

# Annual Audit Letter

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East Northamptonshire Council

Audit 2009/10

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

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

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

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# Key messages

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

- **the audit of your financial statements (page 4); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 8).**

## **Audit opinion and financial statements**

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

**2** The financial statements presented for audit contained three material errors, arising from new accounting requirements for the collection fund.

**3** The arrangements to produce the financial statements were sound, but my staff identified errors in the records supporting figures for fixed assets. Officers corrected these.

**4** The Council is on track to produce IFRS-compliant accounts for 2010/11 by 30 June 2010.

## **Value for money**

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

## **Current and future challenges**

**6** Across the country, councils face severe and long-term social and financial challenges over the next few years.

**7** District councils have already had to deal with reduced income from fees and charges. Councils have in-year cuts in government grant from 2010/11 and now face a 26 per cent reduction in central government funding over the next four years following the Government's Comprehensive Spending Review.

8 For councils, the challenge will be to manage services as income from central government falls and to make tough choices on how services are to be delivered within reduced allocations as there will be few opportunities to raise income from fees and charges until the economy strengthens.

9 The Council considered the effect of the CSR on its medium term financial strategy at the meeting of the Policy and Resources Committee on 8 November 2010. Figures provided by the Chief Financial Officer showed that the Council's own assumptions made in July were more severe than those contained in the CSR, but that without further action to reduce annual expenditure the Council's reserves will be completely spent by 2013/14. The Council is assessing ways to reduce expenditure over the period.

# Financial statements and annual governance statement

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

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

## **Overall conclusion from the audit**

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

**11** The financial statements presented for audit contained three material errors, arising from new accounting requirements for collection fund debtors and creditors.

**12** The arrangements to produce the financial statements were sound, but my staff identified errors in the records supporting figures for fixed assets. Officers corrected these.

## **Significant weaknesses in internal control**

**13** I did not identify any significant weaknesses in your internal control arrangements.

## **Readiness for IFRS**

**14** During the year, I reviewed the Council's preparations for the introduction of International Financial Reporting Standards (IFRS) from 2010/11. The Council is on track to produce IFRS-compliant accounts for 2010/11 by 30 June 2010. It has reviewed its contractual arrangements and contracts to identify whether there are any assets that need to be accounted for by the Council and has already restated its opening balance sheet on an IFRS basis in preparation for this.

# Value for money

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

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

## **2009/10 use of resources assessments**

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

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

**17** I report the significant findings from the work I have carried out to support the VFM conclusion.

## **VFM conclusion**

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

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

**20** There is a summary of my findings overleaf.

Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural resources	Yes
Workforce	Yes

**21** I reported my conclusions on each of the relevant areas to the Council in my Annual Governance Report but the key findings are summarised below.

### **Managing finances**

**22** Financial and corporate planning processes are effectively integrated. The new SCS and Corporate Plan are clearly the key drivers for the service planning process. Members ensure that the plans are affordable and that they continue to enable the Council to achieve its desired outcomes.

**23** 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. Shared services arrangements have delivered increased resilience, such as in ICT and finance and therefore more capacity and cost savings.

**24** Budget monitoring information is reliable, relevant and understandable, produced on a regular and timely basis, and prompt action is taken to address variances. The reports to the Performance Panel do not demonstrate the linkages between performance and relative cost.

## **Governing the business**

**25** Good measures are in place to improve procurement and commissioning that reflect local needs and deliver sustainable outcomes. Effective consultation is supporting the delivery of improved value for money and better outcomes for the community. Better quality customer service and value for money are supported by appropriate investment in technology. Alternative options for procurement are well-developed. The Council uses established partnerships, such as the Welland Procurement Partnership, to maximise its understanding of supply markets.

**26** The Council has taken a consistent, robust and effective approach to ensuring data quality over several years. The Audit and Risk Management Committee has oversight of the Council's Data Quality Strategy, and positive progress has been delivered across a range of key areas. The Council demonstrates a clear understanding of the information needs of its decision makers.

**27** The Council demonstrates and promotes the principles of good governance internally but could widen this to include partnership working. Codes of Conduct have been adopted for members and officers and a separate Code of Practice is in place for determining planning procedures.

**28** East Northamptonshire has a formally defined framework for managing and monitoring potential risks, although there are opportunities for refinement and improvement. Management of risk is now embedded within the knowledge, skills and behaviours framework for officers. This strengthens accountability for effective risk management by all staff.

