

Annual Audit and Inspection Letter

March 2008



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South Northamptonshire Council

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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Key messages

- 1 The Council continues to make progress in priority areas. These include areas that have been identified as priorities by the community. It is making progress with its plans to improve access to services and an Audit Commission inspection found that this service area was 'fair' with promising prospects for future improvement. It has successfully transferred its housing stock which will mean more resources for better quality housing, and is working well with partners to provide affordable housing and meet local needs. It took a leading role in a multi agency group, influencing the Government to invest in the transport infrastructure around Silverstone, home of the British Grand Prix, which is key to the local and national economy. Based on a basket of performance indicators (BVPIs) the Council's improvement in the last year has significantly exceeded that of other district councils. Progress is being made to address equality and diversity issues although the Council remains currently at Level One. The Council is strengthening its approach to ensuring value for money (VFM) and has exceeded its efficiency savings target. Corporate planning and performance management systems are sound and the Council is addressing capacity at a strategic level through a re-structuring programme. However levels of sickness absence reduce capacity and are amongst the worst 25 per cent of councils.
- 2 Like all councils South Northamptonshire will face challenges from the introduction of Corporate Area Assessment and the adoption of International Financial Reporting Standards.

Action needed by the Council

- 3 Continue to focus on equalities and diversity to ensure the Council is meeting the needs of all its communities, including extending engagement and consultation.
- 4 Ensure a sustained focus on tackling the high levels of sickness absence which impact on the Council's capacity.
- 5 Ensure arrangements are in place to capture the necessary information to allow compliance with International Financial Reporting Standards.

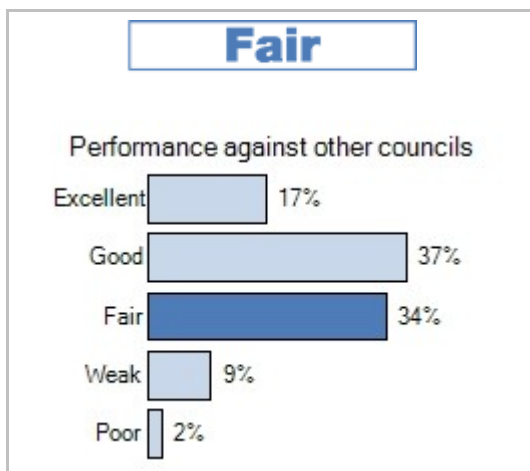
Purpose, responsibilities and scope

- 6 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 7 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 8 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. In addition the Council is planning to publish it on its website.
- 9 As your appointed auditor we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we review and report on:
 - the Council's accounts;
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 10 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report, and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 11 We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.

How is South Northamptonshire Council performing?

- 12 South Northamptonshire Council was assessed as 'Fair' in the Comprehensive Performance Assessment carried out in 2004. These assessments have been completed in all district councils. We are now updating these assessments, through an updated corporate assessment, in councils where there is evidence of change. The following chart is the latest position across all district councils.

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission

The improvement since last year - our Direction of Travel report

- 13 The Council is delivering improvements in priority areas which include areas that have been identified as priorities by the community.
- 14 The Council's performance plan has six priority areas for 2007/08. These are to:
- be an efficient and effective council delivering best-value services;
 - respond to customers better;
 - provide high quality local housing;
 - support local businesses and the local economy;
 - make sure the national growth agenda benefits the local area; and
 - work with partners to deliver good public services.
- 15 These priorities link to Community Strategy objectives and also form the basis for service plans.

