

Annual Audit and Inspection Letter

South
Northamptonshire
Council

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Reference:	NO011 Annual Audit and Inspection Letter
Date:	December 2004

Executive summary

The purpose of this Letter

This is our audit and inspection 'Annual Letter' for Members which incorporates the Annual Audit Letter for 2003/04, and is presented by the council's Relationship Manager and District Auditor. The Letter summarises the conclusions and significant issues arising from our recent audit and inspections of the council.

We have issued separate reports during the year. These reports are listed at Appendix 1 for information.

Appendix 2 sets out the scope of audit and inspection.

Appendix 3 provides information about the fees charged.

Key messages

Council performance

Along with other Northamptonshire district Councils, the council has been subject to the district council Comprehensive Performance Assessment (CPA) process in 2003/04. The results were published in March 2004.

South Northamptonshire Council was assessed as a Fair council but prospects for improvement were uncertain at that time. It scored well (three or four) in four of the ten themes assessed. The council was found to have worked hard to maintain and enhance the quality of life for local people with achievements in the areas of public space, recycling performance and well maintained council housing with good levels of investment in affordable warmth. The council was also found to face a number of significant challenges including unclear priorities, trying to deliver too many plans and strategies, and limited impact from performance management.

Since that time the council has developed an action plan to make improvements and has made a start in a number of areas.

Best value performance plan audit and performance indicators

We have given an unqualified opinion on your performance plan.

The accounts

We gave an unqualified opinion on your accounts on 26 November 2004. Your overall corporate governance arrangements are satisfactory.

Financial position

Overall financial management continues to be sound, with the council's 2004/05 spending currently below budget. However the council continues to have difficult financial decisions to make in the light of council tax capping. Revenue reserves remain healthy and are to be reviewed as part of the 2005/06 budget process.

Taxation collection levels have been improving and good progress has been made in collecting arrears. There remains a core of longer outstanding debt to recover however. Recovery of current rent arrears is currently ahead of the targets set in the council's recovery plan, but former tenants' arrears are increasing.

Other accounts and governance issues

There have been some reconciliation problems during 2003/04 following the introduction of new financial systems.

Deloitte continues to provide an adequate and effective internal audit.

We have made a number of recommendations regarding the implementation of your financial systems.

We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.

Our annual review of the council's overall arrangements for ensuring the legality of transactions with financial consequences has identified no areas of concern.

Action needed by the council

- Continue to focus on improvement areas identified through Comprehensive Performance Assessment (CPA).
- Reassess the role, priorities and aspirations of the council for the medium and longer term following a decision on stock options.
- Ensure that the risk of council tax capping is taken into consideration when setting the 2005/06 budget and that the council has contingency arrangements in place to deal with this.

Council performance

CPA and improvement

Under the Comprehensive Performance Assessment (CPA) framework you were assessed as a Fair council that had made recent progress but had uncertain prospects for future improvement in the report published in March 2004. The council scored well (three or four) in four of the ten themes assessed. The council was found to have worked hard to maintain and enhance the quality of life for local people with achievements in the areas of public space, recycling performance and well maintained council housing with good levels of investment in affordable warmth. The council was also found to face a number of significant challenges including unclear priorities, trying to deliver too many plans and strategies, and limited impact from performance management.

Each of the scored elements of the assessment is shown below.

EXHIBIT 1 CPA SCORES – CORPORATE ASSESSMENT

Summary of theme scores

Ambition	3
Prioritisation	2
Focus	2
Capacity	3
Performance management	2
Achievement in quality of service	2
Achievement of improvement	3
Investment	4
Learning	2
Future plans	2

Source: CPA – Scoring - 1 (weak), 2 (weaknesses outweigh strengths), 3 (strengths outweigh weaknesses), 4 (strong)

EXHIBIT 2 CPA SCORES – DIAGNOSTIC ASSESSMENT

Summary of scores

Management of public space	B
Decent Homes Standard	B

Source: CPA – The scores in this table reflect the need for improvement – A (very low), B (low), C (high), D (very high)

