

# Annual Governance Report

Northampton Borough Council

Audit 2009/10

Date

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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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Ladies and Gentlemen

## **2009/10 Annual Governance Report**

I am pleased to present the final version of my report on the results of my audit work for 2009/10.

A draft of the report has been agreed with the Director of Finance and Support.

My report sets out the key issues that you should consider before I complete the audit. It asks you to:

- consider the matters raised in the report before I give my audit opinion
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- take note of the errors in the financial statements I have identified which management has declined to amend and approve the reasons set out in the draft letter of representation for not amending the errors; (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Neil Bellamy  
District Auditor

September 2010

# Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

<b>Financial statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	7-11
Draft financial statements free from material error	No	7-11
Adequate internal control environment	Yes	7-11
<b>Value for money</b>	<b>Results</b>	<b>Page</b>
Adequate arrangements to secure value for money	Yes	12-14

## Audit opinion

- 1 My work on the financial statements is substantially complete, although there are some outstanding issues to be resolved. Should any further matters arise in concluding the outstanding work that need to be reported, I will raise them with the Director of Finance and Chairman of this committee. At this stage, subject to satisfactory resolution of the outstanding matters, I propose issuing an unqualified audit opinion.

## Financial statements

- 2 At this stage, I have identified three material errors. Management has agreed to amend the financial statements for all errors with the exception of those in appendix 3.

## Value for money

- 3 All specified criteria have been met and I intend to issue an unqualified value for money conclusion.

## Audit fees

- 4 At this stage no changes to the audit fee are proposed but the position will be reassessed following completion of the audit.

## Key messages

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### Independence

- 5 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

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# Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

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**6** I ask the Audit Committee to:

- consider the matters raised in the report before I give my audit opinion;
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- take note of the errors in the financial statements I have identified which management has declined to amend and approve the reasons set out in the draft letter of representation for not amending the errors; (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

# Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before I issue my opinion.

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## Opinion on the financial statements

- 7 My work on the financial statements is substantially complete, although there are some outstanding issues to be resolved, including:
- confirmation of the accuracy of pension disclosures from the auditor of the Northamptonshire pension fund; and
  - agreement of the amended financial statements
- 8 Should any further matters arise in concluding the outstanding work that need to be reported, I will raise them with the Director of Finance and Support and Chairman of this committee. Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
- 9 The working papers to support the accounts were of a good standard. Officers responded promptly to audit questions and requests for additional information.
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## Errors in the financial statements

- 10 Adjusted errors are summarised in appendix 2 and unadjusted errors in appendix 3. There are no material unadjusted errors at this stage.
- 11 I can confirm that none of the amendments have impacted on the General Fund balance, HRA balance or net worth of the Council.
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### Recommendation

- R1 If the Committee decide to confirm management's decision not to amend the financial statements for the errors set out in appendix 3, provide reasons for the decision in the letter of representation.
- 

## Letter of representation

- 12 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.
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### Key areas of judgement and audit risk

13 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

**Table 1 Key areas of judgement and audit risk**

Issue or risk	Finding
<p>Follow-up of matters reported by KPMG on the 2008/09 audit, including:</p> <ul style="list-style-type: none"> <li>• Review of the basis for calculating the provision for bad debts;</li> <li>• Changing the approach to calculation of the profit/loss on sale of council houses to ensure SORP compliance;</li> <li>• Clearance of unallocated cash receipts</li> <li>• Review the approach to valuation of fixed assets to ensure all are covered within a period of 5 years;</li> <li>• Review of procedures for making year-end accruals.</li> </ul>	<p>All issues raised by KPMG last year have been addressed except for:</p> <ul style="list-style-type: none"> <li>• The basis for calculating the bad debts provision has been updated for all debts except housing rents (see table 2 below)</li> <li>• There remains a large sum of un-allocated cash at 31st March 2010 (see table 2 and appendix 3)</li> </ul>
<p>Detailed review and testing of implementation of accounting changes in the Statement of Recommended Practice (SORP), particularly in respect of local taxes and service concessions.</p>	<p>We have reviewed the accounting entries and there are no issues or concerns to report.</p>
<p>Review of compliance with additional disclosure requirements arising from changes in the Accounts &amp; Audit regulations requiring additional disclosure of senior officers pay.</p>	<p>The new disclosure requirements have been met.</p>
<p>Review of accounting treatment in respect of potential liabilities arising from implementation of Single Status.</p>	<p>The pay and grading review has been disclosed in the contingent liabilities note with funds set aside in reserves. The amount set aside is not explicit within the note for confidentiality reasons.</p>
<p>Consideration of the ongoing impact of the economic downturn on asset valuations, accounting estimates and the risk of misstatement of the accounts.</p>	<p>All material accounting estimates were reviewed and no errors identified.</p>
<p>Review of the 2009/10 Annual Governance Statement to determine whether sufficient detail is included in respect of control</p>	<p>There remains scope to include more detail in the 2009/10 statement (see table 2). The statement has been revised to</p>