- 16 In a recent Audit Commission inspection access to services was found to be fair and improving well. It is easy for most people to access Council services through a wide range of methods, although physical access is limited by the rural nature of the district which is currently served by only two customer access points. The Council consults and engages with a range of service users and uses feedback to shape services, although consultation and engagement with some sections of the community and traditionally hard-to-reach groups is limited.
- 17 Progress is being made in the priority to provide high quality local housing. The Council has successfully managed the transfer of the housing stock which will provide improved resources for achieving the decent homes standard. The housing service works closely with parish councils to assess affordable housing needs in rural areas including work with disabled people to assess their needs and this information is being used in the delivery of affordable housing. The agreement with South Northamptonshire Homes takes account of the substantial housing and population growth planned for the area, as part of the Government's South Midlands Milton Keynes Growth Area, with the provision of 300 new affordable homes in the first five years.
- 18 The Council's track record of improvement as measured by a basket of performance indicators selected by the Audit Commission is strong. In the last year 70 per cent of PIs improved compared with the average for all district councils of 55 per cent. This continues the positive trend over the last three years in which 76 per cent of PIs have improved. This is above the average range of 65 to 67 per cent for all district authorities. Performance indicators also show that the Council's performance compared with other district councils is above average with 36 per cent of PIs amongst the top 25 per cent compared to an average of 33 per cent for other district councils.
- 19 Overall satisfaction with the Council remains best quartile and areas which have improved substantially over the last three years include satisfaction with sports and leisure facilities, cleanliness of public spaces, and recycling. However there are some indicators that remain amongst the worst 25 per cent nationally, some of which are related to priority areas such as satisfaction with complaints handling.
- 20 Performance in some key service areas is mixed. The Council's ability to handle benefit claims continues to improve with the average time for processing new claims and those which are related to changes in circumstances being amongst the best 25 per cent in the country. The Council is in the top 25 per cent of all district councils for recycling and composting but the amount of waste collected and cost of the service remains high in comparison with other district councils. Planning application PIs continue to fall below the average for all district councils with the time taken to determine major and minor applications amongst the worst in the country. This is an important service because of the planned housing and population growth. However the Council is providing the lead across the county in responding to some of the demands of the growth agenda, and has earmarked the LABGI receipts from government to provide the capacity to ensure growth plans are co-ordinated.

- 21 The Council is working effectively to contribute to wider community outcomes. It has identified three priorities that depend on working with partners to achieve improvement for local people and has had some success. For example, the additional investment of approximately £10 million delivered the bypass around Silverstone and improved access to the circuit, which was instrumental in retaining the British grand prix at least until 2009.
- 22 There is clear corporate commitment to equalities and diversity, although progress to date is limited. The Council is currently at level one of the local government equality standard and is aiming to achieve level two by 2009. This is relatively poor performance as 71 per cent of councils exceeded level one in 2006/07. However, the Council has achieved recent progress; publishing its Comprehensive Equality Policy in April 2007; undertaking equality impact assessments and conducting equalities monitoring of users. Therefore, while progress to date has been limited the Council is now placing greater focus on equalities and diversity.
- 23 The Council is strengthening its approach to ensuring value for money (VFM). In the 2007 Use of Resources assessment the Council's approach to delivering and improving VFM was judged to be adequate overall. The Council has exceeded its Gershon efficiency target, achieving £1.3 million in two years against a three-year target of £0.937 million. Further efficiency savings of £0.832 million are forecast for 2007/08 which would bring the total efficiencies delivered by the Council over the three-year period to £2.131m or 5.7 per cent per year (against a government target of 2.5 per cent per year).

How much progress is being made to implement improvement plans to sustain future improvement?

- 24 Corporate planning arrangements are robust and well integrated with the work of partners through the Community Strategy 2004-2009 (which is currently being reviewed). The Council is reviewing its priorities to align with the Community Strategy and Local Area Agreement (LAA). LAA outcomes are reflected in the annual performance plan and show clearly where the Council is contributing to those agreed targets. Plans are generally SMART (specific, measurable, agreed, realistic and time-bound). Corporate priorities are cascaded into relevant directorate business plans which also reflect links with corporate and community strategies.
- 25 The Council is making good progress in delivering the outcomes and targets set in the corporate plan with the majority of targets on track to be achieved. An embedded performance management system ensures that performance and progress is reviewed on a regular basis. There are effective project management arrangements in place that ensure key projects are delivered on time and to budget.