EXHIBIT 3 CPA SCORES – APPOINTED AUDITOR ASSESSMENT

Summary of scores

Financial standing	3
Systems of internal financial control	3
Standards of financial conduct and the prevention and detection of fraud and corruption	3
Financial statements	3
Legality of significant financial transactions	4

Source: CPA – 1 (inadequate), 2 (adequate overall, but some weaknesses that need to be addressed), 3 (adequate), 4 (good)

EXHIBIT 4 CPA SCORES – BFI ASSESSMENT**Summary of scores**

Current performance	Fair
Capacity to improve	Fair to Good

Source: CPA – Poor, Fair, Fair to Good, Good, Excellent

The council has identified its improvement priorities in the light of the CPA findings and has produced an action plan. Its improvement priorities are contained in four themes.

- Developing a long-term vision and strategic direction for the council, including revised key priorities.
- Developing and enhancing the capacity of the council to deliver its services and priorities, including member development, addressing sickness absence and recruitment and retention of staff.
- Embedding a performance management culture.
- Focusing of service improvement in priority areas including the recovery of the benefits service, progress in key areas of housing services and improving the overall application processing times in development control.

In accordance with the Audit Commission's aim of more strategic regulation we have not completed a formal assessment of progress this year. Progress in Fair councils will be assessed in the autumn of 2005 and 2007.

However the Council is implementing its council improvement plan. Since January 2004 its actions have included:

- publishing a revised set of six corporate priorities (down from 18) in its performance plan with the aim of achieving greater clarity and focus. The identified priorities reflect weaknesses identified in the CPA and in service performance as well as local priorities;
- committing itself to an annual review of its priorities to feed into the strategic planning and budget setting processes;
- seeking external support to review its approach to recruitment and to benchmark its salary levels with an aim of addressing recruitment and retention issues;
- achieving re-accreditation for investors in people for the whole organisation; and
- seeking to expand opportunities for the development and training of members.

We will complete a formal assessment of the council's progress in autumn 2005.

In 2005 the council will make a decision as part of its housing stock option appraisal which may have a fundamental impact on the council. While continuing to deliver improvement it will need to reassess its role, priorities and aspirations for the medium and longer term.

Other performance work

Implementing e-government

We have undertaken a review of the council's progress towards meeting the Implementing Electronic Government agenda. This high level review considered the council's compliance with national projects, such as the provision of electronic land and property data to feed into the national database, in addition to the enablement of the council's own services for delivery by electronic means. This is a challenging and wide ranging initiative and requires the commitment of substantial financial and human resources. We reviewed the council's approach to partnership working to share resources and reduce risks in meeting national targets and also the approach to prioritising, managing and delivering a number of complex projects related to electronic service delivery.

A draft report has been submitted to officers for their consideration.

Best value performance plan audit

We have completed our audit of your plan and concluded that it complies with all legal requirements and our formal opinion was issued in December.

Performance information

We used a risk-based assessment of the council's performance indicators to focus our work in this area. Analytical review of all indicators and specific testing of the high and medium risk indicators resulted in a number of errors being identified and corrected in the submission to the Commission, but these were not significant enough to require an addendum to the BVPP to be issued.

Other Audit Commission Inspections

We have not undertaken any service inspections this year.

Accounts and governance

We gave an unqualified opinion on your 2003/04 statement of accounts on 26 November 2004.

Your overall corporate governance arrangements are satisfactory.

Audit of 2003/04 accounts

Matters arising from the final accounts audit

The published accounts are an essential means by which the council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources.

In last year's Annual Audit and Inspection Letter we emphasised that timeliness in producing the council's accounts will become increasingly important over the next few years as the deadline for completion of the accounts is

brought forward in line with the Government's requirement.

To help improve the efficiency and timeliness of the preparation and audit of the accounts we agreed formal joint working arrangements specifying working paper requirements, reporting arrangements and the timing of our work.

