). We have also provided you with a summary of the accounts production process and how this can be improved in the future.

Introduction

The tasks we perform in our review of your financial statements are split between those which are undertaken before, during and after the accounts production. We have summarised them below:

Work Performed	Accounts production stage		
	Before	During	After
1. Business Understanding: review your operations.	✓	✓	-
2. Controls: assess the control framework.	✓	-	-
3. Prepared by client list: issue our prepared by client request.	✓	-	-
4. Accounting standards: agree the impact of any new accounting standards.	✓	✓	-
5. Accounts Production: review the accounts production process.	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures.	-	✓	-
7. Representations & opinions : seek and provide representations before issuing our opinions.	✓	✓	✓

We will report on the work we performed relating to the pre-accounts production stage in more detail as part of our Annual External Audit Report later in the year. We have however summarised below details of some of the tasks which we have performed:

Controls

Internal Audit

In accordance with the managed audit, we work with Internal Audit to assess the control framework that you have put in place to initiate, process and record your transactions. In order to confirm our ability to place reliance on the work of Internal Audit we review aspects of it's work i.e. re-perform the key reconciliations for each fundamental system, re- perform a sample of tests completed by Internal Audit, confirm the work they have completed on each system by reviewing the audit evidence and finally we carry out our own walk-through of the key financial systems to ensure we reach the same conclusion given by Internal Audit.

For 2006/07 the Council used PwC to provide it with internal audit services. We concluded that we could place reliance on most of the work completed by PwC for our opinion purposes. We have discussed our findings with PwC and are in the process of agreeing an internal/ external audit protocol which sets out the supporting information we need to be able to place full reliance on their work in future years.

The work completed by internal audit highlighted a number of improvements in the controls operating in a number of systems. The table below shows the level of assurance provided by internal audit and how this impacts on our audit.

System	Assurance given by PwC	Impact on the audit
Debtors	No Assurance	Substantive audit approach
Creditors	Limited Assurance	Substantive audit approach
Payroll (Agresso only)	Limited Assurance	Substantive audit approach
General Ledger	Limited Assurance	Substantive audit approach
Budgetary Control	No Assurance	Substantive audit approach

Continued overleaf

Accounts and Statement on Internal Control

System	Assurance given by PwC	Impact on the audit
Council Tax	Limited Assurance	Substantive audit approach
NNDR	High Assurance	Controls approach
Bank Reconciliations	Moderate Assurance	Substantive audit approach
Cashiers	Moderate Assurance	Controls approach
Treasury Management	Moderate Assurance	Controls approach
Fixed Asset	No Assurance	Substantive audit approach
Housing Benefit	Limited Assurance	Substantive audit approach
Payroll (Unipay)	No work completed by PwC Limited Assurance	Controls testing undertaken by KPMG Substantive audit approach
Rents	No work completed by PwC Moderate Assurance	Controls testing undertaken by KMPG Controls approach

A significant number (over 50%) of Internal Audit’s recommendations raised in 2005/06 have not been implemented on the fundamental financial systems. There is a risk that weaknesses in systems are not being controlled appropriately so that information included in the accounts may be inaccurate.

Recommendation

The Council should ensure that actions agreed in response to recommendations raised by Internal Audit are implemented on a timely basis so that weaknesses in systems are addressed at the earliest opportunity.

We continue to support the recommendations raised by Internal Audit and have not reiterated these in this report.

IT Controls

We have completed a review of your general IT controls. We identified a number of improvements which could be made which have been discussed and agreed with management. We shall report our findings in more details in a separate report to be issued shortly.

Accounting standards

Local Authorities are required to prepare their Accounts in accordance with the Statement of Recommended Practice (SORP). There have been significant revisions to the (SORP) for 2006/07, which required Local Authorities to re-state the prior year figures in a number of areas. We held a number of meetings with the Assistant Head of Finance to discuss the approach the Council intended to follow to ensure compliance with the new SORP.

