

GOVERNMENT

# Report to those charged with governance (ISA 260) 2009/10

Kettering Borough Council

September 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 Director to the Authority (telephone 0121 335 2367, email [saverio.dellarocca@kpmg.co.uk](mailto:saverio.dellarocca@kpmg.co.uk)) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, email [trevor.rees@kpmg.co.uk](mailto: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 email to [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

**Scope of this report**

This report summarises:

- the key issues identified during our audit of Kettering Borough Council's ('the Authority's) financial statements for the year ended 31 March 2010; and
- our assessment of the Authority's arrangements to secure value for money in its use of resources.

This report does not repeat matters we have previously communicated to you. In particular, we draw your attention to our *Interim Audit Report 2009/10*, presented to you in May 2010, which summarised the findings from our planning and interim audit work.

**Financial Statements**

The table below summarises the key findings from our work to date in relation to the financial statements audit. Section two of this document provides further details.

<b>Proposed opinion</b>	<p>We anticipate issuing an unqualified audit opinion by 30 September 2010.</p> <p>We will also report that the wording of your Annual Governance Statement accords with our understanding.</p>
<b>Accounts production and audit process</b>	<p>We have noted an improvement in the quality of the accounts and the supporting working papers. However there were some difficulties dealing with audit queries particularly for the Housing Revenue Account (HRA) which meant the audit timetable was not met.</p> <p>The Authority has implemented some of the recommendations in our ISA 260 Report 2008/09 relating to the financial statements. A number of recommendation mainly relating to improvements in the Authority's Corporate Risk Management processes and Asset Management Plan remain outstanding and have been re-iterated at Appendix D.</p>

**Critical accounting matters/ audit risks**

We have worked with officers throughout the year to discuss specific audit risk areas. The Authority has addressed the majority of issues appropriately, however work needs to continue in relation to anticipating and dealing with future funding pressures and managing the HRA balance in line with the Authority's Medium Term Financial Plan.

**Audit differences**

Our audit identified a total of 4 audit adjustments with a total value of £15,443k. 3 of these have been adjusted. The largest adjustment relates to a capital accounting adjustment which is reversed out via the Statement of Movement in the General Fund Balance. We have included a full list of significant audit adjustments at Appendix E.

The uncorrected audit adjustment relates to the bad debt provision for the Rent Assistance Scheme being under-stated. We believe the provision should be £152k rather than £84k, however the Authority has taken a different view and has not adjusted the accounts. However, not processing this adjustment does not give rise to the financial statements being materially misstated.

**Completion**

At the date of this report our audit of the financial statements is substantially complete subject to the following:

- verifying the final amended set of accounts; and
- receipt of a signed management representation letter.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

## Use of Resources

The table below summarises the key findings from our assessment of the Authority's arrangements to secure value for money in its use of resources.

Our findings are detailed in section three of this report.

<p><b>Proposed opinion</b></p>	<p>Following the change in government, the use of resources assessment at local authorities ceased with immediate effect in May 2010. The Authority will therefore not receive scores in respect of the 2010 assessment. However, there is no change to the requirement in the statutory Code of Audit Practice for auditors to issue a VFM conclusion.</p> <p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p>
<p><b>Use of resources assessment</b></p>	<p>As noted above the Authority will not receive scores in relation to the 2010 assessment. However we have provided high level messages in Section 3 and summarised our findings below:</p> <p><i>Managing finances</i></p> <p>The Authority has made good progress in relation to managing its finances, in particular the Authority has:</p> <ul style="list-style-type: none"> <li>• updated its Medium Term Financial Plan to reflect the current position; and</li> <li>• switched resources in the year to ensure priority areas are met and services improved.</li> </ul> <p>There are still areas where improvements can be made, including:</p> <ul style="list-style-type: none"> <li>• extending benchmarking currently undertaken across the whole of the organisation; and</li> <li>• keeping its scenario planning up-to-date in light of the CSR.</li> </ul>

**Use of resources assessment (cont.)**

*Governing the business*

The Authority continues to demonstrate that it has effective governance arrangements in place, including:

- a good performance management framework in place, having a Corporate Improvement Plan that is supported by a suite of KPIs; and
- undertaking service area reviews e.g. in benefits and housing which have led to service delivery improvements.