## Financial statements

Issue or risk	Finding
weaknesses.	include further information.
Additional testing of journal transfers following weaknesses identified by Internal Audit.	Testing completed and no errors identified.

## Accounting practice and financial reporting

14 I consider the non-numeric content of your financial reporting. Table 2 contains the issues I want to raise with you.

**Table 2**

Issue or risk	Finding
Provision for bad debts.	The Council has updated its approach to the calculation of its bad debts provision for all relevant debts, with the exception of housing rents, which is still based on guidance issued by CIPFA that has long since been withdrawn. It would be more appropriate to calculate the rents provision based on the Council's actual experience of the recoverability of debts.
Explanatory foreword	The explanatory foreword does not refer to the ongoing impact of the economic downturn and does not include an explanation of any of the major variances compared to the previous year (e.g. the big reduction in impairment costs in HRA, reduced investment income, major increase in pension fund liability etc). We would expect these to be included in order to provide a broad understanding of the accounts. Instead the explanatory foreword explains outturn against budget. As the budget doesn't appear in the financial statements, the explanatory foreword is more detached from the accounting statements than it could be.
Depreciation	The Council does not take the residual value of assets into account when calculating depreciation each year. It is unlikely that this will have a significant

Issue or risk	Finding
	impact on the financial statements.
Unallocated cash	KPMG reported last year that there was £653k of unallocated cash and recommended that action be taken to clear the outstanding balance. During 2009/10 officers identified and allocated £267k to debtor accounts, the remainder was transferred to the GF balance. However, a further £623k of income received in 2009/10 was unallocated at 31st March, of which £32k remained unallocated at the time of audit (see appendix 3).
Annual Governance Statement	In our view the original Annual Governance Statement included insufficient detail on the nature of the significant control weaknesses disclosed in section 5. The statement has been revised to include further information.
Creditors control account reconciliation.	We found the overall standard of working papers to be good. However, working papers to support the sundry creditors control account reconciliation had not been retained and cannot be produced retrospectively.
Post balance sheet events	Since preparation of the financial statements the government announced that public sector pensions would, in future, be linked to the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This change will reduce the overall pension fund liability and represents a non-adjusting post balance sheet event requiring an additional disclosure note in the accounts.

### Recommendation

- R2** Review the basis for the calculation of the provision for bad debts in respect of housing rents to ensure that it reflects the Council's past experience of the collectability of debts rather than an out of date CIPFA model.
- R3** Consider expanding the explanatory foreword in future years to include more commentary and analysis of the financial statements such as explanations for significant year-on-year variances (rather than just budgetary variances) and the impact of any major issues affecting financial performance in the year (e.g. the economic downturn).
- R4** Include residual assets values in depreciation calculations in future.
- R5** Review arrangements for dealing with unidentified income to minimise the level of unallocated cash and reduce the risk of over-statement of debtor balances in future.
- R6** Ensure all prime system reports are retained to support the sundry creditors control account reconciliation in future.

# Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

## Value for money conclusion

15 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my findings and conclusions in the table below.

**Table 3 Value for money criteria**

Criterion	Met?
<b>Managing finances</b>	
<p><i>Planning for financial health:</i></p> <p>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. Budget setting considers local and national priorities. Budget plans are consulted on, and feedback considered before the final budget is set.</p>	<b>Yes</b>
<p><i>Understanding costs and achieving efficiencies:</i></p> <p>The Council has a good understanding of its costs and has achieved savings in a number of areas. This is being assisted by the work of the Strategic Business Reviews and use of value for money (VFM) profiles. Weaknesses identified last year have started to be addressed. Plans for further efficiencies are in place which set clear targets, timescales and responsibilities. It is too early to measure the impact of many of these plans; the Council needs to ensure that it makes the changes and delivers the improvements anticipated.</p>	<b>Yes</b>
<p><i>Financial reporting:</i></p> <p>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</p>	<b>Yes</b>