- 26** The Council is effectively managing and developing capacity which is currently limited at strategic level. Financial resources are in place to fund major projects such as the customer contact centre. An organisational design review is being implemented to restructure the Council and make it more policy driven, customer focussed with strategic capacity. The new structure also aims to anticipate the demands for increased capacity as a result of population and therefore service growth in the medium term. The Council is committed to working in partnership to enhance capacity and improve services has an agreement with Daventry Council for 'preferred partner status' for service delivery. The two Crime and Disorder Partnerships have been merged the Council is planning to merge two services with Daventry this year. However, internally, the Council's capacity continues to be limited by high levels of sickness absence which are amongst the worst in the country.

Service inspections

Access to services

- 27** In 2007 we assessed how well the Council was providing access to services. This is a cross-cutting theme applicable to all councils and council services. It covers four broad areas:
- ease of access to services;
 - using e-government to support access to services;
 - reaching all parts of the community; and
 - partnership working.
- 28** We assessed South Northamptonshire Council as providing a 'fair', one-star service that has promising prospects for improvement.
- 29** It is easy for most people to access Council services through a wide range of access methods, although physical access is limited by the rural nature of the district which is currently served by only two customer access points. The Council consults and engages with a range of service users and uses feedback to shape services, although consultation and engagement with some sections of the community and traditionally hard-to-reach groups is limited. This restricts the Council's understanding of their access needs and preferences. Service standards exist for most major services and are well publicised. However users have not been involved in the development of these standards to ensure they meet their needs, and some standards are not challenging. The Council works effectively with partners to provide better access, although in some instances the absence of a coordinated approach amongst partners is resulting in residents having restricted access to services.

10 Annual Audit and Inspection Letter | How is South Northamptonshire Council performing?

- 30 The Council's prospects for improvement are promising. The importance of good access to services is clearly understood by the Council and improving access is a corporate priority. There is a clear vision for future access arrangements, good councillor and officer leadership, and the political will to deliver improvements. Progress has been made in improving poorly performing services and in the implementation of a customer service centre. Effective performance management arrangements enable the Council to monitor the delivery of improvements. Weaknesses in capacity are being addressed to enable the Council to deliver its plans.
- 31 Our report made the following recommendations for improvement:
- extend and improve the Council's approach to consultation and engagement;
 - ensure that a customer focused approach is adopted across all services; and
 - ensure a planned and coordinated approach amongst partners in relation to new housing developments.

The audit of the accounts and value for money

- 32** As your appointed auditor we have reported separately to the audit committee on the issues arising from our 2006/07 audit and have issued:
- a audit report, providing an unqualified opinion on your accounts and a conclusion on your vfm arrangements to say that these arrangements are adequate on 25 September 2007; and
 - a report on the best value performance plan confirming that the plan has been audited.

Use of Resources

- 33** The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support council priorities).
 - Financial standing (including the strength of the Council's financial position).
 - Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
 - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 34** For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 1

Element	Assessment
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	3 out of 4
Value for money	2 out of 4
Overall assessment of the Audit Commission	3 out of 4

(Note: 1 = lowest, 4 = highest)

The key issues arising from the audit

- 35 The review assesses the arrangements in place at the Council at March 2007.
- 36 Our assessment of the Council's overall arrangements for use of resources remained at 'performing well' (level 3) although there have been improvements in some specific aspects.
- 37 The key issues arising from the audit, as reflected in the above judgements, are as follows.
- The Council has a good track record for producing and approving the statement of accounts to the deadlines and this was evident again for the 2006/07 accounts. The accounts were subject to robust member scrutiny and there was a marked improvement in the standard of supporting working papers. The Council has continued to develop and improve its arrangements to promote external accountability including publication of an 'Annual Review' which has been submitted as an example of notable practice.
 - The Council has effective arrangements to ensure that its medium-term financial strategy, budgets and capital programme are soundly based and are designed to deliver its strategic priorities. Performance is effectively managed against budgets and the Council manages its asset base well.
 - Systems of internal control are generally sound and the Council promotes probity and propriety in the conduct of its business. Work has been undertaken to improve the Audit Committee's standing and focus including a review of compliance with CIPFA standards.
 - The Council's overall spending on services remains amongst the lowest for district councils in England. The rate of improvement in services is above average but overall performance remains mixed. The Council is aware of the areas that it needs to improve and these are being addressed through a change management process including development of a corporate customer service centre, business process engineering and an organisational design review.
- 38 A separate report has been issued setting out our detailed findings and areas for improvement.