However, the Authority needs to:

- formally approve its Business Continuity Plan, and all partnership Service Level Agreements/Memorandum of Understanding that are still in draft;
- continue to develop and improve its risk management arrangements; and
- implement its "Budget Delivery Work streams" which will help it consider whether services should be provided and at what level and the best means of provision.

*Managing resources*

The Authority has sound arrangements in place relating to managing human resources.

The Authority has focused on helping the community reduce its carbon footprint. The Authority is in the early stages of assessing its own impact on the natural environment and needs to develop plans to reduce its own footprint.

**Specific use  
of resources  
risks**

We have considered the specific use of resources risks we set out in our *Audit Fee Letter 2009/10*.

We identified that the Authority needed to ensure its Medium Term Financial Plan (MTFP) and reserves policy are robust against a backdrop of challenging savings targets and funding cuts.

Our use of resources work identified that the Authority's budget is underpinned by a three year MTFP covering both the General Fund and the HRA.

As part of the 2010/11 budget setting process, the Authority completed a budget modeling exercise to assess the impact of potential cuts in central government grant funding arising in 2011/12, especially reductions in Revenue Support Grant and Housing Planning Delivery Grant, based either on an immediate 10% reduction or phased reduction over 3 years. The results of this analysis identified potential budget pressures of approximately £1m in 2011/12. The Authority is taking steps to identify service areas where efficiency savings can be made. To date, over £1m of efficiency savings have been realised through:

- revised waste and recycling arrangements;
- minimum revenue provision savings;
- Next Steps and other staff savings; and
- procuring goods / services in partnership with other Authorities in the region.

The Council has identified that its plans will need to be revisited after the results of the Comprehensive Spending Review.

**Exercise of other powers**

We have a duty under section 8 of the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to our attention in order for it to be brought to the attention of the public. In addition we have a range of other powers under the 1988 Act.

No issues have arisen that have required us to issue a report in the public interest.

**Certificate**

We are required to certify that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice. If there are any circumstances under which we cannot issue a certificate, then we are required to report them to you and to issue a draft opinion on the financial statements.

At present there are no issues that would cause us to delay the issue of our certificate of completion of the audit.

**Acknowledgements**

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

**We have substantially completed our work on the 2009/10 financial statements.**

**There are a number of areas where our work is continuing, including:**

- **verifying the final amended set of accounts; and**
- **receipt of signed management representation letter.**

**Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2010.**

### The Authority's and our responsibilities

Kettering Borough Council is responsible for having effective systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that give a true and fair view of its financial position and its expenditure and income. It is also responsible for preparing and publishing an Annual Statement of Governance with its financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

The Audit Commission's Code of Audit Practice requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified and we report to those charged with governance (in this case the Monitoring and Audit Committee) at the time they are considering the financial statements.

We are also required to comply with International Standard on Auditing (ISA) 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements.

### Introduction

Our audit of the financial statements can be split into four phases:



We previously reported on our work on the first two stages in our *Interim Audit Report 2009/10* issued in May 2010.

This report focuses on the final two stages: substantive procedures and completion. It also includes any additional findings in respect of our control evaluation that have been identified since we issued our *Interim Audit Report 2009/10*.

### Substantive Procedures

Our final accounts visit on site took place between 5<sup>th</sup> July 2010 and 20<sup>th</sup> August 2010. During these seven weeks, we carried out the following work:

#### Substantive Procedures

- Planning and performing substantive audit procedures
- Concluding on critical accounting matters
- Identifying audit adjustments
- Reviewing the Annual Governance Statement

We have substantially completed our audit of the Authority's 2009/10 financial statements.

