



PUBLIC SECTOR

Interim Audit Report 2009/10

Kettering Borough Council

May 2010

AUDIT

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Saverio Della Rocca, who is the engagement lead to the Authority, telephone 0121 335 2367, e-mail saverio.dellarocca@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

Interim audit findings

Scope of this report

This report summarises the findings from our planning and interim audit work completed at Kettering Borough Council (the 'Authority') in relation to the 2009/10 financial statements.

Planning

We identified the following risks during the audit planning and risk assessment phase. The table below shows the findings following our interim audit work carried out in February and March 2010 and the steps required to conclude on each risk.

Key risk	Interim audit work carried out and findings	Next steps
Housing Revenue Account (HRA) balance		
During the last five years, the balance on the HRA has been falling (from £780k as at 31 March 2004 to £220k as at 31 March 2007). This downward trend was reversed at the end of the 2007/08 financial year as the balance increased to £299k. However, at the end of the 2008/09 financial year this balance had fallen to £105k.	Our detailed review of management accounts as at 31 December 2009 (latest available) highlighted that the Authority is projecting a HRA balance of £300k at 31 March 2010 (compared to projected balance of £116k at 30 September 2009). This is as a result of the Authority revising budgeted HRA income down to reflect the 3.25% rent increase cap (original budget was set prior to announcement with a rent increase of 6.37%) and revising budgeted expenditure downwards from £12.463m to £11.636m (majority of decrease due to reduction in the amount of depreciation charged to the HRA of £711k and other budget savings).	The Authority will need to ensure that controls are operating effectively in relation to the HRA to ensure that the revised outturn position is achieved. We will review and test expenditure included in the HRA to ensure that only eligible expenditure has been capitalised. We will also review the Authority's plans for maintaining the HRA balance in line with the Medium-Term Financial Strategy.
Town Centre Regeneration		
The Authority is in the process of regenerating the Town Centre and bringing together a number of local services in the same location. This involves complex large value financial and land transactions which will have an impact on the financial statements.	During our interim visit we held discussions with the Head of Finance and the Suite 16 Programme Manager to understand the current position of the Town Centre Regeneration project. The Authority is looking at various options as part of the overall Town Centre Regeneration project, however some of the options have significant shortfalls in funding. For example, option 8 has a £40m shortfall and option 9 has a £12m shortfall. The Authority is looking at ways of reducing the funding gap.	The Authority will need to ensure that all options are appropriately appraised and assessed to ensure adequate funding is available prior to commencing each option. We will continue to monitor the Authority's progress in developing a sound financial strategy to fund the Town Centre Regeneration project.
Equal Pay		
The Authority continues to review its compliance with equal pay legislation and assess any potential risk exposure.	Discussions with the Head of Finance confirmed that the Authority is keeping a watching-brief on this area and is waiting for legislation to determine whether any future action is needed.	We will review and assess the adequacy of any reserves included in the financial statements in relation to Equal Pay.
Valuation of assets		
The Authority will need to review current market values for assets shown in the Balance sheet and have a robust mechanism for assessing the impact of the current economic climate and any impairment.	Discussions with the Authority's Group Accountant confirmed that the Authority has commissioned its external valuers to revalue all of its assets at the financial year end.	We will review the external valuation report alongside the financial statements to confirm revaluations have been processed correctly and are appropriately disclosed.

Interim audit findings (continued)

Key risk	Interim audit work carried out and findings	Next steps
Rent Assistance Scheme		
<p>During 2007/08 the Authority introduced the Rent Assistance Scheme, with the aim of assisting homeless households to secure accommodation in the private sector. During the 2008/09 financial statements audit we identified the following issues relating to the overall management arrangements in place:</p> <ul style="list-style-type: none"> - Authority records showed a significant number of accounts in credit, when in fact the debtor had fully repaid their loan; - A number of cancelled cheques (amounting to £3,286) which had not been allocated against specific debtor accounts; and - Loan agreements could not be located for 19 debtor accounts. 	<p>Through discussions with the Head of Finance and the Group Accountant we reaffirmed the importance of reviewing the management arrangements in place and improving the quality of the information included in the final accounts working papers prepared for this area.</p>	<p>We will undertake a detailed review of the final accounts working papers prepared for this area including those relating to the provision for bad and doubtful debts.</p>
IFRS restatement		
<p>The Authority is required to restate the balance sheet at 1 April 2009 to form the opening position in the 2010/11 accounts by early 2010.</p>	<p>Discussions with the Head of Finance and the Group Accountant confirmed that the Authority is making progress with the IFRS restatement:</p> <ul style="list-style-type: none"> • A report was presented to the Monitoring & Audit Committee in November 2009 to inform members of the implications of the implementation of IFRS on Local Government accounting; • The Authority is working in partnership with other local authorities in Northamptonshire through the Chief Accountants Network to jointly implement IFRS; • An IFRS working group is being set-up that consists of members from the following areas of the Authority: Finance, Legal & Property Services, Human Resources, and Internal Audit; • The Finance Team is in the process of assessing its leases against the revised definitions of operating and finance leases as prescribed by IFRS. 	<p>We will continue liaising with the Head of Finance and Group Accountant to monitor progress.</p>
Funding pressures		
<p>The Authority needs to ensure its Medium Term Financial Plan (MTFP) and reserves policy are robust against a backdrop of challenging savings targets and funding.</p>	<p>Through the course of our 2010 Use of Resources Assessment we confirmed that both the MTFP and the reserves policy appear robust. The MTFP links to the Authority's corporate priorities and is reviewed twice a year (annual review in September and again in February as part of the budget setting process).</p>	<p>We will continue to review this area as part of our 2010 Use of Resources assessment and going forwards as part of our 2011 Use of Resources assessment.</p>

