



# East Northamptonshire Council

## Audit and Risk Management Committee - 23

September 2009

### External Audit - Annual Governance Report

---

#### Summary

The Annual Governance Report report produced by our External Auditors for consideration by those Members charged with governance.

#### Attachment(s)

External Audit - Annual Governance Report

---

1. The Annual Governance Report is produced by our External Auditors. It sets out the key findings from all of the audit work that they have performed this year. It has been designed to support the opinions and conclusions that they are required to provide. To comply with the requirements of ISA 260 (Communication of Audit Matters with Those Charged with Governance), it is a requirement of the Code of Audit Practice, issued by the Audit Commission, that they provide this summary of their work to those charged with governance at the time when they are considering the financial statements.
2. The report sets out their findings and conclusions in relation to;
  - The Audit of our Statement of Accounts
  - Our Use of Resources Assessment
3. As summarised in the report, there has been the need to make some changes to our financial statements as a result of the audit. These changes are summarised in appendix 2. The revised Statement of Accounts can be viewed on the Council's web site at <http://www.east-northamptonshire.gov.uk/pp/gold/viewGold.asp?ID=1269>.
4. It is though pleasing to report that the number of changes required has gone down and that the issues surrounding the response to auditor queries (raised last year as an issue) have been resolved.
5. At the time of writing there are still some minor issues outstanding regarding the finalisation of the Audit and it is recommended that approval for any changes to the statements as a result of this work is delegated to the Chief Finance Officer.
6. The other main element of the report is in relation to our Use of Resources Assessment. As Members may be aware this was the first year we have been assessed under the new framework which has been dubbed "The Harder Test". As such it is pleasing to report that we have obtained a score of 2 which, although the same as last year, actually reflects an improvement in our position because the criteria is now more stringent.
7. Members will note on page 6 that our Auditors have asked the committee to consider a number of issues. The Committee are therefore **Recommended**
  - To consider the matters raised in this report and approve the revised Statement of Accounts.
  - To note the adjustments to the Statement of Accounts
  - To consider whether to adjust the unadjusted misstatement as set out in Appendix 3
  - To delegate to the Chief Finance Officer authority to approve any further

adjustments required prior to the conclusion of the audit.

- To note the VFM Conclusion and Use of Resources Score
- To approve the letter of representation as set out in Appendix 4
- To agree the response to the Action Plan set out in Appendix 6.

<b>Implications:</b>					
<b>Corporate Outcomes or Other Policy/Priority/Strategy</b>					
Good Quality of Life		<input type="checkbox"/>	Good Reputation		<input type="checkbox"/>
Good Value for Money		<input type="checkbox"/>	High Quality Service Delivery		<input checked="" type="checkbox"/>
Effective Partnership Working		<input type="checkbox"/>	Strong Community Leadership		<input type="checkbox"/>
Effective Management		<input type="checkbox"/>	Knowledge of our Customers and Communities		<input type="checkbox"/>
Employees and Members with the Right Knowledge, Skills and Behaviours					<input type="checkbox"/>
<b>Other:</b>					<input type="checkbox"/>
Decision(s) would be outside the budget or policy framework and require full Council approval					<input type="checkbox"/>
<b>Financial</b>	There are no financial implications at this stage				<input checked="" type="checkbox"/>
	There will be financial implications – see paragraph				<input type="checkbox"/>
	There is provision within existing budget				<input type="checkbox"/>
	Decisions may give rise to additional expenditure at a later date				<input type="checkbox"/>
	Decisions may have potential for income generation				<input type="checkbox"/>
<b>Risk Management</b>	An assessment has been carried out and there are no material risks				<input checked="" type="checkbox"/>
	Material risks exist and these are recorded at Risk Register Reference - inherent risk score - residual risk score -				<input type="checkbox"/>
<b>Staff</b>	There are no additional staffing implications				<input checked="" type="checkbox"/>
	Additional staff will be required – see paragraph				<input type="checkbox"/>
<b>Equalities and Human Rights</b>	There will be no impact on equality (race, age, gender, disability, religion/belief, sexual orientation) or human rights implications				<input checked="" type="checkbox"/>
	There will be an impact on equality (see categories above) or human rights implications – see paragraph				<input type="checkbox"/>
<b>Legal</b>	Power: Accounts and Audit Regulations 2003				
	Other considerations:				
<b>Background Papers:</b> None					
<b>Person Originating Report:</b> Robert Austin, Head of Reosurces					
<b>Date:</b> 2 September 2009					
<b>CFO</b>		<b>MO</b>		<b>CX</b>	

