

Annual governance report

Northampton Borough Council

Audit 2011/12



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Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

My audit is substantially complete. At this stage, subject to satisfactory clearance of the outstanding matters and agreeing the final amended version of the financial statements, I expect to issue an unqualified audit opinion. I will inform members of the Audit Committee if any additional material issues arise from the outstanding work.

- The draft financial statements were prepared promptly and certified by the Director of Resources on 29 June. The Accounts and Audit (England) Regulations 2011 require members to approve the final version of the financial statements by 30 September.
- Some errors in the draft financial statements submitted for audit have been identified (page 6). All adjustments are presentational in nature and have no impact on overall balances. To date, adjustments have been agreed to the movement in reserves statement, comprehensive income and expenditure account, balance sheet and disclosure notes.
- All errors have been corrected with the exception of a non-material error in the valuation of certain assets (appendix 2).

Value for money (VFM)

I am required to conclude whether the Council has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience; and
- challenging how the Council secures economy, efficiency and effectiveness

I have concluded that the Council's arrangements are adequate and propose to issue an unqualified value for money conclusion.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

As previously reported to members of the Audit Committee, I am aware of the following relationship that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguards to reduce the threat.

Table 1: **Threats and safeguards**

| Threat | Safeguard |
|--|--|
| A member of the local audit team is married to an employee of the Council. | The local auditor will not undertake any work related to her husband's area of activity or the payroll system. |

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (appendix 3);
- consider and approve management's decision not to correct the financial statements in respect of the errors in appendix 2;

- approve the letter of representation (appendix 4) on behalf of the Authority before I issue my opinion; and
- agree your response to the proposed action plan (appendix 6).

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

My audit is substantially complete.

The financial statements were prepared and submitted for audit promptly and in accordance with the agreed timetable. The working papers to support the accounts remain of a good standard and officers have been responsive and supportive throughout the audit.

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Uncorrected errors

I identified one uncorrected error in respect of the valuation of certain assets (appendix 2).

Corrected errors

I identified five significant errors within the draft financial statements, all of which have been corrected (appendix 3). All of the errors are material in value but presentational in nature and have no impact on net expenditure or the net balance sheet position.

In addition, a number of non-material errors and inconsistencies were identified in the financial statements, for example, casting errors and inconsistencies between notes. As they do not have a material impact I have not included them in this report.

Significant risks and my findings

I reported to you in my April 2012 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 2 I report to you my findings against each of these risks.

Table 2: **Risks and findings**

| Risk | Finding |
|---|---|
| <p>Joint Environmental Services Contract</p> <p>The Council entered into a joint environmental services contract with Daventry District Council in April 2011. The contract includes capital and revenue elements and may include arrangements that could be classified as an embedded lease under IFRIC 4.</p> | <p>Officers have reviewed the contract and determined that it contains a number of embedded leases. I reviewed the supporting evidence and am satisfied that the Council has complied with the requirements of IFRIC 4. I have not undertaken detailed testing of the accounting treatment of the individual leases as they are not material either individually or in aggregate.</p> |
| <p>HRA reform</p> <p>The government is reforming local authority housing finance by adopting a self-financing model from 1 April 2012. For Northampton this means a one-off payment to central government of £192.9 million on or before 28 March 2012 with a corresponding increase in debt. Due to the complexity, magnitude and timing of the HRA reform there is a risk that the financial statements could be materially misstated.</p> | <p>I have agreed the detail on the settlement payment to the DCLG notification and checked the accounting treatment.</p> <p>My testing has not identified any significant issues to bring to your attention.</p> |

Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

The following weaknesses in internal control are only those I have identified during the audit that are relevant to preparing the financial statements.

Table 3: **Internal control issues and my findings**

| Description of weakness | Potential impact | Management action |
|---|---|--|
| <p>At the time of my interim audit, housing rent and stock reconciliations were not up to date due to staff sickness absence. All reconciliations have now been brought up to date. However, given the importance of timely and accurate reconciliations I would expect the Council to have adequate contingency arrangements in place to ensure all key controls remain effective during periods of staff absence.</p> | <p>Failure to complete reconciliations in a timely manner could mean that frauds and/or error go undetected and make the reconciliations more difficult to perform at a later date.</p> | <p>See response to recommendation R1 (appendix 6).</p> |
| <p>Recommendation</p> | | |
| <p>R1 Ensure that adequate cover arrangements are in place so that all key controls continue to operate effectively during periods of staff absence.</p> | | |

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest

Table 4 sets out the other matters arising from my audit.