Interim audit findings (continued)

No further risks have been identified through the course of our interim audit work which could have an impact on the financial statements.

Control evaluation

Our interim audit work involves reviewing and testing IT general controls and the controls in place over key financial systems. Where possible, we aim to place reliance on the work of Internal Audit and supplement it with our own work.

Review of Internal Audit

Following a review of progress made against the 2009/10 Internal Audit Plan we identified that at the time of our interim visit, only 39.5% of the 2009/10 Internal Audit Plan had been completed. 11 reviews had been finalised (4 of which related to key financial systems) with another 6 reviews being at draft report stage (3 of which related to key financial systems).

We completed a high level review of Internal Audit's working papers to support the 4 finalised key financial system reviews (Council Tax, NNDR, Housing Benefits and Treasury Management) and noted that the quality of system notes and testing schedules had improved when compared to the prior year.

Our review identified that a pro-forma Coaching Notes report has been set-up within TeamMate (Internal Audit's electronic working paper software). This report can be automatically populated to include: details of the review points raised, auditor responses and the date each review point was dealt with. This facility is not currently being used, however we believe that the use of this report would enhance the audit trail within TeamMate and would allow us to confirm that all review points are cleared prior to an audit report being issued. This has been discussed with the Authority's Principal Auditor and it has been agreed that the Coaching Notes report will be completed for our reference.

KPMG controls work

As a result of the limited number of key financial system reviews being completed at the time of our review, we performed our own controls testing and identified the following control weaknesses:

- *Housing Revenue Account* - Reconciliations between the Anite housing management system and the Agresso financial ledger have not been performed since October 2009 (this coincides with the departure of the HRA Service Accountant). It is understood that a reconciliation between the two systems will be completed at the year-end. We will review and re-perform this reconciliation as part of our year-end testing.
- *Sundry Debtors* - Review of the sundry debtors ledger identified debts amounting to £434,466 that are in excess of 90 days old, including one debt of £186,350, which has been provided for, which dates back to April 2007. The Authority should review the aged debtors position and write-off all debts that are in excess of 90 days old. We will review the aged debtors position at the year-end and assess the adequacy of the Authority's bad debt provision calculation.

IT general controls work

When completing our review of IT general controls we place reliance on Internal Audit's work wherever possible and complement this with top-up testing where necessary. We have previously raised a number of recommendations in relation to improving the general IT controls, as a result of our work we identified there has been some improvements for example the Council approved an IT Security Policy in the year however the following previously raised weaknesses remain outstanding:

- The corporate Business Continuity and Disaster Recovery Plan is in draft in parts and is not supported by an IT specific Business Continuity and Disaster Recovery Plan;
- There is no formalised documentation in place which sets out the responsibilities around the back-up of the Authority's network; and
- The integrity of key financial system back-ups is not subject to periodic restoration testing.

These weaknesses have been reported previously in our *ISA260 Report to those charged with governance* and our *Annual Audit Letter 2008/09*, however as they remain outstanding they have been raised again at Appendix A.

In addition to the weaknesses identified above, Internal Audit raised a number of recommendations as a result of their IT Application Controls review, including:

- The need for periodic reviews of system administrator access rights for key financial systems;
- Local contingency arrangements not being formally documented; and
- The need for thorough testing of Pyramid patches/upgrades prior to installation on the live system.

We concur with these recommendations and will follow up the Authority's progress in implementing them and will report the results in our *ISA260 Report to those charged with governance*.