(Committee Report Normal Rev. 19)

# Annual Governance Report

East Northamptonshire Council

Audit 2008/09

Date 15 September 2009

---

# Contents

<b>Key messages</b>	<b>3</b>
<b>Next steps</b>	<b>5</b>
<b>Financial statements</b>	<b>6</b>
<b>Use of resources</b>	<b>11</b>
<b>Appendix 1 – Independent auditor’s report to Members of East Northamptonshire Council</b>	<b>13</b>
<b>Appendix 2 – Adjusted amendments to the accounts</b>	<b>16</b>
<b>Appendix 3 – Unadjusted misstatements in the accounts</b>	<b>19</b>
<b>Appendix 4 – Draft letter of representation</b>	<b>20</b>
<b>Appendix 5 – Use of resources key findings and conclusions</b>	<b>24</b>
<b>Appendix 6 – Action Plan</b>	<b>31</b>
<b>The Audit Commission</b>	<b>32</b>

DRAFT

---

# Key messages

This report summarises the findings from the 2008/09 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 how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

---

<b>Financial Statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	6
Financial statements free from error	No	6
Adequate internal control environment	Yes	6
<b>Use of resources</b>	<b>Results</b>	<b>Page</b>
Use of resources judgements	Yes	11
Arrangements to secure value for money	Yes	11

---

## Audit opinion

- 1 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements.

---

## Financial statements

- 2 The draft financial statements presented for audit contained a number of material and non trivial errors, and we have agreed a number of amendments to the core financial statements. We have also agreed with your officers a number of other presentational amendments.
- 3 Last year's auditors reported delays in receiving responses to queries from officers. I am pleased to report that your officers responded promptly to all our queries during this year's post statements visit.

---

## Use of resources

- 4 2008/09 was the first year of a new approach to our Use of Resources assessment. As has been well publicised, it is broader and more challenging than previously. Overall, subject to national quality assurance, we assessed the Council as level 2 - meeting minimum requirements and performing adequately.

- 5 This is a positive result for the Council, given the more challenging assessment method.

---

### Audit Fees

- 6 We wrote to the Executive Director (CFO) in June 2009 to explain that, in our original audit plan, the estimated fee for the opinion audit was based on the best estimate at the time and agreed at £72,778.
- 7 Once all the work has been completed we will review the fee charged and discuss any amendment to the fee with the Executive Director.

# 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.**

---

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

- consider the matters raised in the report before approving the financial statements (pages 3 to 19);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- take note of the VFM Conclusion and Use of Resources score;
- 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 you adopt the financial statements and the annual governance statement.

---

## Opinion on the financial statements

- 9** Audit work is nearing completion, however we still waiting for assurances from the auditors of the Pension Fund. 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.
- 10** I will provide an update of progress at the Audit and Risk Management Committee meeting on the 23 September.

---

## Errors in the financial statements

- 11** The financial statements contained four material errors and a number of non-trivial errors which have all been corrected. We have also agreed with officers a number of presentational amendments as set out in Table 2 and Appendix 2.
- 12** In addition there is an unadjusted error as set out in Appendix 3. Correction of this error would increase the General Fund Balance by £10k. Your officers are proposing to make this amendment in 2009-10.

Recommendation
----------------

- |  |
|--|
| <b>R1</b> Consider whether the unadjusted error should be corrected in 2008-09 |
|--|

---

## Letter of representation

- 13** Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation I seek to obtain from you.