## **Managing resources**

**29** The Council has established baselines for the key areas to identify its impact on all aspects of the environment. It is in the process of developing a Use of Natural Resources Strategy which will set out its commitment to reducing its energy consumption and use of natural resources and reduce costs. Active steps have been taken to reduce carbon emissions and improve biodiversity. The Council is working actively with the Wildlife Trust to get additional wildlife sites into positive conservation management. The East Northamptonshire return for 2008/09 was more than twice the percentage of the next highest district within Northamptonshire.

**30** The Council is addressing the basics of workforce development effectively, with robust future plans in place to strengthen its approach in this area. It has developed an effective framework to ensure that staff skills are fit for purpose to deliver its priorities. It has a positive track record of effectively engaging staff in organisational change.

## Approach to local value for money work from 2010/11

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

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

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

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

# Current and future challenges

## Financial position

**34** Across the country, councils face severe and long-term social and financial challenges over the next few years. Demand for local services is growing and demographic change, particularly an ageing population, places increased pressure on local services.

**35** District councils have already had to deal with reduced income from fees and charges. Reduced economic activity has cut income from planning fees, rents, car park charges and capital receipts. Councils have in-year cuts in government grant from 2010/11 and, following the Government's Comprehensive Spending Review (CSR), face a 26 per cent reduction in central government funding over the next four years with the biggest reduction coming in the earlier years.

**36** The government plans to eliminate the structural deficit by 2015/16. Public spending will have to fall and councils are expected to play a major part in helping to reduce the deficit.

**37** Some of the reforms announced in the CSR include:

- a settlement for local government that increases local authorities' freedom to manage their budgets;
- the devolution of financial control to local authorities. Ring fencing of the majority of local government revenue grants will end from 2011/12 and, nationally, more than £4 billion of revenue grants will be rolled into formula grant;
- funding to enable local authorities to freeze their council tax in 2011/12; and
- a 10 per cent reduction in spending on council tax benefit.

**38** For councils, the challenge will be to manage services as income from central government falls and to make tough choices on how services are to be delivered within reduced allocations as there will be few opportunities to raise income from fees and charges until the economy strengthens.

**39** The Council considered the effect of the CSR on its medium term financial strategy at the meeting of the Policy and Resources Committee on 8 November 2010. Figures provided by the Chief Financial Officer showed that the Council's own assumptions made in July were more severe than those contained in the CSR, but that without further action to reduce annual expenditure the Council's reserves will be completely spent by 2013/14. The Council is assessing ways to reduce expenditure over the period.

**40** At the same time, the Government is ending the previous top-down performance framework for councils including the requirement to report nationally on local area agreement targets. The Government is to work with councils to reduce the amount of data local government is asked to collect by central government, and develop a single, comprehensive list, to be reviewed annually.

## **Future developments**

**41** At its meeting in October 2010 the Policy and Resources Committee accepted the report of the Scrutiny Review Group and resolved to recommend to Council the abolition of the Audit and Risk Management Committee, and that the powers and responsibility of this committee be transferred to the Scrutiny Committee.

**42** The Audit and Risk Management Committee had acted for the Council as 'Those Charged with Governance' and given the responsibility of approving the Council's annual accounts and accepting reports from the external auditor. These are not functions which can be exercised by a scrutiny committee, the remit for which is clearly laid down in the Local Government Act 2003.

**43** The Council will need to ensure that the above responsibilities are now exercised either by an alternative, full committee of the Council, or by the Council itself.

**44** The Council will also need to ensure that governance arrangements remain effective and that roles and responsibilities continue to be delivered while the changes are made and until the new arrangements become embedded.

## Closing remarks

**45** I have discussed and agreed this letter with the Chief Executive and the Executive Director. I will present this letter at the Scrutiny Committee on 15 December 2010 and will provide copies to all Council members.

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

Report	Date issued
Audit fee letter	27 April 2009
Audit plan	17 June 2010
Annual governance report	16 September 2010
Opinion on financial statements	5 October 2010
Value for money conclusion	5 October 2010
Annual audit letter	November 2010

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

Neil Bellamy  
District Auditor  
November 2010

# Appendix 1 Audit fees

	Actual	Proposed
Financial statements and annual governance statement	73,521	73,521
Value for money	25,860	25,860
Total audit fees	99,381	99,381
Non-audit work	8,320	8,320
<b>Total</b>	<b>107,701</b>	<b>107,701</b>

## Appendix 2 Glossary

### **Annual governance statement**

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

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

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

### **Audit opinion**

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

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

### **Financial statements**

The annual accounts and accompanying notes.

### **Qualified**

The auditor has some reservations or concerns.

### **Unqualified**

The auditor does not have any reservations.

### **Value for money conclusion**

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

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