

## Annual Audit and Inspection Letter

# South Northamptonshire Council

### INSIDE THIS LETTER

#### PAGE 2

- The purpose of this Letter
- Objectives of audit and inspection

#### PAGE 3

- Key messages

#### PAGES 3 - 9

- Council performance
- Financial aspects of corporate governance
- Audit assurance work
- Other work

#### PAGES 9 - 10

- Audit and inspection fees
- Future audit and inspection work
- Status of our Annual Letter
- Closing remarks

#### PAGE 11

### Appendix

- Audit and Inspection reports issued during 2002/2003

<b>Reference:</b>	snorthants2 South Northants Council AAL 02-03 - Final
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<b>Date:</b>	23 January 2004 JG/BM

## The purpose of this Letter

This Letter summarises the conclusions and significant issues arising from our 2002/2003 audit and inspection programme and comments on other current issues.

We have issued separate reports during the year having completed specific aspects of our programme. These reports are listed at Appendix 1 for information.

Auditor’s responsibilities are summarised in the Audit Commission’s statement of key responsibilities of auditors. The responsibilities of Audit Commission inspectors are detailed in section 10 of the Local Government Act 1999. What we say in this Letter should be viewed in the context of that more formal background.

## Objectives 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 1.

### EXHIBIT 1

#### 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
- identify failing services where remedial action may be necessary.

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## Key messages

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### Comprehensive Performance Assessment

Along with all other Northamptonshire districts, the council has been subject to the district council CPA process during the year.

The council has lodged an appeal against the CPA score. We will report the outcome of CPA to the council and publish the report when the matter is resolved.

### Performance Information

We provided the required report to the Audit Commission by the deadline. We reported one reservation on your indicators.

### Best Value Performance Plan audit

The council's 2003/2004 Best Value Performance Plan complied in all significant respects with statutory requirements. We gave an unqualified audit opinion on 10 December 2003 and made no formal recommendations to which the council need respond.

### Financial aspects of corporate governance

#### Financial standing

Overall financial management continues to be sound. The council's spending continues to be below budget and revenue reserves remain healthy.

Taxation collection rates fell in 2002/2003 and arrears increased, although these are now reducing. Rent arrears have increased following the implementation of new benefits and rents systems, and the continuing implementation of the Supporting People Grant. Members should continue to monitor performance on a regular basis to ensure that the current trend on taxation arrears is maintained and that the increasing rent arrears are addressed following full implementation of the Supporting People Grant.

### Systems of internal financial control

Our annual review of the council's overall arrangements systems of internal financial control was linked closely to our work on the Auditor Scored Judgements for CPA. There are no issues which need to be brought to your attention.

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

Each year we review the council's arrangements for the prevention and detection of fraud and corruption. Our overall review found your arrangements to be adequate with scope for improvement in some areas.

### Legality of transactions

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

### Accounts

We gave an unqualified opinion on your 2002/2003 statement of accounts on 23 December 2003.

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## Council performance

*Along with all other Northamptonshire districts, the council has been subject to the district council CPA process during the year.*

*The council has lodged an appeal against the CPA score. We will report the outcome of CPA to the council and publish the report when the matter is resolved.*

### Other inspections

We have not undertaken any inspections apart from CPA in the last year.

## Use of resources

*We have maintained an overview of the progress in implementing previous year's recommendations. Our work on electronic government is due to start shortly.*

Our use of resources work during the last year has been limited to maintaining an overview of progress in implementing previous year's recommendations. Further work will be undertaken during the coming months as the council responds to the findings of the CPA report.

## Electronic government

As part of our Audit Plan for 2002/2004 we agreed to carry out a follow up review of the council's progress against the recommendations in our initial review in 2001/2002, and consider the planning, control and delivery of the e-government programme. Our work on this is due to start shortly.