### Key areas of judgement and audit risk

14 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

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

Issue or risk	Finding
<p>The current economic downturn has had an impact on asset values generally, which may result in substantial impairment to the Council's assets</p>	<p>We have undertaken a detailed review of the Council's valuations and impairments and subject to amendments agreed are satisfied that the asset valuations are fairly stated</p>
<p>We are required by International standards of Audit 240, 250 and 501 to obtain information from Those Charged with Governance (TCWG) about the Council's arrangements for minimising the risk that its accounts</p> <p>a) are misstated due to fraud including manipulation of the accounts; and</p> <p>b) do not comply with relevant laws and regulation</p> <p>We have written to TCWG and are expecting a response in the next few days.</p>	<p>A response has now been received and the necessary assurances obtained.</p>
<p>Departure of a senior member of EnCor and employment of temporary cover</p>	<p>The accounts were prepared on time and the working papers available to us at the start of the audit. Officers were very prompt at responding to queries and this cooperation is much appreciated.</p>
<p>Officers were unable to complete the bank reconciliation for a large part of 2008-09. An in depth review of bank reconciliation processes was commissioned from Bentley Jennison by the Council in order to address this issue.</p> <p>On receipt of the model and revised process from Bentley Jennison the EnCor team revisited all the outstanding reconciliations to ensure that these were completed properly.</p>	<p>The bank reconciliation has been reviewed and found to be satisfactory at the year end. However we note that at the time of writing this report the bank reconciliation for July 2009 has not yet been completed due to a software problem following a system upgrade from Civica.</p>

Issue or risk	Finding
<p>The fixed asset register has not been updated throughout the year and has not been available to us at our interim audit. We have therefore been unable to:</p> <ul style="list-style-type: none"> <li>• fully complete our documentation of the system</li> <li>• test our understanding of the system (walkthrough test),</li> <li>• identify the key controls and undertake compliance testing of figures in the fixed assets register which inform the accounts.</li> </ul>	<p>Our testing of the fixed assets figures in the accounts identified a number of errors which have been detailed in table 2 below. Subject to correction of these errors we have gained sufficient assurance over the figures on the balance sheet.</p> <p>As we were unable to rely on any work undertaken by Internal Audit in this area some additional audit time was required to obtain this assurance.</p>

**Accounting practice and financial reporting**

15 I consider the qualitative aspects of your financial reporting. Table 2 contains the issues I want to raise with you.

Issue or risk	Finding
<p>Fixed asset registers (FARs)</p>	<p>FARs for intangible fixed assets and Vehicles Plant and Equipment did not agree with the figures disclosed in the statement of accounts. These have now been reconciled and errors highlighted amended.</p> <p>No reconciliation had been undertaken of the asset registers held in the estates department and those held in the finance department. Our testing of disposals found that one piece of land sold had not actually been included in the fixed assets registers.</p>
<p>Asset valuations</p>	<p>The Council has not re-valued its assets since the last full formal external valuation of 1/4/04. This means that depreciation has probably been under charged in the period from April 2004 to March 2008 given the increases in asset values.</p> <p>No price impairment was processed in 2008/09 as the assets had not been re-valued.</p>

## Financial statements

Issue or risk	Finding
Creditor due to DCLG	<p>The accounts include a 'current' creditor balance for DCLG, in the sum of £1,118k, in respect of LSVT levy, which has been on the Council's Balance Sheet for a number of years. We have agreed with your officers that this should be reclassified as a provision as there has been no demand from DCLG for payment of this sum.</p> <p>We recommend that discussions are held with DCLG to resolve this issue as soon as practicable. If the Council is able to establish that this sum is not in fact due, our understanding is that Useable Capital Receipts would increase by the £1,118k.</p>
Expenditure charged to the correct period – Cut off testing	<p>Our testing of expenditure in April 2009 identified an invoice which had been charged to 2009-10 instead of 2008-09. Extrapolation of this error to all payments results in a possible undercharge to the 2008/09 income and expenditure account of £41k. We are satisfied that this does not contribute to a material misstatement in the accounts, and as there is an inherent uncertainty regarding extrapolated figures we have not requested an amendment be made.</p>
Disclosures in respect of financial instruments are incorrect	<p>The disclosures in note 37 have been amended to exclude statutory debts (council tax, NNDR etc) and prepayments, none of which is a financial instrument. These disclosures have no impact on the balance sheet.</p>
Officers' emoluments	<p>The disclosure in respect of officers' emoluments was incorrect, and has now been amended.</p>

**Recommendation**

**R2** Ensure that action is taken by officers to:

- Reconcile FARs held by Estates and Finance on an annual basis
- Obtain appropriate revaluations of fixed assets annually for evidence of material increases or decreases in value
- Resolve the issue of the balance of £1,118k held for payment to DCLG

---

# Use of resources

I am required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.