Table 4: Other matters

| Issue | Finding |
|---|---|
| Unallocated cash | <p>As reported in previous years, there was again a sum of unallocated cash incorrectly included within the short term creditors balance at 31st March. The bulk of this is allocated to the correct accounts in 2012/13 but the balance was left in creditors rather than being allocated to the correct debtor categories. Consequently, debtors and creditors were both over-stated by £332k.</p> <p>Officers agreed last year that closedown procedures would be reviewed to enable unallocated cash at 31st March to be posted to the correct debtor balances prior to preparation of the financial statements. This recommendation has not been implemented and has therefore been repeated this year.</p> |
| Related Party Transactions | <p>Note 37 of the draft financial statements was very brief and did not, in our view, include sufficient disclosures. For example, there is no mention of financial contributions to the Royal & Derngate Theatres Trust or other organisations with Member representation. Although the sums are not material to the Council, accounting standards require materiality to be considered from the perspective of the related party. The draft financial statements have been updated to include more comprehensive disclosures.</p> |
| Recommendation | |
| <p>R2 As recommended and agreed last year, year-end closedown procedure should be reviewed to allow unallocated cash at 31st March to be posted to the correct debtor categories prior to preparation of the financial statements.</p> | |

Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the NAO. My work is substantially complete and I expect to complete my report to the NAO by 28 September 2012. There are no matters that I wish to report to Members at this stage.

Value for money

I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. In my April 2012 Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 5: Value for money conclusion criteria and my findings

| Criteria | Risk | Findings |
|---|---|--|
| <p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>Whether the organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p> | <p>The continuing financial pressures facing the public sector and proposed financial reforms represent a significant challenge to the delivery of financial plans in the current and future years.</p> | <p>Adequate</p> <p>The 2011/12 outturn was delivered within budget leading to a net increase in the general fund (GF) balance of £467k. The GF balance at 31 March 2011 increased to £3,140k achieving the Council's plan for a risk based minimum balance of £3m. This is supplemented by earmarked general fund reserves of £16.2m and HRA reserves of £6.3m to cover a number of specific risks and service improvements.</p> <p>The Council set a balanced budget for 2012/13 incorporating a range of efficiency savings and reinvestment in priority areas.</p> |

| Criteria | Risk | Findings |
|---|---|--|
| <p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> <p>Whether the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p> | <p>The issues identified above could also impact on arrangements for securing economy, efficiency, and effectiveness.</p> | <p>The Medium Financial Strategy (MTFS) is reviewed and updated on an annual basis together with an annual review and risk assessment of balances and reserves.</p> <p>Plans are in place to respond to the various financial and welfare reforms affecting the Council.</p> <p>Budgetary control arrangements remain robust.</p> <p>Adequate</p> <p>The Council continues to review its services and management arrangements to ensure delivery of economy, efficiency and effectiveness through, for example, its programme of strategic business reviews and development of shared service and procurement arrangements. This has been further supplemented in 11/12 by the Budget Change and Performance Programme including an earmarked reserve to be spent on “invest to save and improve” projects.</p> <p>The Council has a good track record of delivering savings and efficiencies that support its corporate priorities and deliver a balanced budget, despite the ongoing financial pressures.</p> |

Fees

I reported my planned audit fee in the April 2012 Audit Plan.

I will complete the audit within the planned fee.

Table 6: Fees

| | Original Scale Fee (£) | Planned fee 2011/12 (£) | Expected fee 2011/12 (£) |
|--------------------|------------------------|-------------------------|--------------------------|
| Audit | 194,275 | 178,000 | 178,000 * |
| Claims and returns | | 31,000 | 31,000 ** |
| Non-audit work | | Nil | Nil |
| Total | | £209,000 | £209,000 |

* The Audit Commission has applied a rebate of £14,240 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £163,760.

** Certification of claims and returns remains in progress. At this stage I do not expect the actual fee to be significantly different to the planned fee.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF NORTHAMPTON BOROUGH COUNCIL

Opinion on the Authority financial statements

I have audited the financial statements of Northampton Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Northampton Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Resources and auditor

As explained more fully in the Statement of the Responsibilities, the Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of

significant accounting estimates made by the Director of Resources; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Northampton Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if :

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Northampton Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of Northampton Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Neil Bellamy

Officer of the Audit Commission

Appendix 2 – Uncorrected errors

I identified the following errors during the audit which management have not addressed in the revised financial statements.

| Item of account | Nature of error | Statement of comprehensive income and expenditure | | Balance sheet | |
|-------------------------------|---|---|-----------|---------------|-----------|
| | | Dr £'000s | Cr £'000s | Dr £'000s | Cr £'000s |
| Property, plant and equipment | <p>Due to a conflict between the Code and valuation guidance from the Royal Institute of Chartered Surveyors (RICS), some properties have been incorrectly valued. The Code requires assets valued at Depreciated Replacement Cost (DRC) to be valued using the “instant build” method excluding any finance costs. However, the Council’s valuer has applied the RICS guidance which includes finance costs of approximately £1.4m.</p> <ul style="list-style-type: none"> ■ Property, Plant & Equipment ■ Unusable Reserves ■ Impairment ■ Adjustments for funding basis (MiRS) <p>There is also likely to be a non-material error in the related depreciation calculations.</p> <p>This is a national issue that is likely to affect a</p> | 1,447 | 1,447 | 1,447 | 1,447 |

number of authorities. Officers propose to
correct the error in 2012/13.