## Value for money

Criterion	Met?
requests for additional information.	
<b>Governing the business</b>	
<p><i>Commissioning and procurement:</i></p> <p>Savings and efficiencies have been achieved through improvements in procurement including development of the Northampton Area Procurement Service (NAPS) which the Council helped to establish last year. Joint procurement of the street-scene and waste management contract with a neighbouring council has helped to drive down tender costs. However, there remains significant potential which the Council is exploring but has not yet realised, such as implementation of Strategic Business Reviews, the PFI Contract on housing maintenance and the new agency contract.</p>	Yes
<p><i>Use of information:</i></p> <p>The Council has a good performance management framework that is underpinned by a Data Quality Strategy. There are clear plans to continue to improve. Reports look at what the Council has said it will do and highlights where it is both under performing and over performing. Senior officers and councillors are supportive of the plans. Clear regular reports about budget and performance help managers.</p>	Yes
<p><i>Good governance:</i></p> <p>Governance arrangements are sound. There is a clear vision for the governance of the Council. 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, especially in respect of the Local Strategic Partnership (LSP).</p>	Yes
<p><i>Risk management and internal control:</i></p> <p>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. Previous weaknesses (e.g. bank reconciliations) have been addressed and are now a strength. The Council has introduced a "recommendation tracker" for both internal and external auditor recommendations and officers are called to account by the Audit Committee if implementation is delayed.</p>	Yes
<b>Managing resources</b>	
<p><i>Natural resources:</i></p> <p>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.</p>	Yes
<p><i>Workforce:</i></p>	Yes

Criterion	Met?
The Council has previously been assessed as having adequate arrangements in place for workforce management. I have confirmed there is nothing which would alter my assessment this year.	

Recommendation
<p><b>R7</b> Continue to develop commissioning arrangements and explore opportunities for further efficiencies whilst ensuring that existing plans (e.g. Strategic Business Reviews) are implemented and have impact.</p> <p><b>R8</b> Implement plans to develop and strengthen governance arrangements in respect of partnerships.</p>

- 16** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

# Glossary

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## Annual governance statement

**17** A statement of internal control prepared by an audited body and published with the financial statements.

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## Audit closure certificate

**18** A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

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## Audit opinion

**19** 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.
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## Qualified

**20** The auditor has some reservations or concerns.

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## Unqualified

**21** The auditor does not have any reservations.

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## Value for money conclusion

**22** 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.

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# Appendix 1 – Independent auditor’s report to Members of Northampton Borough Council

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## Opinion on the accounting statements

I have audited the Authority accounting statements and related notes of Northampton Borough Council for the year ended 31 March 2010 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, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Northampton Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

## Respective responsibilities of the Director of Finance and auditor

The Director of Finance responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the



## **Appendix 1 – Independent auditor’s report to Members of Northampton Borough Council**

effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my 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.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me 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 my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

### **Opinion**

In my opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

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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**

I am 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 me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in

## **Appendix 1 – Independent auditor’s report to Members of Northampton Borough Council**

October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Northampton Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

### **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.

Mr N Bellamy  
District Auditor  
Audit Commission  
Rivermead House  
7 Lewis Court  
Grove Park  
Enderby  
Leicestershire  
LE19 1SU

September 2010

# Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and management has made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

**Table 4**

Adjusted misstatements	Nature of adjustment	Income and Expenditure Account		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Cash flow statement (material error)	Movements in cash for NNDR of £9,564k and Council Tax of £712k were incorrectly included in the "revenue activities" section of the cash flow statement rather than "other liquid resources" as required by the Statement of Recommended Practice (SORP).				
Cash flow statement	The cash flow statement incorrectly includes £1,250k accrued interest in respect of investment income.				
Audit Fees.	KPMG audit fee of £80k was incorrectly included in "other services" rather than "audit services". Statutory inspection fee of £8k was				