I am also required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

---

## Use of resources judgements

- 16** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). The Use of Resources framework was changed this year and is broader and more challenging than previously and therefore no direct comparisons of scores can be made. Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 17** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 18** The Council's use of resources theme scores are shown in Table 3 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 5.
- 19** The scores are draft as they are still subject to completion of our use of resources national quality assurance process. Final scores will be notified to the Council by the Audit Commission on September 14th.

---

**Table 2** Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	2
Managing resources	2

- 20** The Council's arrangements across all areas meet minimum acceptable levels of performance and are consistent with established practice and guidance, meet statutory requirements and operate effectively. Whilst all KLOEs have been assessed as 2 there are, within these, some stronger aspects of performance, such as the area based initiative programme and strong linking of strategic and financial plans, but also areas where further improvement is required. We will discuss the way forward with officers in preparation for the 2009/10 assessment.

**Value for money conclusion**

- 21** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission specifies each year which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 5.
- 22** 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 the wording of my draft report.

# Appendix 1 – Independent auditor’s report to Members of East Northamptonshire Council

---

## **Opinion on the financial statements**

I have audited the Authority accounting statements and related notes of East Northamptonshire Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, 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 East Northamptonshire 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 prepared by the Audit Commission.

## **Respective responsibilities of the Executive Director and auditor**

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

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

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 financial 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 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. I am not required to consider, nor have I considered, information regarding future projections included within the statement of accounts.

### **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 financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

---

## **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 specified by the Audit Commission for principal local authorities. 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

## **Appendix 1 – Independent auditor’s report to Members of East Northamptonshire Council**

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 February 2009, and the supporting guidance, I am satisfied that, in all significant respects, East Northamptonshire Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

---

### **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.

# Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

		Income and Expenditure Account (I&E) and Statement of Movement on the General Fund Balance (SMGFB) Cash Flow Statement (CFS) Collection Fund (CF)		Balance Sheet (BS)/Statement of recognised gains and losses (STRGL)	
Nature of Adjustment	Item of account	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Short term investments incorrectly classified as long term	Dr BS Short term investments			2,000	
	Cr BS Long term investments				2,000
	Cr CFS Movement in Short Term Investments	2,000	2,000		
	Cr CFS				

## Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account (I&E) and Statement of Movement on the General Fund Balance (SMGFB) Cash Flow Statement (CFS) Collection Fund (CF)		Balance Sheet (BS)/Statement of recognised gains and losses (STRGL)	
Collection fund – income collectable from business ratepayers and the payment to the national pool are both overstated by £755k	Dr CF income from business ratepayers Cr CF payment to the national pool	755	755		
As stated in Table 2 on page 9 the creditor to DCLG iro LSVT levy would more properly be disclosed as a provision	Dr BS Creditors Cr BS Provisions Dr CFS note 34 net movement on creditors/debtors Cr CFS note 34 – net movement on provisions	1,118 1,118	1,118 1,118		
Incorrect accounting treatment of Revenue Expenditure Financed from capital under statute (REFCUS)	Dr CFS – Write down of deferred charges to be financed from capital resources Cr CFS – other capital cash payments	1,854	1,854		

## Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account (I&E) and Statement of Movement on the General Fund Balance (SMGFB) Cash Flow Statement (CFS) Collection Fund (CF)		Balance Sheet (BS)/Statement of recognised gains and losses (STRGL)	
Accrued interest on investments was incorrectly included within debtors instead of being part of the investments balance.	Dr BS Investments Cr BS Debtors  Dr CFS Movement in Short Term Investments  Cr CFS Net Cash (Inflow)/Outflow from Revenue Activities	680	680	680	680
Incorrect reflection of change in valuation method of pension fund assets	STRGL - Actuarial gain/loss on PFCr STRGL – Any other losses			84	84

---

# Appendix 3 – Unadjusted misstatements in the accounts

---

The following misstatements were identified during the course of my audit and the financial statements have not been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

---

Description of error	Accounts effected	Value of error £'000
The Council has included capital receipts below the statutory £10k within useable capital receipts. Correction would increase the general fund balance.	Dr BS Useable Capital Receipts Cr SMGFB – Net profit on sale of fixed assets	11

---

# Appendix 4 – Draft letter of representation

---

To:

Tony Crawley  
Engagement Lead  
Audit Commission  
7 Lewis Court  
Grove Park  
Enderby  
Leicestershire  
LE19 1SU

## **Audit for the year ended 31 March 2009**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of East Northamptonshire Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2009.