Appendix 3 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

| Item of account | Nature of error | Statement of comprehensive income and expenditure | | Balance sheet | |
|---|--|---|-----------|---------------|-----------|
| | | Dr £'000s | Cr £'000s | Dr £'000s | Cr £'000s |
| Long Term Liabilities | <p>The Council correctly reclassified its capital grants received in advance (s106 contributions) from “Other Long Term Liabilities” to “Long Term Creditors” within the balance sheet. However, the comparative figures had not been re-stated.</p> <ul style="list-style-type: none"> ■ Other long term liabilities (2010/11) 4,240 ■ Long Term Creditors (2010/11) 4,240 ■ Other long term liabilities (1/4/2010) 4,110 ■ Long Term Creditors (1/4/2010) 4,110 <p>This error also affected note 46 - Financial Instruments.</p> | | | | |
| Note 43 – Defined Benefit Pension Schemes | Note 43b incorrectly excluded £17,156k shown in the actuaries report as “liabilities extinguished on settlement”. This means the total scheme liabilities was over-stated | | | | |

| | | Statement of comprehensive income and expenditure | | Balance sheet | |
|--------------------------------------|---|---|-----------|---------------|-----------|
| Item of account | Nature of error | Dr £'000s | Cr £'000s | Dr £'000s | Cr £'000s |
| | and inconsistent with note 43d | | | | |
| Movement in Reserves Statement | <p>“Other comprehensive Income & Expenditure” of £15,136k was incorrectly included in the “Usable Reserves” column rather than “Unusable Reserves”. A corresponding error was included in the “Adjustments between accounting basis and funding basis under regulations” line.</p> <p>This error also affected note 7 which incorrectly included (£5,104k) in respect of “Adjustments primarily affecting the Revaluation Reserve” and £20,240k in respect of “Adjustment primarily involving the Pension Reserve”.</p> <p>This error also affected the 2010/11 comparative figures, which have been re-stated.</p> | | | | |
| Other Operating Income & Expenditure | <p>My audit identified an inconsistency in the treatment of gross income and expenditure between 2010/11 and 2011/12. As a result, the comparative figures for 2010/11 have been amended as follows:</p> <ul style="list-style-type: none"> ■ Gross Expenditure (2010/11) | 6,748 | | | |

| | | Statement of comprehensive income and expenditure | | Balance sheet | |
|---|--|---|-----------|---------------|-----------|
| Item of account | Nature of error | Dr £'000s | Cr £'000s | Dr £'000s | Cr £'000s |
| | <ul style="list-style-type: none"> ■ Gross Income (2010/11) | | 6,740 | | |
| Financing & Investment Income & Expenditure | <p>My audit identified an inconsistency in the treatment of gross income and expenditure between 2010/11 and 2011/12. As a result, the comparative figures for 2010/11 have been amended as follows:</p> <ul style="list-style-type: none"> ■ Gross Expenditure (2010/11) ■ Gross Income (2010/11) | 11,114 | | | |
| | | | 11,114 | | |

Appendix 4 – Draft letter of management representation

Northampton Borough Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of the Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected misstatements are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Council (Audit Committee) and the reasons for not correcting these items are as follows.

- The guidance of the Royal Institute of Chartered Surveyors (RICS) was followed in arriving at the valuations in question.
- The time required to undertake the work to process a correction to the misstatement was disproportionate to the value of the misstatement, which is not material.
- In order to assist readers of the Accounts, a paragraph has been included with note 12 to the Statement of Accounts explaining the nature of the misstatement and the value involved.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Comparative financial statements

Restatements have been made to correct material errors in the prior period financial statements. This affects comparative information in the balance sheet (Other Long Term Liabilities & Long Term Creditors), the Comprehensive Income & Expenditure Statement (Other Operating Income & Expenditure and Financing & Investment Income & Expenditure) and the Movement in Reserves Statement. Written representations previously made in respect of the prior period remain appropriate.

I confirm that the this letter has been discussed and agreed by the Audit Committee on 24 September 2012

Signed on behalf of Northampton Borough Council

Isabell Procter

Director of Resources

Date

Appendix 5 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 6 – Action plan

Recommendations

Recommendation 1

Ensure that adequate cover arrangements are in place so that all key controls continue to operate effectively during periods of staff absence.

Responsibility Lesley Wearing

Priority High

Date 2012/13

Comments Agreed.

Recommendation 2

As recommended and agreed last year, year-end closedown procedures should be reviewed to enable unallocated cash at 31st March to be posted to the correct debtor categories prior to preparation of the financial statements.

Responsibility Dawn Perryman

Priority High

Date 2012/13

Comments Agreed – this has now been added to the closedown timetable for 2012/13.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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- any director/member or officer in their individual capacity; or
- any third party.



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September 2012