Section three

Accounts and Statement on Internal Control

Below we focus on stages five and six which we perform following the Council's production of its accounts:

Accounts Production

Your accounts production process is assessed as part of our UoR assessment. As part of the initial feedback on this process we have considered the production process against three criteria:

Element	Commentary
Completeness of draft accounts	The draft financial statements were approved by Audit Committee on the 28th June 2007. We received a draft set prior to the commencement of our audit on 30th July 2007. All disclosure notes were complete and the draft accounts were not subject to any material adjustments.
Quality of supporting working papers	<p>We have raised concerns about the quality of the working papers since the 2004/05 financial accounts audit and have raised a number of detailed recommendations over the past two years. Whilst some progress has been made there is still scope for improvement in this area. As part of our interim audit, we issued a 'Prepared by Client' (PBC) request that set out a list of supporting documentation required for our final accounts audit. A number of working papers were not available at the start of the audit and those that were available did not provide sufficient detail as required by our PBC. This resulted in delays in completing the audit work in particular in the following areas:</p> <ul style="list-style-type: none"> •Payroll; •Debtors and Creditors; •Collection Fund; and •Capital additions and disposals. <p>The Council introduced a quality assurance process for the production of working papers for the 2006/07 audit process. Whilst this is welcomed it requires further development to ensure that working papers provide clear evidence to support balances in the accounts. Working papers could also be simplified to facilitate a more efficient audit.</p>
Response to audit queries	A protocol for raising audit queries was introduced by NBC for this years audit. The target for responding to the query raised was three days. Unfortunately, the target was not met in most instances, due mainly to key members of staff being on annual leave. This resulted in delays in completing the audit work.

As a result of the above we have raised a number of performance improvement observations which are included within Appendix 4. We are also proposing to hold a debrief workshop with officers. Progress against the performance improvement observations raised following the 2005/06 audit are detailed at Appendix 5.

Testing

During the audit testing process we identified a number of issues that have not been adjusted by management as they do not have a material effect on the financial statements. In accordance with ISA 260 we are required to communicate these uncorrected audit differences to the Audit Committee. We are also required to report any material misstatements which have been corrected by management and which we believe should be communicated to the Audit Committee to help you meet your governance responsibilities.

We have enclosed a summary of the corrected audit differences in Appendix 3. The table below summarises the issues identified:

Continued overleaf

Section three

Accounts and Statement on Internal Control

Overall impact	Adjustments identified
Changes to the prime financial statements	We identified a number of balance sheet adjustments. These concerned the accounting treatment for late cash and netting off debtor and creditor balances for Benefits. We also identified a number of income and expenditure adjustments. The main one being the treatment of expenditure incurred prior to the sale of an asset, this has not been adjusted as detailed at Appendix 3 to this report.
Changes to the Notes/Presentational adjustments	There are a number of presentational changes which have been agreed with the Assistant Head of Finance. These mainly relate to compliance with the Statement Of Recommended Practice.
Statement of Internal Control (SIC)	We raised a number of issues with regard to the content of the SIC submitted with the draft accounts. We have subsequently received an amended version which is more consistent with our knowledge and understanding of the Authority and the CIPFA guidance referred to below.

Opinions and Representations

As part of the financial statements finalisation process we are required to provide you with representations concerning our independence and ability to act as your auditors. We have provided this at Appendix 6.

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 provided a draft of this representation letter to the Director of Finance on 23 July 07. We have also included a copy of this at Appendix 8. Once we have received your representations as outlined above we will proceed to issuing our audit opinion.

Except for our commentary above, we do not have any other matters that we wish to draw to your attention before we issue our opinions.

Compliance with ISA260 Reporting Requirements

ISA260 requires us to communicate to those charged with governance "audit matters of governance interest that arise from the audit of the financial statements".

We have included within this Audit Memorandum:

- our views about the qualitative aspects of your accounting practices and financial reporting (Section Three);
- a copy of our proposed audit report (Appendix 2);
- details of the corrected audit adjustments within the financial statements (Appendix 3); and
- a draft of the management representations letter (Appendix 8).