There are a number of areas where our work is continuing including:

- verifying the final amended set of accounts; and
- receipt of a signed management representation letter.

### Completion

We are now in the final phase of the audit. Some aspects are discharged through this report:

#### Completion

- Declaring our independence and objectivity
- Obtaining management representations
- Reporting matters of governance interest
- Forming our audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2010.

**We have noted an improvement in the quality of the accounts and the supporting working papers.**

**There were some difficulties with Officers dealing with audit queries in a timely manner which impacted on the audit timetable.**

**The Authority has implemented some of the recommendations in our ISA 260 Report 2008/09 relating to the financial statements. However a number remain outstanding. They have been re-iterated in Appendix D.**

**The wording of your Annual Governance Statement accords with our understanding.**

### Accounts production and audit process

ISA 260 requires us to communicate to you our views about the qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	<p>The Authority has strengthened its financial reporting process by developing its working papers and assigned responsibility for sections of the accounts to specific officers. There is scope to improve this further, in particular:</p> <ul style="list-style-type: none"> <li>ensuring the Statement of Recommended Practice (SORP) Disclosure Checklist is completed and fully referenced to the draft financial statements. Any deviations from recommended practice should be dealt with appropriately prior to finalising the financial statements;</li> <li>developing working papers for both debtors and creditors that clearly map the balances per the general ledger to the balances disclosed in the notes to the accounts; and</li> <li>reviewing the adequacy of the bad debt provision and policy for the Rent Assistance Scheme.</li> </ul>
Completeness of draft accounts	We received a complete set of draft accounts on the 30 <sup>th</sup> June 2010.
Quality of supporting working papers	The Authority has strengthened its financial reporting process by developing its working papers. A number of improvements have been noted above.

Element	Commentary
Response to audit queries	The majority of audit queries were resolved in a timely manner. In some cases, however, we experienced delays, specifically where staff who prepared the working papers were not available during the audit. This is particularly the case for the Housing Revenue Account and the cash flow statement.

As a result of the above we did incur additional costs which we need to discuss with management. We have also raised a recommendation in respect of developing the Authority's working papers, as discussed above, which is included in Appendix C.

### Prior year recommendations

In our *Interim Audit Report 2009/10* we commented on the Authority's progress in addressing the recommendations in our *ISA 260 Report 2008/09*.

The Authority has implemented some of the recommendations in our *ISA 260 Report 2008/09* relating to the financial statements. Those that remain outstanding are re-iterated at Appendix D. The Authority needs to continue to monitor progress in implementing the recommendations raised in this report and in previous reports.

### Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made a number of comments in respect of its format and content which the Authority has agreed to amend where significant. In addition we have highlighted areas for improvement for next year.

**We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the majority of issues appropriately.**

**The Authority has monitored HRA expenditure closely throughout the year and consequently has improved the balance in line with the Medium Term Financial Plan.**

### Work completed

- In our *Financial Statements Audit Plan 2009/10*, presented to you in May 2010, we identified the key risks affecting the Authority's 2009/10 financial statements.
- In our *Interim Audit Report 2009/10* we commented on the Authority's progress in addressing these key risks. We highlighted that: steps were being taken to manage the HRA balance; a number of options in the Town Centre regeneration project had funding shortfalls; and progress was being made in relation to the IFRS restatement.
- We have now completed further work on these areas and set out our key findings below.


### Key findings

- The Authority now has an HRA specific Medium Term Financial Plan in place.
- The Town Centre regeneration project includes a number of projects that the Authority would like to pursue if sufficient funding is available. As the Authority continues to determine

which options to pursue, it will need to ensure all the options are appropriately appraised prior to making the final selection.