### ***Compliance with the statutory authorities***

I acknowledge my 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/United Kingdom Generally Accepted Accounting Practice which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

### ***Uncorrected misstatements***

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Audit and Risk Management Committee who have agreed that the effects of the uncorrected misstatements listed in the attached schedule are not material to the financial statements.

### ***Supporting records***

## Appendix 4 – Draft letter of representation

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 Council and Committee meetings, have been made available to you.

### ***Going Concern***

I am satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include such disclosures, if any, relating to going concern.

### ***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 entity's financial statements communicated by employees, former employees, analysts, regulators or others.

### ***Law, regulations, contractual arrangements 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.

**Assets**

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

- losses arising from sale & purchase commitments;
- agreements & 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 other lines of credit arrangements.

**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;
- there are no material commitments or contractual issues; 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 Finance Sub Committee, no additional significant post balance sheet events have occurred which 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.

Signed on behalf of East Northamptonshire Council

M Lovell  
Executive Director

## Appendix 4 – Draft letter of representation

Chairman, Audit and Risk Management Committee

Date

# Appendix 5 – Use of resources key findings and conclusions

The following tables summarise the key finding and conclusions for each of the three use of resources themes.

**Table 3**      **Managing finances**

<b>Theme score</b>	<b>2</b>
Key findings and conclusions	
<p>The budget setting process for the 2009-10 year met requirements of level 2, and the Council is currently undergoing a review of its base budget in preparation for setting the 2010-11 budget. The Council has a clear understanding of its costs derived through the periodic re-letting of its major contracts and an ongoing assessment of its residual overheads. It has a consistent record of identifying and delivering efficiency savings. Effective procurement of key contracts, waste management, grounds maintenance and printing, has saved £1M. Accounts approved by Council in 2008-09 contained several material errors, but working papers and staff response times were good.</p>	
<b>KLOE 1.1 (financial planning)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
<ul style="list-style-type: none"> <li>• Integrated financial planning processes are effectively integrated.</li> <li>• Members ensure that the plans are affordable and that they continue to enable the Council to achieve its desired outcomes.</li> <li>• The Area-Based Initiative (ABI) programme is clear example of strategic and financial plans being strongly linked.</li> <li>• The Council has effective channels of consultation in place for engaging stakeholders. The Council considers that the</li> </ul>	

## Appendix 5 – Use of resources key findings and conclusions

best way to engage its customers in financial planning is to ensure it properly understands their priorities and reflects them in its plans. There is not therefore explicit and separate consultation on the budget setting process.

- There are good budget monitoring processes in place which include outturn projections for the year.
- The Council has identified shortfalls in resourcing going forward and has set up a Budget Review Group to go through its base budget and produce a series of options for savings that can then be assessed against their impact on the Council's priority objectives.
- The finance sub committee and corporate management team exercise collective responsibility for financial matters, and receive regular reports on financial performance.
- Training is given to budget holders to ensure that they have an understanding of their role.
- The Council has entered into joint accountancy arrangements with a neighbouring authority and has addressed the issues that arose in the 2007-08 financial statements process, the first year of the new arrangements.