## Appendix 2 – Amendments to the draft accounts

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
	excluded.				
Investment properties (material error)	<p>A number of properties totalling approximately £32m have been incorrectly classified as investment properties as they are not held solely for investment purposes.</p> <ul style="list-style-type: none"> <li>● Investment properties</li> <li>● Operational properties (Other Land &amp; Buildings)</li> <li>● Community Assets</li> </ul>			31,653 723	32,376
Investment properties	<p>The mis-classification of investment properties noted above has resulted in an under-statement of depreciation charges.</p> <ul style="list-style-type: none"> <li>● Fixed Assets (depreciation)</li> <li>● Service Revenue Accounts</li> <li>● Capital Adjustment Account</li> <li>● Statement of Movements on General Fund balance (SMGFB)</li> </ul>	944	944	944	944
Leases	Disclosure of future lease commitments excludes £650k in respect of vehicle leases.				
Statement of Movements in the General Fund	The statement incorrectly aggregated HRA adjustments into				

## Appendix 2 – Amendments to the draft accounts

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Balance (material error)	a single line rather than analysing across the various categories in the SMGFB. The sum of these adjustments was £9,505k				
Cash Flow Statement	Officers identified a classification error of £656k within the cash flow statement during the course of the audit.				

# Appendix 3 – Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. If you believe the affect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter.

**Table 5**

Description of error	Accounts affected	Value of error £ million
There was £623k of unallocated cash at 31st March 2010 of which £591k has subsequently been allocated to debtor balances. Consequently, both debtors and creditors at 31st March 2010 are over-stated.	Debtors	0.623
	Creditors (sundry creditors)	0.623
There was a balance of £90k on the Council's Payzone bank account on 31st March 2010 which has been excluded from the cash balance as it was not posted to the Councils main bank account until 1st April 2010. Consequently, the cash balance is under-stated and debtors over-stated.	Debtors	0.09
	Cash	0.09

# Appendix 4 – Draft letter of representation

Mr Neil Bellamy  
District Auditor  
Audit Commission  
Rivermead House  
7 Lewis Court  
Grove Park  
Enderby  
Leicestershire  
LE19 1SU

## Northampton Borough Council - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of the Council and Councillors, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010. All representations cover the Council's accounts included within the financial statements.

### Compliance with the statutory authorities

I acknowledge responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the *Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice* which give a true and fair view of the financial position and financial performance of Northampton Borough Council and for making accurate representations to you.

### Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected misstatements listed in appendix 3 of the auditor's Annual Governance Report are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council (the Audit Committee) and the reasons for not correcting these errors are as follows:

- The Council often receives money with inadequate information to automatically allocate the cash to customers' accounts. Before the cash is allocated, the Council accounts for the income as creditors on the basis that the Council either needs to find the correct account to allocate the income or, alternatively, must refund the money. At the 31st March 2010 there was £623k of unidentified income of which £591k was subsequently identified and allocated to debtor balances early in the following financial year. This figure is made up of many transactions and it would take a significant amount of work to post these transactions back into the previous financial year; the work involved significantly outweighs the value to the accounts and so the Council has taken the decision not to amend the accounts for 2009/10. The

## Appendix 4 – Draft letter of representation

processes in this area have continued to improve and the levels of unidentified balances in 2010/11 have significantly reduced;

- The Alliance and Leicester Bank provide a service via Payzone outlets to enable the general public to pay monies to the NBC using an issued swipe card or bar code. The Council cannot pay into the accounts used by Alliance and Leicester to administer this service and cannot transfer the money on demand from Alliance and Leicester to the Council's accounts; the transfer from Alliance and Leicester to the Council is set in the contract. Currently these monies are paid over weekly with Alliance and Leicester counting a week from Wednesday to Tuesday. The time scale between a customer paying in and the Council receiving notification via an electronic file is around 4 days. The electronic files received from Alliance and Leicester during the night are automatically credited to the customer accounts via the income receipting system and so the information on the statement dated 31st March 2010 was received in file form on 1st April 2010 credited to the customer's accounts on the 2nd April 2010, although the cash not received until 9th April 2010. As the Council did not have the cash, nor had any idea as to how much cash there was before the file was received it was excluded from the year-end cash figure and was represented in the accounts as a debtor.

### Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all member meetings, have been made available to you.

### Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.



## **Appendix 4 – Draft letter of representation**

### **Law, regulations, contractual arrangement and codes of practice**

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### **Fair values**

I confirm the reasonableness of the significant assumptions within the financial statements, including:

- the appropriateness of the measurement method;
- the completeness and appropriateness under the financial reporting framework; and
- the appropriateness of any adjustments to the fair value arising from subsequent events.