- An Organisational Development reserve of £418k has been set-aside to cover costs arising from future organisational development projects, including any Equal Pay claims.
- The asset revaluation exercise undertaken at the year end identified upward revaluations of £15,277k. These revaluations were incorrectly accounted for in the draft accounts, however the Authority has since adjusted the accounts to reflect the correct technical accounting treatment.
- The Authority is making progress with the IFRS restatement. The restatement exercise will be completed by the end of September.
- The Authority has undertaken exercises to assess the impact of future funding cuts which highlighted potential budget pressures of £1m for the 2011/12 financial year. Steps are now being taken to identify where further efficiency savings can be made.



The table below sets out our detailed findings for each risk.

Key audit risk	Identified at planning and our audit approach	Findings
 <p><b>Risk 1</b></p>	<p><b>Housing Revenue Account (HRA) balance</b></p> <p>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.</p> <p>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.</p> <p>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 Plan (MTFP).</p>	<p>The HRA balance at the year end increased from £105k to £305k which is at the Authority's 'Golden Rule' level. The majority of savings have been realised by reducing expenditure on repairs and maintenance and on general management and supervision.</p> <p>During our use of resources work we identified the Authority now has an HRA specific MTFP. This outlines how the Authority plans to maintain HRA balances in line with the agreed minimum balance of £300k in the short term.</p>





The Authority is looking at a number of options as part of the Town Centre regeneration project. We have reviewed how the Authority has dealt with any capital additions and disposals and found no issues.

The Authority is in the process of disposing of the Lawrences site. This site was originally purchased using grant funding. The Authority will need to ensure all grant funders are made aware of the disposal, as required by grant conditions.

Key audit risk	Identified at planning and our audit approach	Findings
 <p>Risk 2</p>	<p><b>Town Centre Regeneration</b></p> <p>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.</p> <p>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.</p> <p>We will continue to monitor the Authority's progress in developing a sound financial strategy to fund the Town Centre Regeneration project.</p>	<p>At interim we identified the Authority was looking at a number of projects as part of the overall Town Centre Regeneration project.</p> <p>We have continued to track progress and note the Authority has not yet finalised its plans and is still considering a number of options.</p> <p>We carried out a review of capital additions and disposals as part of our financial statements audit. We noted the Authority is in the process of disposing of Lawrences Site, whose purchase was funded from external grants. Through review of the grant agreements relating to those grants used to purchase the site, we identified that the Authority needs to ensure the grant funders are notified of the sale.</p>
 <p>Risk 3</p>	<p><b>Equal Pay</b></p> <p>The Authority continues to review its compliance with equal pay legislation and assess any potential risk exposure.</p> <p>We will review and assess the adequacy of any reserves included in the financial statements in relation to Equal Pay.</p>	<p>As part of our financial statements audit we reviewed the level of reserves held by the Authority in relation to Equal Pay. The Authority is continuing to keep a watching-brief on this area and is waiting for legislation to determine whether any future action is needed. At the financial year end the Authority had an Organisational Development reserve with a balance of £418k which would be used to fund any potential liabilities. The reserve has been increased in the year by £193k.</p> <p>We will continue to monitor the Authority's progress in this area.</p>


An asset revaluation exercise undertaken at the financial year end identified upward revaluations of £15,277k. These revaluations were incorrectly accounted for in the draft financial statements, but there was no bottom line impact.

The Authority is making progress with the IFRS restatement which will be completed by the end of September.

Key audit risk	Identified at planning and our audit approach	Findings
 <p>Risk 4</p>	<p><b>Valuation of assets</b></p> <p>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.</p> <p>We will review the external valuation report alongside the financial statements to confirm revaluations have been processed correctly and are appropriately disclosed.</p>	<p>As part of our financial statements audit we reviewed the valuation report prepared by the Authority's external valuer alongside the financial statements.</p> <p>Our review identified that the reversal of impairment charges recognised in the prior year financial statements had been accounted for incorrectly in the draft financial statements. The Authority had accounted for the reversals via the Revaluation Reserve. This treatment was not in line with that prescribed by the SORP whereby reversals should be credited to the Income and Expenditure Account.</p> <p>Following our audit, the Authority has adjusted the financial statements to reflect the correct accounting treatment. See Appendix E for more details.</p>
 <p>Risk 5</p>	<p><b>IFRS restatement</b></p> <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>We will continue liaising with the Head of Finance and Group Accountant to monitor progress.</p>	<p>We have continued to hold discussions with the Group Accountant to monitor progress in relation to the IFRS restatement.</p> <p>During the year we have completed two auditor surveys on behalf of the Audit Commission which comment on the Authority's progress in this area.</p> <p>The Authority is completing its restatement exercise by the end of 30 September 2010.</p> <p>We will continue to monitor the Authority's progress in this area.</p>