We are also required to report:

- any material weaknesses in internal control identified during the audit;
- any matters specifically required by other ISAs (UK and Ireland) to be communicated to those charged with governance; and
- any other audit matters of governance interest.

Where appropriate these have been commented on in our report.

Appendix 1: Proposed audit report

Independent auditors' report to the Members of Northampton Borough Council

Opinion on the financial statements

We have audited the financial statements of Northampton Borough Council for the year ended 31 March 2007 under the Audit Commission Act 1998, which comprise the Explanatory Foreword, the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Housing Income and Expenditure Account, the Statement of Movement on the Housing Account Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, the Collection Fund, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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 Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements 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 financial statements present fairly the financial position of Northampton Borough Council in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

We review whether the Statement on Internal Control reflects compliance with CIPFA's guidance The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003 published in April 2004. We report if it does not comply with proper practices specified by CIPFA 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 statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, 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 financial statements 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 financial statements.

Opinion

In our opinion:

The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended.

KPMG LLP

Chartered Accountants
Birmingham

September 2007

Appendix 2: Audit differences

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

This appendix sets out the audit differences that we identified following the completion of our audit of Northampton Borough Council for the year ended 31 March 2007.

Corrected audit differences

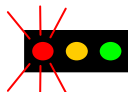

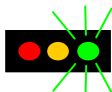
Detailed below are the audit differences identified by our audit of the financial statements that have been corrected by Northampton Borough Council.

Impact		Basis of audit difference	Reason for adjustment
Income and expenditure	Balance sheet		
	Dr FARA £10,600k Cr Council Dwellings £8,290k Cr Other land & buildings £2,096k Cr Other housing property £206k Cr Investment & Commercial £8k	Write back of depreciation charged in year	The Authority has incorrectly written-back the depreciation charge for the year. This is not in line with FRS15.
Dr Interest Payable £390k Cr Interest Receivable £390k		Mis-posting of interest receivable to interest payable relating to an NCC loan	Misallocation of interest receivable,
	Dr Local Taxpayers creditors £654k Cr Local Taxpayers debtors £654k	Posting of cash received on 31/03/07 for NNDR to prepayments rather than against arrears	Incorrect treatment of late cash received.
	Dr Gov Dept creditors £353k Cr Gov Dept debtors £353k	Classification of brought forward debtor figure from 2005/06 as a creditor (Council Tax Subsidy)	Incorrect treatment of brought forward figure.

There are no uncorrected audit differences.

Appendix 3: Accounts performance improvement observations

This appendix summarises the performance improvements that we have identified relating to the accounts production process while preparing this report. We have given each of our observations a risk rating (as explained below) and agreed with management what action you will need to take.

Priority rating for performance improvement observations raised		
<p>Priority one: 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>Priority two: 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>Priority three: 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> 