### **Group entities and joint arrangements**

I confirm that there are no material group entities requiring the preparation of group accounts and no material joint arrangements requiring inclusion in the financial statements, other than those already disclosed and accounted for.

### **Assets**

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;
- agreements and options to buy back assets previously sold; and
- assets pledged as collateral.

### **Compensating arrangements**

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. We have no credit arrangements other than those already disclosed in the financial statements.

### **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 those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

### Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties. The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

### Post balance sheet events

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

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements

### Specific representations:

- The Council provided accurate information to the actuary for the purpose of calculating the required pension disclosures in accordance with FRS17 and the Local Authority Statement of Recommended Practice (SORP).
- There are no known bad debts other than those already provided for in the financial statements.
- There are no known material weaknesses in internal controls not already disclosed in the annual governance statement.
- There have been no disposals of fixed assets during the year other than those recorded in the financial statements.
- All provisions have been identified and accounted for in accordance with FRS12 and the Local Authority Statement of Recommended Practice (SORP).
- All impairments to fixed assets have been identified and accounted for in compliance with FRS 11 and the Local Authority Statement of Recommended Practice (SORP).
- The Council's registers of interest are complete and up to date in respect of members and senior staff.
- All significant contracts have then been examined to determine whether any may fall within the scope of IFRIC 12 as service concessions. There are no contracts that fall within this scope other than those that have been properly recorded and disclosed within the financial statements.

I confirm that this letter was discussed and agreed by members of the Audit Committee at its meeting on 27 September 2010.

Director of Finance & Support  
Signed on behalf of Northampton Borough Council

## Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Governance Report 2009/10 - Recommendations</b>						
7	If the Committee decide to confirm management's decision not to amend the financial statements for the errors set out in appendix 3, provide reasons for the decision in the letter of representation.	3	Audit Committee	Yes	Reasons set out in draft letter of representation.	Sept 2010
11	Review the basis for the calculation of the provision for bad debts in respect of housing rents to ensure that it reflects the Council's past experience of the collectability of debts rather than an out of date CIPFA model.	3	Paul Foley Finance Manager	Yes	Agreed. The calculation will be reviewed and incorporated into the calculations for 2010/11.	2010/11
11	Consider expanding the explanatory foreword in future years to include more commentary and analysis of the financial statements such as explanations for significant year-on-year variances (rather than just budgetary variances) and the	2	Rebecca Smith Assistant Head of Finance	Yes	The explanatory foreword compares budget with outturn to tie in with the outturn reports and to put the accounts into context with the Council's normal	2010/11

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	impact of any major issues affecting financial performance in the year (e.g. the economic downturn).				financial reporting on budgets and budget monitoring. The points made have been noted and will review content for next year's statement of accounts.	
11	Include residual assets values in depreciation calculations in future.	1	Rebecca Smith Assistant Head of Finance	Yes	This will be reviewed and implemented in 2010/11. In respect of buildings it is anticipated that in most cases the residual value will relate to the land element and will therefore be non depreciable. In respect of the vehicle fleet the impact will be minimal as the vast majority of the fleet are on contract hire.	2010/11
11	Review arrangements for dealing with unidentified income to minimise the level of unallocated cash and reduce the risk of over-statement of debtor balances in future.	3	Philip Morrison Finance Manager	Yes	Steps are ongoing in the current financial year to identify swiftly unallocated receipts.	

## Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
11	Ensure all prime system reports are retained to support the sundry creditors control account reconciliation in future.	3	Philip Morrison Finance Manager	Yes	Processes will be put in place to ensure that the reports requested by the auditors are retained.	2010/11
14	Continue to develop commissioning arrangements and explore opportunities for further efficiencies whilst ensuring that existing plans (e.g. Strategic Business Reviews) are implemented and have impact.	2	Director of Finance & Support	Yes	A number of Strategic Business Reviews are progressing and are having significant positive impact. The sale of Cliftonville House is nearing completion and the associated renovation of the Guildhall is well underway; Environmental services is currently in competitive dialogue and is anticipated to complete in May 2011; the review of non-operational property is complete and a programme of disposals has begun.	
14	Implement plans to develop and strengthen governance arrangements in respect of	2	Cara Boden Assistant Chief	Yes	A new protocol is due to be drafted and approved during 2010/11. The protocol is	2010/11

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	partnerships.		Executive		due to be launched, alongside a timetable for reviewing existing partnerships, in early 2011	

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