## Performance Information

*We provided the required report to the Audit Commission by the deadline. We reported one reservation on your indicators.*

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 one reservation being reported to the Commission. The reservation was made as the council was unable to break down the figures for overall tenant satisfaction with services between black and ethnic minority and non black and ethnic minority, as you were not required to collect this information when the last survey was undertaken. This information is being collected currently for the 2003/2004 indicators.

## Best Value Performance Plan audit

*The council's 2003/2004 Best Value Performance Plan complied in all significant respects with statutory requirements. We gave an unqualified audit opinion on 10 December 2003 and made no formal recommendations to which the council need respond.*

Having completed our statutory audit of your 2003/2004 Best Value Performance Plan (BVPP) we provided our statutory audit report to you on 10 December 2003.

We are required each year to recommend whether, on the basis of our audit work, the Audit Commission should carry out a Best Value inspection of the council or whether the Secretary of State should give a direction. We recommended that neither of the above were required at South Northamptonshire.

## Financial aspects of corporate governance

### Financial standing

*Overall financial management continues to be sound. The council's spending continues to be below budget and revenue reserves remain healthy.*

*Taxation collection rates fell in 2002/2003 and arrears increased, although these are now reducing. Rent arrears have increased following the implementation of new benefits and rents systems, and the continuing implementation of the Supporting People Grant. Members should continue to monitor performance on a regular basis to ensure that the current trend on taxation arrears is maintained and that the increasing rent arrears are addressed following full implementation of the Supporting People Grant.*

**Overall arrangements**

We reviewed the council’s overall arrangements for ensuring that its finances are soundly based including the corporate budget setting and budgetary control procedures.

**Financial planning**

The council’s Medium Term Revenue Plan (MTRP) has recently been updated and was considered by Cabinet on 12 January 2004. As the council reviews its priorities and focus as part of its improvement planning process in response to CPA the MTRP should again be updated. This is recognised by the council and it is intended that a base budget review for 2005/2006 will start soon after the 2004/2005 budget is finalised.

At the time of writing the MTRP shows a cumulative budget gap of £2,875k over the next five years, based on an increase in council tax for 2004/2005 of 9.5% and 7.5% thereafter. This gap rises to over £6m if the council tax increases are restricted to 5%.

In last year’s Letter we referred to the council’s future in Social Housing. The stock option appraisal was initially timetabled to be completed by July 2003, but this has now been put back to September 2004 due to delays in receiving the outcomes of the stock condition survey. The outcome of the stock option appraisal will significantly effect the council’s future financial planning.

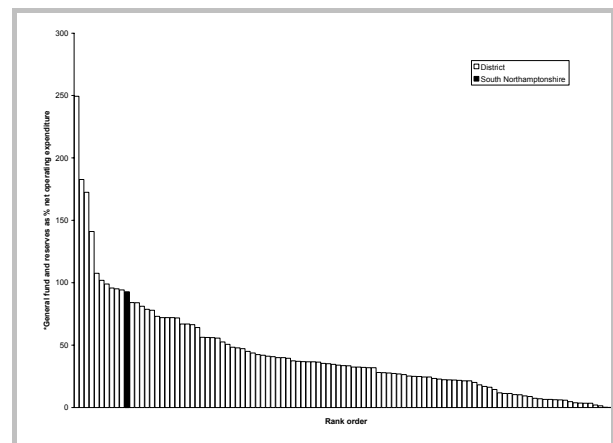
**Revenue spending and balances**

Net expenditure in 2002/2003 was £6.976 which is lower than the revised budget of £7.390m but represents an under-spend of some 6%. The net underspend was primarily due to unused budget contingency, and a higher than anticipated level of income from Building and Development Control fees. Our review of budgetary control did not indicate any areas of concern in this respect.

The closing general fund reserve was £5.841m which represents approximately 52% of net operating expenditure. Earmarked revenue reserves have fallen slightly to £4.4m. The council’s balances are amongst the highest in the country for district councils (Exhibit 2). This must, however, be viewed in the context of the council’s limited overall asset base: unlike some authorities, you do not have significant revenue-generating assets.