Number	Risk	Issue and recommendation	Management response	Officer and due date
1	● (two)	<p>Working Papers</p> <p>We issued a “Prepared by Client” (PBC) request that set out a list of supporting documentation required for our final accounts audit. A number of working papers were not available at the start of the audit and those that were available did not provide sufficient detail as required by our PBC.</p> <p>The Council should ensure the financial statements are supported by documentation at the start of the audit.</p>	<p>The working papers were improved for the 2006/07 final accounts production. It is recognised that there are still some areas for improvement and the quality of year end working papers will continue to be a focus of the year end process for 2007/08.</p>	<p>Bill Lewis June 2008</p>
2	● (one)	<p>Our review of the fixed asset register revealed a number of differences between the register and balances stated in the ledger, which were accounted for as ‘balancing adjustments’.</p> <p>The Authority should seek to resolve this query and consider the impact on financial planning.</p>	<p>A review of the fixed asset register and the accounting for capital assets will be undertaken by the new capital accountant to incorporate the changes required in the SORP for the 2007/08 accounts.</p>	<p>Rebecca Thomas February 2008</p>
3	● (two)	<p>The payroll is now run through a module of the general ledger, Agresso. However there is still a need for reconciliation of the payroll module to the general ledger as not all pay related transactions are performed in the payroll ledger. No such reconciliation is currently performed.</p> <p>The Council should ensure that reconciliations between modules within IT packages are carried out.</p>	<p>A small reconciliation team has been formed as part of the new finance structure. A reconciliation process is being drawn up and reconciliations will be undertaken on a monthly basis.</p>	<p>Bill Lewis December 2007</p>
4	● (two)	<p>A significant number (over 50%) of Internal Audit’s recommendation raised in 2005/06 on the fundamental financial systems have not been implemented to date. Consequently, there is a risk that weaknesses in systems are not being controlled appropriately so that information included in the accounts may be inaccurate.</p> <p>The Council should ensure that actions agreed in response to recommendations raised by Internal Audit are implemented on a timely basis.</p>	<p>A monitoring system to track the progress of internal audit recommendations has been implemented in conjunction with internal audit. Actions are now being proactively tracked.</p>	<p>Gavin Chambers October 2007</p>

Number	Risk	Issue and recommendation	Management response	Officer and due date
5	● (two)	<p>The bad debt provision is calculated using percentages set out in guidance which is several years out of date. Current CIPFA guidance says that the provision for bad debts should be set on the basis of a local assessment of the recoverability of debts.</p> <p>An assessment of the recoverability of different classes of a debt should be performed to allow a more accurate provision for bad debts to be set (or to confirm the Authority is content with the current approach).</p>	<p>The calculation of and accounting for the bad debt provision and write offs was reviewed during the 2006/07 financial year and was implemented for the 2006/07 closedown. A further review will be carried out when the Sundry Income system is upgraded to identify improved management information.</p>	<p>Bill Lewis March 2008</p>
6	● (two)	<p>The Authority introduced a new computer system (Northgate) in January 2006 to process Council Tax and Benefits. It is currently possible for a new property to be created on the system without linking to a liable individual. There is therefore a risk that new properties are input on the system without a bill being produced.</p> <p>Reconciliation should be performed of the number of properties to liable individuals. This will ensure that all properties are billed for.</p>	<p>Reconciliations and controls to mitigate any risks discovered will be implemented.</p>	<p>Fran Rodgers</p>
7	● (two)	<p>HRA rent arrears as at 31st March 2007 represented 7.6% of the year's gross debit. Current tenant arrears have increased by 11% since the year end.</p> <p>A review should be undertaken of the arrears recovery process to ascertain what steps could be taken to reduce the level of arrears.</p>	<p>A new Housing Management System is currently being implemented. This system will allow for the improved management of rent arrears.</p>	<p>Fran Rodgers December 2007</p>
8	● (two)	<p>We identified a number of debtor and creditor balances requiring amendment. 'Contra' accounts are used in the general ledger to track reallocation between codes. However, this current system does not provide a clear audit trail as to the final debtor and creditor balances.</p> <p>The system for reallocation should be reviewed to reduce the number of debtor and creditor accounts and to ensure accounts record the correct balance.</p>	<p>Reconciliations and the presentation of information will be reviewed for 2007/08.</p>	<p>Bill Lewis March 2008</p>
9	● (two)	<p>The Cashflow statement was compiled using a complicated model. Efficiencies could be realised by simplifying the compilation of the cashflow.</p> <p>The method for compiling the Cashflow statement should be reviewed with a view to simplifying it.</p>	<p>This Cashflow Statement model was first implemented for 2006/07 final accounts and will be reviewed before using the model for the 2007/08 final accounts.</p>	<p>Bill Lewis April 2008</p>