### **KLOE 1.2 (understanding costs and achieving efficiencies)**

**Score**

**2**

**VFM criterion met**

**Yes**

### Key findings and conclusions

- The Council has a clear understanding of its costs derived through the periodic re-letting of its major contracts and an ongoing assessment of its residual overheads.
- Performance is closely related to costs, as this is specifically embedded within the contract terms for each major contract
- Many of the residual services that are provided directly by the Council are statutory functions that provide limited flexibility to reduce base costs. This is being addressed by the increasing utilisation of shared service provision, to increase flexibility in meeting demand, whilst maintaining adequate capacity.
- Key decisions made by members are informed by the submission of a formal structured business case that considers potential costs, risks and the benefits to be derived from the recommended action.
- Levels and quality of service are directly related to corporate priorities to ensure that value for money is systematically considered.
- The Council has a consistent record of identifying and delivering efficiency savings.
- Whilst the Council undertakes fundamental reviews of its base budget regularly, to identify potential efficiencies, it does

## Appendix 5 – Use of resources key findings and conclusions

not develop formal plans and targets for efficiency savings.	
<b>KLOE 1.3 (financial reporting)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
<b>Key findings and conclusions</b>	
<ul style="list-style-type: none"> <li>• Budget monitoring information is reliable, relevant and understandable, produced on a regular and timely basis, and prompt action is taken to address variances.</li> <li>• Reports to the Performance Panel do not fully demonstrate the linkages between performance and relative cost as reported in previous annual audit reports to the Council.</li> <li>• Committees receive quarterly reports which include financial information and appropriately summarised information that is relevant and presented in a way that meets the committee’s needs.</li> <li>• The accounts approved by Council contained several non-trivial and material errors</li> <li>• The 2008-09 audit was efficient and staff responded promptly to requests for information, and working papers were of an acceptable standard with some examples of good practice.</li> <li>• 2007-08 summary statement of accounts was accessible – written in plain English, but the statement that this was available in other languages was written in English, not in those other languages. It is proposed to use a similar format for 2008-09.</li> </ul>	

**Table 4      Governing the business**

<b>Theme score</b>	<b>2</b>
<b>Key findings and conclusions</b>	
There is a clear vision in place for local people which shapes the plans and activities of the Council and its partners. A corporate Data Quality strategy has been in place since September 2007, and a protocol is being developed outlining the	

## Appendix 5 – Use of resources key findings and conclusions

procedures for sharing data with partners, contractors and other agencies. The Council demonstrates a clear understanding of the needs of its decision makers. It promotes and demonstrates the principles of good governance effectively. A risk register is in place which is updated on a regular basis. There is an adequate counter fraud strategy and policy statement in place. There has been some weakening in the system of internal control in 2008-09 through the failure to complete the bank reconciliation, although action has been taken to address this successfully.

### **KLOE 2.1 (commissioning and procurement)**

**Score**

**2**

**VFM criterion met**

**Yes**

#### Key findings and conclusions

- There is a clear vision in place for local people which shapes the plans and activities of the Council and its partners.
- The Council has effectively strengthened its understanding of the diverse needs of different parts of the district through its early engagement in the Customer Insight project
- It is investing substantially to deliver improved leisure facilities in the south of the district.
- The Council has reviewed and redesigned its approach to service access.
- Investment has been made in technology to provide better management information regarding the usage of these facilities, and to monitor performance against the customer service standards that have been adopted.
- The Council understands that its opportunity to influence and develop the market is strictly limited by its size and level of spending.
- The Council has effectively evaluated and adopted alternative options for procuring services and supplies.
- It has partnered with neighbouring authorities to deliver shared services.
- The Council tests the competitiveness of key services, such as waste management, by direct competition in the market.

### **KLOE 2.2 (data quality and use of information)**

**Score**

**2**

**VFM criterion met**

**Yes**

#### Key findings and conclusions

- A corporate Data Quality strategy is in place and further work is being undertaken to strengthen data quality across