**EXHIBIT 2 GENERAL FUND RESERVES AS A % OF NET OPERATING EXPENDITURE**

**Balances as a percentage of net expenditure are amongst the highest for District Councils in the country**



*Audit Commission Balance 2003 database*

The HRA generated a surplus of £0.168m compared to a budgeted surplus of £0.061m and the working balance has increased to £1.432m. This was mainly due to an underspend on the housing repairs budget.

**Capital expenditure**

The approved capital budget for 2002/2003 was £14.343m of which £9.423m was spent by 31 March 2003. This represents an under-spend of £4.920m, of which £1.863m was programme slippage, leaving a net under-spend of £2,957. Total slippage and under-spending amounted to some 34% of the budget, an improvement over previous years. The programme for 2004/2005 has been compiled so that the potential for slippage and under-spend is limited.

**Prudential code of borrowing**

The introduction of the prudential code from April 2004 will repeal the capital controls established by Part IV of the Local Government and Housing Act 1989. The aim of the prudential code is 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
- treasury management decisions are taken in accordance with professional good practice.

The prudential code is designed to improve transparency of decision making and to allocate responsibility and accountability. Unaffordable levels of borrowing would ultimately reduce the revenue available for services or require increases in council tax levels.

The council has begun to address the requirements of the new code as an integral part of its medium term financial plans.

**Collection of income and arrears levels**

The 2002/2003 collection rate for council tax has reduced but remains above the national average. The collection rate for non-domestic rates has fallen and is now below the national average (Exhibit 3).

**EXHIBIT 3**

**Proportion of debt collected**

	Council tax %		NDR %	
	2002	2003	2002	2003
South Northamptonshire	99.0	98.5	98.1	96.9
District Average	97.4	97.6	98.2	98.5

Source ODPM Statistics

The fall in collection rates is primarily due to the implementation of new IT systems in the last quarter of the financial year. Good progress has been made in the nine months to December in collecting the arrears outstanding at the year end. Collection of tax income for the current year is on target to meet previous collection rates. The council may wish to consider increasing the collection targets for future years following full implementation of the new systems.

Rent arrears have also increased (Exhibit 4).

**EXHIBIT 4**

**Rent arrears outstanding**

	Dec 2003 £'000	March 2003 £'000	March 2002 £'000
Current tenants	399	221	75
Former tenants	30	42	21

Source Audit working papers

The council implemented new rents and benefits systems in the last months of the last financial year. As a result there was a backlog in benefits processing which contributed to the increase in arrears. The council has yet to fully implement the Supporting People system, and this is contributing to the ongoing increase in arrears. It is expected that the system will be updated and all Supporting People benefits posted to the rents system by the end of January. Once this has been done and a truer picture of arrears levels is available prompt action should be taken to address any underlying increase.

Former tenants arrears are also at a higher level than at 31 March 2002, but these are now beginning to fall.

Monitoring reports are regularly presented to Cabinet. Members should continue to monitor income collection rates on a regular basis to ensure that taxation collection performance is maintained, and that action is taken to address the increase in rent arrears.

## Systems of internal financial control

*Our annual review of the council's overall arrangements systems of internal financial control was linked closely to our work on the Auditor Scored Judgements for CPA. There are no issues which need to be brought to your attention.*

### Overall arrangements

For the first time, local authorities were required to include in their 2002/2003 statement of accounts a statement on the system of internal financial controls. This statement sets out the framework within which financial control is managed and reviewed and the main components of the system, including the arrangements for internal audit. The statement reports on significant identified weaknesses and the actions undertaken to rectify these.

As external auditors we are required to identify any inconsistencies between the disclosures in the statement and information of which we are aware arising from our audit work.

During the year we conducted a review of all of the elements of the financial aspects of corporate governance. This was closely linked to our work on the Auditor Scored Judgements which were reported to and discussed with your officers in the summer. Our detailed report on the findings of our review has recently been drafted and sent to your officers. There are no issues which need to be brought to your attention.