The Authority's budget is underpinned by a Medium Term Financial Plan.

The Authority has undertaken exercises to assess the impact of future funding cuts. This highlighted potential budget pressures of £1m for the 2011/12 financial year.

Key audit risk	Identified at planning and our audit approach	Findings
 <p><b>Risk 6</b></p>	<p><b>Funding pressures</b></p> <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>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>	<p>Our use of resources work identified that the Authority's budget is underpinned by a three year MTFP covering both the General Fund and the HRA.</p> <p>As part of the 2010/11 budget setting process, the Authority completed a budget modeling exercise to assess the impact of potential cuts in central government grant funding arising in 2011/12, especially reductions in Revenue Support Grant and Housing Planning Delivery Grant, based either on an immediate 10% reduction or phased reduction over 3 years. The results of this analysis identified potential budget pressures of approximately £1m in 2011/12. The Authority is in the process of identifying service areas where further efficiency savings can be made. This is in addition to the efficiency savings of over £1m that have already been realised through:</p> <ul style="list-style-type: none"> <li>• revised waste and recycling arrangements;</li> <li>• minimum revenue provision savings;</li> <li>• Next Steps and other staff savings; and</li> <li>• procuring goods / services in partnership with other Authorities in the region.</li> </ul> <p>We will continue to monitor the Authority's progress in maintaining healthy General Fund and HRA balances.</p>

## Audit differences

**Our audit identified a total of 4 audit adjustments with a total value of £15,443k.**

**There is no impact on the General Fund as a result of our audit adjustments. This is due to adjustments made to the Income and Expenditure Account being reversed out via the Statement of Movement on General Fund Balance.**

### Work completed

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

### Key findings

Our audit identified a total of 4 audit adjustments with a total value of £15,443k.

There is no impact on the General Fund as a result of our audit adjustments. This is due to adjustments made to the Income and Expenditure Account being reversed out via the Statement of Movement on General Fund Balance:

- The reversal of prior year impairment charges of £15,277k had not been accounted for correctly in the accounts but this had no impact on the increase/decrease in General Fund as shown in the table on the right. The reversal had been accounted for via the Revaluation Reserve rather than via the Income and Expenditure account as required by the SORP.

Of the other audit adjustments we have identified, the most significant in monetary value are as follows:

- £53k of invoices relating to Local Authority creditors had been incorrectly included within Government Department creditors; and
- Credit balances amounting to £40k had been incorrectly included within the debtors account.

We have provided a summary of significant audit differences in Appendix E. All but one of the adjustments have been adjusted by Authority. The uncorrected audit adjustment relates to the bad debt provision for the Rent Assistance Scheme being understated. We believe the provision is understated by £68k, however the Authority has taken a different view and has not adjusted the accounts. However, not processing this adjustment does not give

## Monitoring and Audit Committee 28.09.10 Appendix A

rise to the financial statements being materially misstated.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2009: A Statement of Recommended Practice* ('SORP'). We understand that the Authority will be addressing these where significant.

The tables below illustrates the total impact of audit differences on the Authority's income and expenditure account for the year and balance sheet as at 31 March 2010.