## Appendix 5 – Use of resources key findings and conclusions

<p>partnership working.</p> <ul style="list-style-type: none"> <li>• An action plan is in place to support the delivery of the strategy and positive progress has been delivered across a range of key areas.</li> <li>• A protocol is being developed outlining the procedures for sharing data with partners, contractors and other agencies.</li> <li>• The Council demonstrates a clear understanding of the needs of its decision makers.</li> <li>• The Customer Insight project is providing high quality segmentation data that can increasingly be used to target resources towards the greatest need and to maximise impact in delivering priorities.</li> <li>• Robust arrangements are in place to ensure data security and comply with legislation.</li> <li>• The Data Quality Strategy sets out the relevant roles and responsibilities for preparing and reporting performance.</li> </ul>	
<p><b>KLOE 2.3 (good governance)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>2</b></p> <p><b>Yes</b></p>
<p>Key findings and conclusions</p>	
<ul style="list-style-type: none"> <li>• The Council has established a sound foundation to demonstrate and promote the principles of good governance</li> <li>• Members receive training on their roles, the legal framework within which the Council operates, the Member Code of Conduct and any specialist areas, and this is ongoing from induction training for new Members to updates and refresher training for all.</li> <li>• Every outcome in each of the eight Service Plans links directly to one of the corporate outcomes</li> <li>• An appropriate framework is in place to ensure that members remain focussed on delivering priorities.</li> <li>• All projects are agreed by SMT to ensure that they assist in achieving desired outcomes and ensure that work is properly planned, with resources appropriately allocated.</li> <li>• Effective arrangements are in place for the oversight of members' behaviour.</li> <li>• The Council is developing a more rigorous approach to the governance of its various partnerships. A partnership protocol was adopted in July 2008, and the Council identified 8 key partnerships to which it applies.</li> </ul>	
<p><b>KLOE 2.4 (risk management and internal control)</b></p> <p><b>Score</b></p>	<p><b>2</b></p>

## Appendix 5 – Use of resources key findings and conclusions

VFM criterion met	Yes
Key findings and conclusions	
<ul style="list-style-type: none"><li>• The Council has a risk register which is updated on a regular basis, links to strategic objectives, assesses the risks for likelihood and impact and assigns a responsible officer. Appropriate training has been provided for members and officers responsible for the management and mitigation of risks.</li><li>• A Benefits Counter Fraud Strategy is in place, last updated and approved by the Audit and Risk Management Committee in December 2008.</li><li>• There is also a Counter Fraud Strategy and policy statement, last approved and updated in 2006, which covers the wider counter fraud and corruption arena and training on staff responsibilities is provided as part of the induction process. However there is no evidence that these arrangements extend to, and include, partnerships.</li><li>• Fraud is included as a risk within failure of internal control framework in the Council’s risk register.</li><li>• There was some weakening in the system of internal control in 2008-9 through the failure to complete the bank reconciliation, although the Council has taken action to address this and has achieved a satisfactory conclusion.</li></ul>	

**Table 5**      **Managing resources**

<b>Theme score</b>	<b>2</b>
Key findings and conclusions	
<p>One of the Council’s nine corporate outcomes is ‘Councillors and staff with the right knowledge, skills and behaviours’. The Organisational Development service plan sets out the actions which it will be taking to deliver this objective. The Council has collectively compiled adequate information to plan its future workforce requirements effectively. The Council effectively monitors staff engagement and satisfaction through surveys, with feedback leading to action plans for improvement.</p>	
<b>KLOE 3.3 (workforce planning)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
<ul style="list-style-type: none"> <li>● The Council: <ul style="list-style-type: none"> <li>○ is addressing the basics of workforce development effectively, with robust future plans in place to strengthen its approach in this area</li> <li>○ has developed an effective framework to ensure that its staff are fit for purpose in delivering its priorities and objectives.</li> <li>○ has collectively compiled adequate information to plan its future workforce requirements effectively.</li> <li>○ is undertaking a comprehensive Learning Needs Analysis (LNA) to establish a firm basis for future employee training and development corporately.</li> <li>○ has a positive track record of effectively engaging staff in organisational change.</li> <li>○ effectively monitors staff engagement and satisfaction through surveys, which is exemplified by the Council being ranked 18th in The Times list of the Best Councils to work for.</li> </ul> </li> </ul> <p>The current workforce has above average representation of BME staff and persons with a disability, ensuring that it is appropriately representative of the communities being served.</p>	

# Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Governance Report 2008/09 - Recommendations</b>						
7	<b>R1</b> Consider whether the unadjusted error should be corrected in 2008-09	3	TCWG			
10	<b>R2</b> Ensure that action is taken by officers to: <ul style="list-style-type: none"> <li>• Reconcile FARs held by Estates and Finance on an annual basis</li> <li>• Obtain appropriate revaluations of fixed assets annually for evidence of material increases or decreases in value</li> <li>• Resolve the issue of the balance of £1,118k held for payment to DCLG</li> </ul>	3	TCWG			

---

# The Audit Commission

---

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

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

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

---

## Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2009

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

---