The accounts were prepared over a month in advance of the required deadline this year. However internal targets for preparing the accounts were subject to a certain degree of slippage. It will become increasingly difficult to achieve the earlier deadlines in future if improvements in the timeliness of the closedown process are not maintained.

All issues arising from our audit have been discussed with officers and appropriate amendments were made to the statement of accounts during the course of the audit. We gave an unqualified opinion on 26 November 2004 and will summarise the matters arising from our work in a report to officers.

Report to those with responsibility for governance in the Council

We are required by professional standards to report to those charged with governance certain matters before we give an opinion on the financial statements. We are pleased to note that there were no issues which we considered needed bringing to the attention of those charged with governance this year.

Financial standing

Overall financial management continues to be sound, with the council's 2004/05 spending currently below budget. However the council continues to have difficult financial decisions to make in the light of council tax capping. Revenue reserves remain healthy and are to be reviewed as part of the 2005/06 budget process.

Taxation collection levels have been improving and good progress has been made in collecting arrears. There remains a core of longer outstanding debt to recover however. Recovery of current rent arrears is currently ahead of the targets set in the council's recovery plan, but former tenants' arrears are increasing.

Financial planning

In last year's Letter we reported that the council intended to undertake a base budget review to inform the 2005/06 budgetary process. This has now been undertaken. The review has identified that over 94 per cent of the council's budget is spent on the council's priority and statutory services.

The results of the base budget review will be used to update the council's medium-term revenue plan (MTRP). A full review of the council's reserves is also to be undertaken as part of the detailed budget process, and subsequently at the end of each financial year to ensure that an appropriate level of reserves are being held.

The council continues to have difficult budgetary decisions to make. The ODPM has made clear that it expects that council tax increases will be limited to 'low single figures', although clear capping criteria are unlikely to be communicated until after the budget has been set. The council's current MTRP, which has identified a cumulative budget gap of £2.875 million over the next five years has assumed a council tax increase of 7.5 per cent. This gap rises to over £6 million if council tax increases are limited to 5 per cent.

Should the council decide to increase council tax by 7.5 per cent it runs the risk of being capped. It is therefore important to consider how a budget reduction could be accommodated in this event.

General fund spending and balances

There was a net overspend on the general fund in 2003/04 of £353k but the latest budget monitoring report for 2004/05 (as at 30 September 2004) forecasts that the council is on target to meet its 2004/05 budget with a net revenue under-spend of £144k, or 3.13 per cent of budget.

The closing general fund reserve for 2003/04 was £5.633 million which represents approximately 47 per cent of net operating expenditure. Earmarked revenue reserves have fallen slightly to £3.975 million. The council's balances remain amongst the highest in the country for district councils, although this must be viewed in the context of a low asset bank.

Housing Revenue Account

There was a net overspend on the HRA for 2003/04 of £114k. This was due in the main to an increase in the required bad debt provision, which has resulted from a worsening rent arrears position.

The latest budget monitoring report for the current year shows a net under-spend of £454k. Much of this is due to a reduction in expenditure on housing repairs, due to a change of emphasis to restrict repairs to health and safety requirements as approved by Cabinet.

Capital programme

The approved capital budget for 2003/04 was £8.988 million of which only £4.758 million was spent by 31 March 2004. This represents significant slippage of £4.23 million, of which £2.682 million was programme slippage, and the balance of £1.548 million was due to the withdrawal of social housing grant. Total slippage and under-spending amounted to some 47 per cent of the budget, compared to 34 per cent in 2002/03. The majority of this funding has been carried forward to future financial years.

We will continue to monitor your performance against your capital budgets as part of next year's audit.

Prudential code of borrowing

The prudential code was implemented in April 2004 and aims to provide a framework for local government capital finance to ensure that:

- capital expenditure plans are affordable;
- all external borrowing and other long-term loans are within prudent and sustainable levels; and
- treasury management decisions are taken in accordance with professional good practice.

The code is designed to improve transparency of decision-making and to allocate responsibility and accountability.