### Internal Audit

We are required to assess whether you have put arrangements in place to secure adequate and effective systems of internal financial control. Internal Audit continues to be the main means by which you obtain assurance that your systems are operating effectively.

Internal Audit largely covered their planned work for the year, including coverage of the controls in your important financial systems. Internal Audit continues to comply with the expected professional standards set out in the CIPFA Code of Practice.

## Information Technology

Our Audit Plan included detailed applications reviews of the new accounting and revenues systems. These reviews have now been completed and reports are currently being drafted. We will report further in next year's Letter on the findings of these reviews.

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

*Each year we review the council's arrangements for the prevention and detection of fraud and corruption. Our overall review found your arrangements to be adequate with scope for improvement in some areas.*

### Overall arrangements

We updated our annual assessment of the council's overall arrangements to maintain standards of conduct and prevent and detect fraud and corruption. We found most of the expected controls were in place at the time of our audit but identified some areas where existing arrangements could be strengthened further. These have been set out in a report which has been recently sent to your officers.

### National fraud initiative

The National Fraud Initiative (NFI) is the Audit Commission's data matching exercise. Its main aim is to help identify and reduce housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud. The NFI is carried out every two years and data matches were provided to the council.

Our audit found that the work required to be done in respect of issues arising from the NFI had been completed satisfactorily by the council. There were no issues arising from this work.

## Legality of transactions

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

## Overall arrangements

We reviewed the council's overall arrangements for ensuring the legality of transactions with a financial consequence during our interim work. We found no issues to report on this topic.

## Audit assurance work

### Accounts

*We gave an unqualified opinion on your 2002/2003 statement of accounts on 23 December 2003.*

#### Statement of accounts

We held a workshop for officers prior to the commencement of the audit to discuss key issues related to the preparation of this year's final accounts. The workshop provided an opportunity for officers to discuss common issues arising from last year's audits and changes in accounting and audit requirements. We also agreed formal joint working arrangements specifying working paper requirements, reporting arrangements and the timing of our work.

All issues arising from this year's audit were satisfactorily resolved and appropriate amendments made to the statement of accounts during the course of the audit. We gave an unqualified opinion on 23 December 2003 and will summarise the matters arising from our work in a report to officers within the next few weeks.

#### Whole of government accounts

The Government Resources and Accounts Act 2000 paved the way for the provision of public body accounts into a common format. This is commonly referred to as 'Whole of Government Accounts' (WGA). Arrangements are already under way for a set of audited and published Central Government Accounts to be prepared for the 2003/2004 financial year, with local authority accounts being brought into the process over the next few years. This will involve a tightening of the timescale for the production of statements of accounts by all local authorities.

It is anticipated that the requirements of the Accounts and Audit Regulations 2003 will also have a significant effect on the publication dates of audited statements. These require a progressive reduction in the date of publication from 31 December 2003 by one month each year until in the year 2006 when it is expected that the annual accounts will be published by 30 September.

Like other councils, you face significant challenges to establish procedures to meet the earlier closedown deadlines. We will continue to work with officers as part of our 2003/2004 audit to assist this process.

#### Reporting to the council

There is a new auditing standard which applies to our audit of your accounts - Statement of Auditing Standard (SAS) 610 'Reporting to those charged with governance'. This requires us to report certain issues arising from our audit to members, in your case the Monitoring and Audit Committee, before we give our audit opinion on your financial statements.

In previous years we have discussed such issues with officers rather than members, but the SAS encourages openness and accountability by ensuring that members take responsibility for the council's accounts.

Whilst we raised a number of technical queries with officers as a consequence of our audit, there are no significant issues which we need to bring to the attention of members. We did not therefore issue a separate SAS 610 report.