Interim audit findings (continued)

Other areas considered during interim audit

National Fraud Initiative (NFI)

The NFI is the Audit Commission's biennial data matching exercise which helps detect and prevent fraud.

Following a request from the Audit Commission to follow-up on the progress made in reviewing data matches arising from the 2008/09 exercise, our review of data match reports identified that 14 reports have not been opened by the Authority. This equates to 253 data matches which have not been investigated.

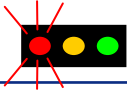

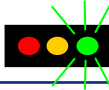
We understand that the Audit Commission release new data matches on a regular basis and as such the number of data matches relating to the Authority is constantly changing.

Discussions with Authority officers identified that the procedures which detail roles and responsibilities for dealing with NFI data matches have not been formalised. However, we understand that both the Head of Finance and the Head of Income & Debt have overall responsibility for this area and report progress to the Corporate Governance Group on a regular basis. A recommendation to formalise the process has been raised in relation to this issue at Appendix 1.

Acknowledgements

We would like to take this opportunity to thank officers and members for their continuing help and co-operation throughout our audit.

We have given each recommendation a risk rating (as explained below) and agreed what action management will need to take. We will follow up these recommendations next year.

Priority rating for recommendation		
<p>Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p> 	<p>Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p> 	<p>Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p> 

No	Risk	Issue and recommendation	Management response	Officer and due date
		IT control issues		
		<p>The IT control environment over the Authority's key financial systems underpins the financial system controls in place and provides additional assurance over the robustness of those systems.</p> <p>Through the course of our controls work we noted that a number of previously raised weaknesses in the IT control environment remain outstanding (however we have seen progress made with addressing some of the recommendations):</p> <ul style="list-style-type: none"> • currently there is no formalised IT specific Business Continuity and Disaster Recovery Plan in place; • there is no formalised documentation in place which sets out the responsibilities around the back-up of the Authority's network; and • the integrity of key financial system back-ups is not subject to periodic restoration testing. <p>We recommend the Authority take steps to ensure that:</p> <ul style="list-style-type: none"> • an IT specific Business Continuity and Disaster Recovery plan is compiled, approved and fully embedded across the Authority; • the Authority's existing back-up procedures are formalised in a procedure note; and • the integrity of key financial system back-ups is subject to periodic restoration testing that goes above and beyond the existing arrangements whereby the ICT Team respond to individual requests to restore lost information. 	<p>All of the issues and recommendations have been reported in the past. Most are reliant upon the completion of works relating to Business Continuity or the Government Connect compliance project. The Action Plan has been updated and will be reported to Monitoring and Audit Committee in September 2010.</p>	<p>Head of Finance – Various see Action Plan.</p>
1	● (two)			

No	Risk	Issue and recommendation	Management response	Officer and due date
Reconciliations				
2	● (two)	<p>Due to staff shortages the following reconciliations have not been performed since October 2009:</p> <ul style="list-style-type: none"> • Anite to Agresso financial ledger; • Anite to housing subsidy records (number of dwellings); and • Housing subsidy records to the fixed asset register (number of dwellings). <p>We recommend that these reconciliations are undertaken on a regular basis to ensure that the records used to compile the accounts are consistent with the other underlying records maintained by the Authority.</p>	<p>All reconciliations have been completed for the year end and processes put in place to ensure they are completed regularly in 2010/11.</p>	<p>Head of Finance Completed.</p>
NFI				
3	● (three)	<p>Following a request from the Audit Commission to follow-up on the progress made in reviewing data matches arising from the 2008/09 exercise, review of data match reports identified that 14 reports have not been opened by the Authority. This equates to 253 data matches which have not been investigated.</p> <p>Discussions with officers identified that the procedures for dealing with NFI data matches have not been formalised. However, we understand that both the Head of Finance and the Head of Income & Debt have overall responsibility for this area and report progress to the Corporate Governance Group on a regular basis.</p> <p>We recommend that the Authority formalise the procedures for dealing with NFI data matches in the form of guidance notes that detail roles and responsibilities of the officers involved in the process.</p>	<p>The Corporate Governance Group met and discussed the issue regarding the formalising of the process and the reporting of NFI outcomes. It was agreed that these would be completed and brought to Monitoring and Audit for approval in September.</p>	<p>Head of Finance September 2010</p>
Debtors				
4	● (three)	<p>From our review of the debtors balance we identified that 87% of the total balance (£495,640) is in excess of 90 days old. This includes one debt of £186,350 dating back to April 2007, which has been provided for.</p> <p>We recommend a review of these balances to determine the likelihood of collection, with those balances that are deemed to be irrecoverable being written-off.</p>	<p>A new reporting process has been introduced through the Executive Committee to ensure write-offs in excess of £20,000 completed in a timely manner.</p>	<p>Head of Finance July 2010</p>

Appendix B: Prior year recommendations

This appendix summarises the progress made to implement the recommendations identified in our ISA260 Report for 2008/09.