Number	Risk	Issue and recommendation	Management response	Officer and due date
10	● (two)	<p>There is an ongoing (since 2004/05) query with DCLG regarding the pooling of HRA capital receipts.</p> <p>The Authority should seek to resolve this query and consider the impact on financial planning.</p>	<p>The Authority has retained a level of capital receipts to enable repayment of the disputed amount and there will therefore be no detrimental impact on financial planning. The Authority is currently in discussion with its advisors to seek resolution of this matter.</p>	<p>Rebecca Thomas March 2008</p>
11	● (one)	<p>Capital expenditure is not monitored by Cabinet during the year. An outturn report had not been presented to Council as at 19th September 2007.</p> <p>Performance reporting to Members should be enhanced to include key financial information including capital expenditure against the capital programme and collection rates of Council Tax and NNDR.</p>	<p>A capital outturn report will be produced for the November Cabinet meeting and capital monitoring reports will be produced for Cabinet on a monthly basis.</p> <p>The introduction of performance reporting to include key financial information will be considered.</p>	<p>Rebecca Thomas November 2007</p> <p>Rebecca Thomas Bill Lewis January 2008</p>
12	● (one)	<p>In pursuing rental arrears, some cases are referred to court. Current practice is that cheques payable to HMCS are written in bulk, stored in a drawer and sent to HMCS when required.</p> <p>Cheques should only be produced when required.</p>	<p>The system has been reviewed and cheques are now requested when required.</p>	<p>Bill Lewis</p>
13	● (one)	<p>Our review of the bank reconciliation revealed a number of errors and issues. Reconciling items were incorrectly recorded, BACS transfers were shown as unpresented and several cancelled cheques were shown as unpresented.</p> <p>The Authority should review its quality control process over the bank reconciliation and ensure an effective review of the completed reconciliation is performed.</p>	<p>Bank reconciliations were improved for 2006/07 and the review process is still underway. Quality control procedures and management review are being introduced.</p>	<p>Bill Lewis January 2008</p>
14	● (two)	<p>We identified a number of leases which were not disclosed in the accounts. The SORP contains requirements on disclosing all leases and their classification as either operating or finance leases.</p> <p>A central register of all leases should be maintained. This will facilitate the accounts production process and enable effective monitoring of leases.</p>	<p>A central register of leases will be implemented.</p>	<p>Rebecca Thomas October 2007</p>
15	● (one)	<p>The Authority operates a Building Control Account. Government regulations state that authorities must ensure income matches expenditure over a three year period on chargeable work. The chargeable account has operated at a deficit for the past three years with a cumulative deficit of £211,000.</p> <p>The Authority should review income and expenditure making up charges for the chargeable work operated through the Building Control account in the context of Government regulations.</p>	<p>Building Control charges and related expenditure will be reviewed during the 2008/09 budget setting process.</p>	<p>Rebecca Thomas December 2007</p>

Appendix 4: Follow up of 2005/06 Accounts performance improvement observations

This appendix summarises the progress made to implement the performance improvements that we identified during last years final accounts audit. We have given each of our observations a risk rating (as explained in Appendix 4). In summary:.

Year	Number of performance improvement observations that were:		
	Included in original report	Implemented in year or superseded	Remain outstanding (re-iterated below)
2005-06	Audit Memorandum – Report to those charged with governance		