Income & expenditure 2009/10	Pre-audit £k	Post-audit £k
Net cost of services	15,537	296
Other operating income & expenditure	(10,863)	(10,863)
<b>(Surplus) / deficit for the year</b>	<b>4,710</b>	<b>(10,567)</b>
Net additional debits / credits	(4,733)	10,544
<b>(Increase) / decrease in General Fund</b>	<b>(23)</b>	<b>(23)</b>

Balance Sheet as at 31 March 2010	Pre-audit £k	Post-audit £k
Fixed assets	1,598	1,598
Other long term assets	209,366	209,366
Current assets	5,431	5,476
Current liabilities	(9,772)	(9,817)
Long term liabilities	(64,503)	(64,503)
<b>Net worth</b>	<b>142,120</b>	<b>142,120</b>
General Fund	(1,384)	(1,384)
Other reserves	(140,736)	(140,736)
<b>Total reserves</b>	<b>(142,120)</b>	<b>(142,120)</b>

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.**

**Before we can issue our opinion we require a signed management representation letter, and have provided a draft version at Appendix G.**

**Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.**

### **Declaration of independence and objectivity**

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Kettering Borough Council for the year ending 31 March 2010, we confirm that there were no relationships between KPMG LLP and Kettering Borough Council, its officers and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix F in accordance with ISA 260.

### **Management representations**

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have included a copy of a representation letter as Appendix G. We have provided a draft to the Group Accountant. We require a signed copy of your management representations before we issue our audit opinion.

### **Other matters**

ISA 260 requires us to communicate "audit matters of governance interest that arise from the audit of the financial statements" to you which includes:

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc); and
- other audit matters of governance interest.

There are no others matters which we wish to draw to your attention.

### **Opinion**

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2010.

Our proposed opinion on the financial statements is presented in Appendix A.

**We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.**

### The Authority's and our responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing their adequacy and effectiveness.

We are required to conclude whether the Authority has adequate arrangements in place to ensure effective use of its resources. We refer to this as the 'value for money (VFM) conclusion'.

### Introduction

Our assessment previously drew mainly on the findings from the use of resources assessment (UoR) framework, as the specified criteria for the VFM conclusion were the same as the UoR Key Lines of Enquiry (KLoE).

In May 2010 the new government announced that the Comprehensive Area Assessment (CAA) would be abolished. The Audit Commission subsequently confirmed that work related to the CAA should cease with immediate effect. This includes work for UoR assessments at local authorities.

However, there is no change to the requirement in the statutory Code of Audit Practice for auditors to issue a VFM conclusion.

At the time of the announcement, the vast majority of UoR work for 2010 had already been completed and this therefore informed our 2009/10 VFM conclusion. We provided some commentary on our findings within our *Interim Audit Report 2009/10*.

We also identified a number of specific risks impacting on our 2009/10 value for money conclusion and undertook targeted work on these areas.

### Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Our proposed conclusion is set out in Appendix B.

VFM criterion	Met
<b>Managing finances</b>	
Financial planning	✓
Understanding costs and achieving efficiencies	✓
Financial reporting	✓
<b>Governing the business</b>	
Commissioning and procurement	✓
Data quality and use of information	✓
Governance	✓
Risk management and internal control	✓
<b>Managing resources</b>	
Strategic asset management	✓
Workforce planning	✓

The following pages include further details on the use of resources assessment and specific risk-based work.

**The Audit Commission announced that its use of resources assessment at local authorities ceased with immediate effect in May 2010.**

**The Authority will therefore not receive scores in respect of the 2010 assessment.**

**The Authority has made progress in relation to managing its finances however there are still areas where continuing work is required, including:**

- extending benchmarking across all parts of the organisation;
- reviewing how the HRA is managed with a view to identifying cost savings; and
- continue to look at the way the Authority is driving efficiencies to meet any future funding gaps.

### Managing finances

#### Work completed

- We completed work on the 2010 use of resources assessment between November 2009 and May 2010.
- Our work involved a review of the Authority's self-assessment, discussions with key officers for all areas, review of relevant internal and external documentation, and a number of challenge meetings with the management team.
- We also completed additional work during July and August 2010 where we considered this to be still relevant to our VFM conclusion. This included our data quality spot checks and work on managing finances and governing the business.