No.	Risk	Issue and recommendation	Management response	Officer and due date	Status at 22 March 2010
Use of Resources self assessment					
1	● (two)	<p>The Authority should build on the 2008/09 self assessment process and develop a more focused assessment which:</p> <ul style="list-style-type: none"> • contains an executive summary setting out a balanced assessment of the Authority's progress against the KLOEs over the last year; • is supported by evidence and is clearly signposted to the assessment; • is accompanied by case studies to demonstrate outcomes; and • is approved by the Corporate Management Team and has been subject to challenge by the Monitoring and Audit Committee. 	Agreed.	SMT / CMT February 2010	In progress The Authority provided KPMG with an updated self-assessment as part of the 2010 Use of Resources assessment on 12 th March 2010.
Action planning					
2	● (two)	<p>The Authority should develop an action plan in response to the findings of this report. The action plan should have named responsible officers and a timescale for implementation.</p> <p>The action plan should be discussed and challenged by the Monitoring and Audit Committee and progress reports should be submitted to the Monitoring and Audit Committee during the year.</p>	Agreed.	SMT / CMT February 2010	In progress An action plan has been developed by SMT / CMT following detailed feedback from KPMG on the 2009 Use of Resources assessment. The Authority has not yet presented this to Committee.
Statement of Recommended Practice (SORP) Disclosure Checklist					
3	● (two)	<p>The draft Statement of Accounts omitted a number of disclosures required by the SORP. Additional disclosures were required for example on:</p> <ul style="list-style-type: none"> • financial instruments; • retirement benefits; • leases, specifically where the Authority is the lessor; and • non-operational assets. <p>By completing the SORP checklist the Authority can identify the disclosures required when preparing the Statement of Accounts.</p> <p>It is recommended that the Authority completes the SORP checklist once the Financial Statements have been drafted in 2009/10.</p>	Agreed.	Group Accountant June 2010	Not yet due for implementation

Appendix B: Prior year recommendations (continued)

No.	Risk	Issue and recommendation	Management response	Officer and due date	Status at 22 March 2010
Rent Assistance Scheme					
4	● (two)	<p>During 2007/08 the Authority introduced the Rent Assistance Scheme, with the aim of assisting homeless households to secure accommodation in the private sector.</p> <p>Our testing identified the following issues relating to this scheme:</p> <ul style="list-style-type: none"> • records maintained by the Authority of all the households assisted by the scheme identify a significant number of accounts which are in credit. Detailed review of these accounts identified that these accounts are not in fact in credit, rather the debtor has repaid their loan ahead of the agreed repayment schedule. • records also identified 13 cancelled cheques amounting to £3,286 which have not been allocated to specific debtor accounts as the Authority is unable to identify to which account the payment relates. • working papers prepared by the Authority also identified that loan agreements could not be located for 19 debtor accounts. <p>It is recommended that the Authority carry out a detailed review of the overall management arrangements in place for the Rent Assistance Scheme to ensure the accuracy of the arrears figures and that adequate arrangements are in place to recover the debts.</p>	<p>The Authority is already in the process of reviewing the recovery procedures for loans given under the Rent Assistance Scheme.</p>	<p>Head of Housing November 2009</p>	<p>In progress</p> <p>Discussions with the Head of Finance and Group Accountant reaffirmed the importance of this review being undertaken and good quality working papers being available for the final accounts audit.</p>
Asset Management Plan					
5	● (two)	<p>The Asset Management Plan should be further developed to show how the Authority's land and buildings will be used and developed to help deliver corporate priorities and service delivery needs, now and in the future. The plan should also show how property assets will be maintained, modernised and rationalised to ensure that they are fit for purpose. The Plan should highlight any backlog maintenance and be regularly reported to Members. In addition, the Authority should obtain accurate data on the efficiency, effectiveness, asset value and running costs for each of its buildings which can be used to support decision making on investment and disinvestment property.</p>	<p>The points made will be discussed in detail and a further review of the Asset Management Plan undertaken. This will need to be considered along with the requirements of IFRS.</p>	<p>Head of Finance July 2009</p>	<p>In progress</p> <p>We have provided an example of a good Asset Management Plan to the Monitoring Officer to assist the Authority with their review.</p>