#	Risk	Issue and performance improvement observation	Initial Management response	Progress to date
1	● (one)	<p>Monitoring and Reporting Financial Performance</p> <p>Having set the 2005/06 budget in February 2005, no reports were produced on a regular basis in year to members comparing actual performance with that budget.</p> <p>Nor has there been a detailed revenue outturn report presented to members explaining the year end position against the revenue budget.</p> <p>A capital outturn report was presented to members but did not include adequate explanation of variances against the capital programme.</p> <p>The Authority should ensure that detailed monitoring reports with recommended courses of action where necessary, are prepared for members in a timely fashion at least quarterly throughout the year. In addition detailed outturn reports should be prepared for members explaining the year end position against the revenue and capital budgets. The Authority should ensure that the reports are in a format that enables members to have a full understanding of the reasons for variances against budget.</p>	<p>A number of monitoring reports were made during the year to the Executive and Improvement Board. The overall outturn position was reported with the Statement of Accounts and more detailed revenue and capital outturn reports have been produced.</p> <p>Monitoring reports are being produced for 2006/07 starting with the half-yearly position. The format of these reports is under review to improve the information provided to members and to the public.</p>	<p>Monitoring reports were produced for 2006/07 starting with the half yearly position. Reports were produced for senior management on a monthly basis but were not brought regularly to cabinet until late in the 2006/07 financial year. An outturn report for 2006/07 has been presented to Cabinet and monitoring reports for 2007/08 are being presented to Cabinet on a monthly basis.</p>
2	● (two)	<p>Grants and Contributions Deferred</p> <p>The Authority's policy is not to depreciate assets in the year of acquisition, however grants and contributions towards fixed assets are written down in the year of acquisition. Therefore the expenditure and income are not matched in the same year. This needs to be corrected in 2006/07. The Authority need to undertaken an exercise to establish the mismatch and correct it accordingly.</p>		<p>The corrective action required has been undertaken.</p>
3	● (one)	<p>Insurance Reserve</p> <p>The insurance 'fund' (reserve and provision) was actuarially valued at 31/3/06 at £2.1m. The total value of the fund at that date is £3.4m, therefore the Authority has £1.3m greater in the insurance reserve than the actuary considers necessary.</p> <p>The Authority should consider releasing the insurance reserve as part of the 07/08 budget setting process.</p>		<p>The insurance reserve was adjusted to the actuarial position as part of the 2006/07 year end process.</p>

Appendix 4: Follow up of 2005/06 Accounts performance improvement observations

#	Risk	Issue and performance improvement observation	Management response	Progress to date
4	● (one)	<p>Working Papers</p> <p>In parts the audit was significantly delayed as a result of working papers not being prepared until the last week of the audit visit, in particular:</p> <ul style="list-style-type: none"> •Bank reconciliation; •Collection Fund; and •Payroll <p>To complete our required audit work within the allocated timescale, and to prevent the Authority incurring overrun audit fees, it is vital that we receive all working papers at the start of the audit visit which clearly link to the financial statements.</p>	<p>It is agreed that these working papers were not finalised until late in the audit. It has always been the intention to continually improve the standard of all working papers so that they fulfil the requirements of both the Council and our auditors. These particular working papers will be reviewed as a high priority for improvement.</p>	<p>The working papers for 2005/06 have been improved for the 2006/07 final accounts production. It is recognised that there are still some areas for improvement and the quality of year end working papers will continue to be a focus of the year end process for 2007/08.</p>
5	● (one)	<p>Bank Reconciliation</p> <p>The review of the bank reconciliation identified a considerable number of unexplained reconciling items. A significant amount of time was spent investigating these items, and a material audit adjustment was identified.</p> <p>The Authority should review its process for completing the bank reconciliation to ensure that a proper reconciliation to the ledger is completed for all bank accounts on a monthly basis. The format/presentation of these reconciliations also needs reviewing.</p>	<p>The overall arrangements for banking and bank reconciliation is subject to a fundamental review as part of the Council's review into overall financial controls.</p> <p>Control on monthly bank reconciliations is being put in place with immediate effect.</p>	<p>Bank reconciliations were reviewed during 2006/07 and some areas for improvement have been identified. Detailed bank reconciliations have been completed for some of the accounts but the remainder are incorporated in a global reconciliation. For 2007/08, the results of the review will be incorporated into new procedures for regular individual reconciliations.</p>
6	● (one)	<p>Key Systems Reconciliations: Housing Benefits</p> <p>Key reconciliations in respect of housing benefits were not prepared until late into the audit visit:</p> <ul style="list-style-type: none"> •Housing Benefits system to the ledger; •Housing Benefits system to the rents system; •Housing Benefits system to the Council Tax system; and •Housing Benefits system to creditor payments made <p>These reconciliations should be completed on a monthly basis and independently reviewed.</p>	<p>The reconciliation process for 2005/06 incorporated two housing benefits systems due to the implementation of a new improved system during 2005/06.</p> <p>Improvements are being made to the process for the 2006/07 financial year and reconciliations will be produced by the departments responsible for the systems which will then be reviewed by Finance.</p>	<p>Investigations into the interfacing between systems have been carried out and monthly reconciliations will be implemented from early 2008.</p>