Data quality

- 39 The Council's overall management arrangements for ensuring data quality are adequate. Some areas such as Governance and Leadership have been strengthened and there is a good standard of data use and reporting. Improvement in systems and procedures are being linked to the implementation of a new performance management system.
- 40 Our spot checks on three specified PIs concluded that two were fairly stated. The third was qualified due to failure to fully comply with the PI's definition.
- 41 Our detailed report has been discussed and agreed with officers, including an action plan for strengthening existing arrangements. Our report was considered by the Audit Committee on 17 January 2008.

Grant claims and returns

- 42** The overall control environment for the compilation of grants and returns has deteriorated since last year. For example, three claims were submitted late and adequate working papers were not provided for some claims. In addition to this a number of amendments and audit qualification letters were necessary (table 2).

Table 2 **Claims and returns certified**

Claim or return	Submitted on time?	Outcome of certification testing
Housing and Council Tax Benefit	Yes	Amended and qualified
Housing Subsidies and Grants	Yes	Amended
Housing Revenue Account Base Data	No	Amended and qualified
Disabled Facilities Grant	Yes	Qualified
NNDR Return	No	Amended and qualified
Capital Receipts Return	No	Amended

Source: Audit Commission Claims and Returns Record

- 43** All matters arising were discussed with officers in detail during the course of the work and we held a workshop for key staff in January 2008. A report summarising the findings of all our certification work has been issued to officers and steps are being taken to improvements existing arrangements. For example, roles and responsibilities are being clarified and a comprehensive grants register is being put in place.

Looking ahead

Comprehensive Area Assessment

- 44 The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 45 CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 46 The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.

International Financial Reporting Standards (IFRS)

- 47 The Council will also face further challenges in financial reporting in the coming years. In March 2007 the Chancellor announced that accounts in the public sector will need to be compiled using International Financial Reporting Standards (IFRS). IFRSs will be applied to local government for the 2010/11 published accounts which will include comparative figures for 2009/10. This means that the Council needs to be in a position to provide the necessary financial and operational information from 1 April 2009. It may also be the case that the government will require some financial information for 2008/09 based on IFRSs.
- 48 While much of the current reporting framework is in line with IFRS there will be significant additional disclosure requirements and a number of areas where the Council will potentially need to change its accounting methods to ensure it is able to capture the relevant data at the correct point in time to comply with IFRS.
- 49 Your officers are aware of the need to prepare for this change, but it is essential that the Council puts in place the sufficient resources and project plan at an early enough stage to ensure the relevant information can be collated. It is likely that preparation for this change will form part of future Use of Resources assessments.

- 50** We have provided officers with an initial risk assessment for completion to help highlight those areas where the Council may have more to do. We will continue to liaise with officers on this issue over the coming year. The Council may also wish to consider including this in the risk register as a corporate risk to ensure that it is managed appropriately.

Closing remarks

- 51 This letter has been discussed and agreed with the Chief Executive, Executive Director and Head of Finance. A copy of the letter will be presented to the audit committee and cabinet. Copies need to be provided to all Council members.
- 52 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 3 Reports issued

Report	Date of issue
Audit and inspection plan	March 2006
Best Value Performance Plan Report	December 2006
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Use of Resource Judgements (draft)	November 2007
Data quality report	January 2008
Final accounts report	January 2008
Access to services inspection	February 2008
Annual audit and inspection letter	March 2008

- 53 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit.

Availability of this letter

- 54 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.

Mary Perry
Relationship Manager

March 2008