The council addressed the requirements of the code as part of the 2004/05 budget setting process, including the setting of appropriate borrowing limits and prudential indicators. However, the applicability of the prudential regime has been limited as the council is debt free.

Income collection and arrears

Taxation

Last year we reported that the council tax collection rate had fallen. The collection rate for this year showed a further decrease of 0.2 per cent, against a 0.2 per cent increase in the national average. Despite this year's reduction, the collection rate remains above the national average.

Collection rates for non-domestic rates showed an improvement in reaching 97.9 per cent, however this still places the Council in the lower quartile (Exhibit 5).

EXHIBIT 5 PROPORTION OF DEBT COLLECTED

	Council tax %		NNDR %	
	2003	2004	2003	2004
South Northamptonshire	98.5	98.3	96.9	97.9
District average	97.8	98.0	98.5	98.6
Lower quartile			97.8	98

Source: ODPM Statistics

The council has revisited its targets for 2004/05 and these have been set at 99 per cent for council tax and 98.85 per cent for NNDR. The Head of Finance is receiving monthly performance monitoring reports and collection rates are regularly reported to Cabinet. The figures for October show that the council is falling marginally short of its profiled collection target for council tax, and is over 5 per cent down on its profiled collection target for NNDR. Much of this is attributed to the receipt from the District Valuer of late valuation changes, increasing the amount collectable.

These figures only show the collection of current year income however. A review of arrears listings for the period 1 April 2004 to 27 October 2004 showed that the council successfully collected some £345k of council tax arrears in this period, although there is still a core of long outstanding debt (prior to 31 March 2003) of £297k. Some £308k of NNDR arrears had also been recovered although £245k in respect of old NNDR debt still remains uncollected.

Housing rents

In last year's Letter we commented that rent arrears were increasing. Rent arrears increased in 2003/04 by £109k to £372k, which represents a 42 per cent increase over the year, although this was somewhat lower than the figure reached in December 2003 reported last year. This followed a significant increase in arrears over 2002/03 and required a corresponding increase in the bad debt provision at the year-end.

The council has adopted a recovery plan for reducing these debts, and monitors performance against this. The latest monitoring report to CMT shows that performance in recovering the outstanding amounts is ahead of target.

However as more stringent recovery procedures are adopted there is an inevitable increase in the level of former tenants' arrears. Your officers have recognised that the recovery of these debts needs high priority, but need to balance this against the need to continue reducing current arrears.

Pensions fund deficit

South Northamptonshire's share of the Northamptonshire pension fund deficit was valued as £11.426 million at 31 March 2004. A full actuarial valuation of the pension fund is currently being undertaken and the results will be considered as part of the 2005/06 budget process.

Systems of internal financial control

There have been some reconciliation problems during 2003/04 following the introduction of new financial systems.

Deloitte continues to provide an adequate and effective internal audit.

We have made a number of recommendations regarding the implementation of your financial systems.

Overall arrangements

The council was required to include a Statement of Internal Control (SIC) in its 2003/04 statement of accounts. The statement sets out the framework within which internal controls are managed and reviewed and the main components of the system. It also includes an action plan for dealing with the following issues.

- Risk of non-compliance with the Data Protection Act 1998.
- Requirement to fully embed the risk management process.
- Unclear corporate priorities.
- Poor performance against BFI and DWP Performance Standards.
- Reconciliations between financial systems during 2003/04.

As external auditors we are required to confirm that the disclosures in the SIC are consistent with the knowledge gained from our audit work.

During the year we conducted an overall review of the financial aspects of the council's corporate governance arrangements and a review of your main core processes relating to the accounts.

There were a number of reconciliation issues during 2003/04, due to the change of all the major financial systems. Some systems had not been reconciled and a number of reconciliations had balancing differences. Whilst no reconciliation differences were material to the accounts, we recommend that the council continue to work towards identifying and dealing with them.

We did not identify any inconsistencies within the council's SIC.