Appendix 4: Follow up of 2005/06 Accounts performance improvement observations

#	Risk	Issue and performance improvement observation	Initial management response	Progress to date
7	● (one)	<p>Bad Debt Provision</p> <p>The Authority's policy for the provision for bad debts has not been reviewed for a number of years.</p> <p>The policy should be reviewed to ensure that the basis of the provision for bad debts is derived from collection rates for the various types of debt.</p>	<p>A review will be undertaken during this financial year. Improvements in the systems involved in the collection of debts are currently being planned and a further review will be undertaken when the information systems are improved.</p>	<p>The calculation of and accounting for the bad debt provision and write offs was reviewed during the 2006/07 financial year and was implemented for the 2006/07 closedown. A further review will be carried out when the Sundry Income system is upgraded to identify improved management information.</p>
8	● (one)	<p>HRA Rent Arrears</p> <p>At 31 March 2006 rent arrears remain high, at almost 8% of the debit. The Authority should review its arrangements for the collection of rent and former tenant arrears to ensure the rent arrears position is improved.</p>	<p>A new Housing Management System is currently being implemented. This system will allow for improved management of the rent arrears.</p>	<p>A new Housing Management System is currently being implemented, however arrears remain relatively high.</p>
9	● (one)	<p>Far Cotton Community Centre</p> <p>A number of issues have been identified around the Far Cotton Community Centre capital scheme. These will be subject to separate communication with the Authority.</p>		<p>Far Cotton Community Centre was completed during 2006/07 and opened at the end of March 2007.</p>
10	● (two)	<p>Leased Assets</p> <p>The SORP states that where the Authority acts as the lessor in an operating lease, a disclosure note should be included with the balance sheet detailing the amount of asset held for use in operating leases and the related accumulated depreciation charges.</p> <p>The Authority should ensure that this disclosure is made in the 2006/07 Statement of Accounts.</p>	<p>Agreed</p>	<p>Accumulated depreciation charges are being disclosed as part of the notes in the 2006/07 Statement of Accounts.</p>

Appendix 5: ISA 260 Declaration of independence and objectivity

Declaration of Independence and Objectivity 2006/07

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; and
- 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.