## Other work

### Grant claims

During the year we are required to examine and certify a number of grant claims and returns following certification instructions laid down and agreed between the Audit Commission and the relevant government departments. We did so within the deadlines imposed.

The council’s housing subsidy claim and NNDR return were accompanied by audit qualification letters. The council’s housing benefits claim is still being audited.

A summary of matters arising from our audit of the 2002/2003 claims will be reported to officers when complete.

## Audit and inspection fees

*The outturn position in relation to our audit fee for the 2002/2003 audit year is in line with our original estimate.*

The proposed fee for the 2002/2004 audit was set out in our Audit Plan agreed at the start of the audit.

The table below sets out our latest estimate of the actual fee for 2002/2004 on the basis that work remains in progress, together with explanations where there are variances.

Members should note that in order to bring the Audit Commission financial year in line with the NHS and local authorities, the current plan covers the period from November 2002 to March 2004. In this time we will deliver two statutory audits and two Annual Audit Letters.

### EXHIBIT 5 AUDIT FEE UPDATE

Audit area	Plan 2002/2004	Anticipated actual 2002/2004
Accounts	46,500	46,500
Financial aspects of corporate governance	34,800	34,800
Performance	37,950	37,950
TOTAL CODE OF AUDIT PRACTICE AUDIT FEE	119,250	119,250
Inspection (1)	15,800	15,800
Certification of grant claims (2)	74,000	74,000
TOTAL AUDIT FEE	209,050	209,050

(1) Inspection fees are net of ODPM grant received

(2) The grant claim fee reported is our current estimate of the likely fee for both 2002/2003 and 2003/2004 certification work

We are currently in the process of auditing one of your major grant claims, but, at this stage, estimate that the cost of the work will be similar to the estimate set out within the agreed Audit Plan.

## Future audit and inspection work

Our audit and inspection programme for 2003/2004 is included in the Audit and Inspection Plan 2002/2004 which was issued in May 2003.

We will discuss the timetable for planning the 2004/2005 audit and inspection programme, linked to your improvement priorities, with officers early in 2004. Our future programmes will be structured across the following themes that help to clarify the purpose of our work:

- Assessment
- Improvement
- Assurance.

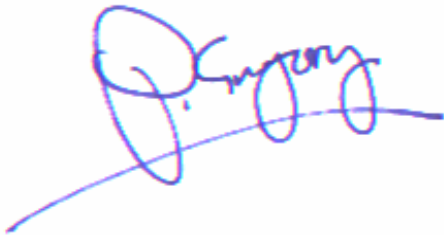
## Status of our Annual Letter

Our Annual Letter is prepared in the context of the statement of responsibilities of auditors and audited bodies issued by the Audit Commission. The Letter is prepared by the relationship manager and appointed auditor and is addressed to members and officers. It is prepared for the sole use of the audited body, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

## Closing remarks

This Letter has been discussed and agreed with chief officers and will be presented to members. A copy of the Letter will also be provided to all members.

Finally, I would like to take this opportunity to express my appreciation for the assistance and co-operation provided during the course of the work. Our aim is to deliver a high standard of audit and inspection which makes a positive and practical contribution which supports the council's improvement agenda. We recognise the value of your co-operation and support.



**John Gregory**  
**District Auditor**



**Mary Perry**  
**Relationship Manager**

**Date: 23 January 2004**

**Audit and Inspection reports issued during 2002/2003**

*This Appendix includes all the audit and inspection reports issued since the last Annual Audit Letter.*

2001/2002 Audit of Financial Statements Report	January 2003
Review of E-Government	February 2003
Review of Facilities Management	May 2003
Audit Plan 2002/2004	May 2003
Grant claims protocol	June 2003
Feedback on Auditor Scored Judgements	September 2003
Comprehensive Performance Assessment (draft)	November 2003
Best Value Performance Plan - Statutory Report	December 2003
Financial Aspects of Corporate Governance report (draft)	January 2003
2001/2002 Audit of Financial Statements Report (draft)	January 2003