Internal Audit

As part of our planning for the 2004/05 audit we updated our assessment of Internal Audit. In our view Deloitte continues to provide an adequate and effective Internal Audit service, and we are continuing to work closely with them.

Information technology

In last year's Letter we referred to our applications reviews of the accounting and revenues systems.

We found that the implementation of the new systems had been satisfactory, but made a number of recommendations including:

- the need for a detailed formal audit trail with provision for checking this; and
- the need to implement a formally documented process for adding, removing and reviewing system users.

Our detailed reports on this work have been sent to your officers.

Standards of financial conduct and the prevention and detection of fraud and corruption

We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.

Overall arrangements

We are currently updating our assessment of the council's overall arrangements to maintain standards of conduct and prevent and detect fraud and corruption. We have not identified any significant weaknesses in your arrangements.

National fraud initiative

The council took part in the Audit Commission's national fraud initiative (NFI) 2002/03. The NFI, which is undertaken every two years, brings together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. Total savings from the 2002/03 exercise exceeded £83 million.

The Commission are repeating the exercise this year and will again collect payroll, pensions, housing benefits, student loan and housing rents data from Authorities. Alongside the core exercise a number of pilot initiatives are being undertaken at selected sites. These are focused on risk areas that were highlighted by Authorities and include payments made to privately run care homes, abuse of blue badge parking permits, serial insurance claimants and duplicate payments to suppliers. These pilot areas, if they prove effective, will be incorporated into future NFI exercises.

Legality of transactions

Our annual review of the council's overall arrangements for ensuring the legality of transactions with financial consequences has identified no areas of concern.

Overall arrangements

We are updating our assessment of the council's overall arrangements for ensuring the legality of transactions with a financial consequence during our interim work. We have found no significant weaknesses which need reporting to you.

Other work

Grant claims

Over recent years the number of claims requiring audit certification has grown and audit fees have risen in line with this growth. In its drive for Strategic Regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims. With effect from 2003/04, smaller claims have not been subject to audit or have received a light touch approach. The approach to the audit of larger claims has been determined by risk and the adequacy of the council's control environment.

Our work on your 2003/04 grant claims is ongoing and we expect to meet the deadlines imposed by government departments for all claims, with the exception of the Housing and Council Tax Benefit claim. This claim was submitted to the DWP on 30 September 2004, a month after the deadline, and we anticipate completion of its audit by 31 January 2005.

A report summarising the matters arising from our audit work together with a protocol for managing and quality assuring 2004/05 grant claims will be issued early in 2005.

Looking forwards

Future audit and inspection work

We have an agreed plan for 2004/05 and we have reported in this Letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2004/05 accounts, will be reported in next year's Annual Letter.

We will seek to ensure, wherever possible, that our work relates to the improvement priorities of the council when planning our programme of work for 2005/06. We will seek to reconsider, with you, your improvement priorities in the light of the CPA assessment and your own analysis, and develop an agreed programme by 31 March 2005.

Revision to the Code of Audit Practice

The Audit Commission has consulted on a revised Code of Audit Practice for application to the audit of the 2005/06 accounts. The new Code, which will be laid before Parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, focussing on corporate performance and financial management arrangements (rather than individual services and functions); and
- better and clearer reporting of the results of audits.

Further details will be provided in the Audit and Inspection Plan 2005/06.

Closing remarks

This Letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at the Cabinet on 10 January 2005 and the January Resources (Review and Development) Committee.

The Council has taken a positive and constructive approach to our audit and inspection and we would like to take this opportunity to express our appreciation for the Council's assistance and co-operation.

Availability of this Letter

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



Ian Sadd
District Auditor



Mary Perry
Relationship Manager

Date: December 2004

Status of our reports to the Council

Our Annual Audit and Inspection Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual Audit and Inspection Letters are prepared by relationship managers and appointed auditors and addressed to members and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any member or officer in their individual capacity, or to any third party.