Continued overleaf

Appendix 5: ISA 260 Declaration of independence and objectivity

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

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

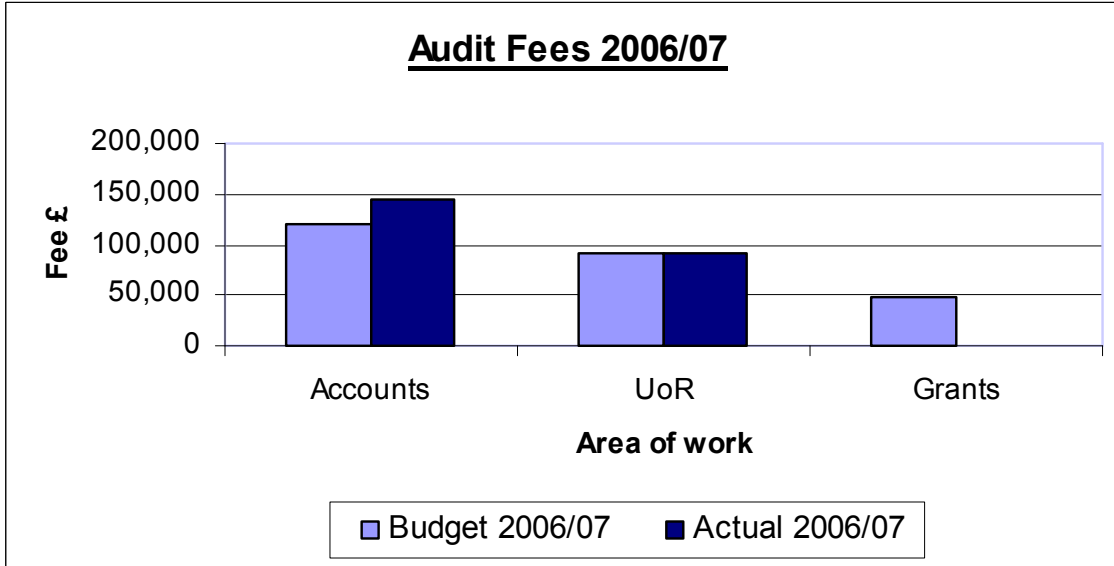
Auditor Declaration

In relation to the audit of the financial statements of Northampton Borough Council for the financial year ending 31 March 2007, 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 partner 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.

Details of our fees for the financial year are given in Appendix 7.

Appendix 6 – Audit fee

This section summarises our overall arrangements for delivering your external audit in 2006/07. 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 2006/07 agreed external audit fee:



Subject to agreement with management the audit fee will be higher than the fee agreed in the audit plan, as shown in the graph above. This is due to overrun costs on the accounts audit. We have included estimated amounts in the above graph and will agree the final amounts in due course.

The grant claim work has not yet been completed.

Appendix 7: Draft management representation letter

Dear KPMG LLP,

Audit for the year ended 31 March 2007

I understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly I confirm to the best of my knowledge and belief, and having made appropriate enquiries of members and other officers of the Authority, the following representations given to you in connection with your audit for the year ended 31 March 2007.

Accounting Records

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. All other records and related information, including minutes of all management and board meetings, have been made available to you.

Related party transactions

I confirm that all material related parties transactions relevant to the Council have been properly recorded and disclosed in the financial statements and am not aware of any other such matters which would be required to be disclosed in the financial statements (whether under FRS 8 or other requirements).

Law, regulations and codes of practice

With the exception of the issues set out below, I confirm that I am not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the finance or operation of the Authority and therefore on the results and financial position disclosed in the financial statements for the year ended 31 March 2007.

Measurement Methods

The measurement methods, including related assumptions, used to determine fair values comply with the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice 2006 and wider UK accounting standards and have been consistently applied.

Fraud

I am responsible for the design, implementation and operation of an effective system of internal financial control designed to prevent and detect fraud and error. Accordingly:

I confirm that I 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;

I have disclosed to you all significant facts relating to any frauds or suspected frauds known to me that may have affected the Council; and

I have disclosed to you the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Contingent liabilities

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.

Post balance sheet events

Since the date of approval of the financial statements by Members of the Authority, there have been no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

Continued overleaf

Appendix 7: Draft management representation letter

Specific Issues

You have requested assurances on the following specific issues: -

During the audit of the 2004/2005 Statement of Accounts, the Council drew your attention to concerns it had over the vires of its Highways trading operation with WS Atkins. Detailed advice was sought from Counsel in 2005/2006 who concluded that this income and expenditure is beyond its powers and is therefore unlawful. The Council considered the implications of withdrawing from the arrangement and determined that it could rely on its well-being powers to follow a phased withdrawal until June 2007. This phased withdrawal has completed and I can confirm that there was no activity after June 2007 in relation to this arrangement.

In March 2006, the Council entered into a contract with Watson and Cox to build the Far Cotton Resource Centre, a scheme supported by grant funding from Northampton Partnerships. A payment in advance of £1.379M to Watson and Cox was recorded in the accounts. The building of the Far Cotton Resource Centre was became operational in March 2007.

This letter was tabled at the meeting of the Audit Committee on 24th September 2007.

Signed on behalf of Northampton Borough Council

Signed

Name	Isabell Procter
Position	Director of Finance (Section 151 Officer)
Date	24th September 2007