Audit and inspection reports issued

Report	Date issued
Audit Plan 2004/05	March 2004
Comprehensive Performance Assessment (CPA)	March 2004
Financial Aspects of Corporate Governance Memorandum	April 2004
Review of IT Controls – General Ledger System	April 2004
Review of IT Controls – Revenues and Benefits (draft)	October 2004
Implementing Electronic Government Progress	December 2004
Accounts Memorandum	December 2004
Audit and Inspection Letter	December 2004
Best Value Performance Plan – Statutory Report	December 2004

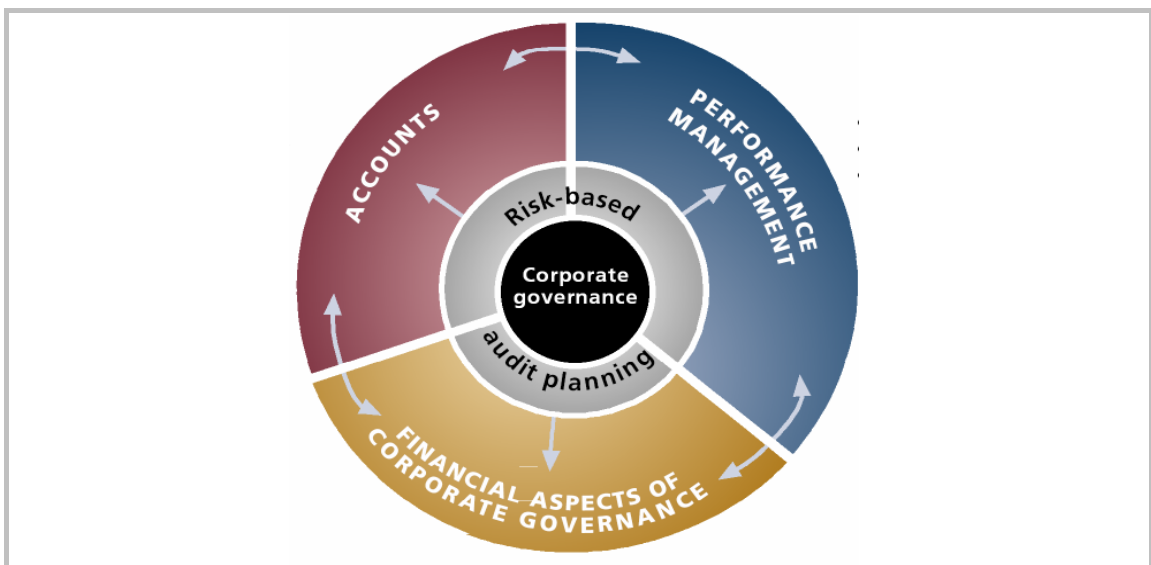
Scope of audit and inspection

Audit

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Exhibit 6.

EXHIBIT 6 THE THREE MAIN ELEMENTS OF OUR AUDIT OBJECTIVES



Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best Value Performance Plan.

Inspection

Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:

- enable the council and the public to judge whether best value is being delivered;
- enable the council to assess how well it is doing;
- enable the Government to assess how well its policies are being implemented; and
- identify failing services where remedial action may be necessary.

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

Audit and inspection fee

Audit fee update

Audit area	Plan 2003/04	Actual 2003/04
Accounts	22,100	22,100
Financial aspects of corporate governance	11,100	11,100
Performance	30,750	30,750
TOTAL CODE OF AUDIT PRACTICE FEE	63,950	63,950
Grant claim certification	37,000	17,705

The planned grant claim certification fee was an estimate as fees are charged based on the actual time taken at skill-related fee rates. Certification of 2003/04 grant claims is ongoing and the actual fee shown above is the total charged as at the end of October. Further fees will be charged for work undertaken in November 2004 and January 2005.

Inspection fee update

The full year inspection fee is £15,800. The work reported in this Audit and Inspection Letter has been funded by an element of the fee covering 2003/04 and by an element of the fee covering 2004/05. In both years the actual fee will be in line with that planned.