Headlines
<p>The Authority performs well in the following areas:</p> <ul style="list-style-type: none"> <li>• The Authority has a Medium Term Financial Plan (MTFP) in place that has been updated to reflect the current economic climate. The MTFP includes the results of financial modelling undertaken based on a number of possible funding scenarios and details the Authority's 5 "golden rules" (how the Authority will meet future funding shortfalls).</li> <li>• The Authority links financial planning processes to its Community Strategy, Corporate Improvement Plan and individual service plans.</li> <li>• During 2009/10 the Authority has switched resources in some areas to ensure priorities are met and services are improved e.g. benefits and housing strategy.</li> <li>• The Authority has mapped its spend to corporate priorities, linked it to individual Service Plans and incorporated efficiency savings of £550k into 2010/11 budget.</li> <li>• The Authority has undertaken some benchmarking of costs on key services, for example benefits and IT.</li> <li>• External reporting is genuinely accessible and takes account of the needs of users (information in accessible formats to meet duties under the equalities legislation, e.g. in different languages, braille and large print).</li> </ul>

#### Key findings

- Even though the 2010 UoR assessment was substantially completed, we have been advised by the Audit Commission not to share indicative scores with audited bodies.
- We have therefore only included general messages in this report about the Authority's performance in each area. In particular, we have highlighted the key issues which we consider should be brought to the attention of those charged with governance. More detailed feedback was provided to the management team in May 2010.
- Below we set out our findings in respect of each area. Any recommendations arising are detailed in Appendix C.

Issues arising
<p>Areas for improvement have been noted below:</p> <ul style="list-style-type: none"> <li>• Whilst the Authority has increased the amount of benchmarking it has undertaken and has used this to drive performance improvements, e.g. housing benefits, housing and IT, we believe the Authority can take this further. For example through: <ul style="list-style-type: none"> <li>- extending current bench-marking across all parts of the organisation, i.e. Internal Audit, Payroll etc</li> <li>- using the information gathered consistently to feed into Next Steps and other exercises to improve performance;</li> <li>- using comparable data from other Authorities as a means of identifying areas for improvement; and</li> <li>- routinely reporting results to Members to ensure they have a more transparent view of the Authority's Value for Money position.</li> </ul> </li> </ul> <p>Benchmarking information can be used to contribute to the Authority's decision-making as part of its prioritisation work stream.</p> <ul style="list-style-type: none"> <li>• The Authority has done scenario planning and has identified a potential funding gap going forwards. It has put in a place a framework for managing the shortfall which includes 8 work streams focused on driving efficiency savings. The Authority is now reporting to Members and officers monthly so that they can keep up to date with progress.</li> </ul> <p>Whilst the Authority's approach is sound, it will need to review the adequacy of its approach in light of the results of the CSR.</p>

**The Authority continues to demonstrate that it has effective governance arrangements in place, including:**

- **having a Corporate Improvement Plan in place that is supported by a suite of KPIs;**
- **undertaking service area reviews which lead to service delivery improvements;**
- **an established Member development programme;**
- **adequate internal control arrangements.**

**However there are areas where additional work is required, including:**

- **formally approving the Business Continuity Plan;**
- **approving all draft partnership SLAs/MoUs;**
- **undertaking service area reviews across the whole of the Authority to identify potential service options going forwards.**

### Governing the business

Headlines	Issues arising
<p>The Authority performs well in the following areas:</p> <ul style="list-style-type: none"> <li>• The Authority has a Corporate Improvement Plan (CIP) in place that sets out its objectives for the next financial year and how it will achieve them. This outlines how the Authority performed against its objectives during the previous financial year.</li> <li>• Each service area within the Authority has its own corporate priority performance indicators and a set of key performance indicators (KPIs) in place. Performance against KPIs is monitored on a regular basis and is reported to the Authority's SMT and Members on a quarterly basis via the Key Performance Information Booklet. The Authority also monitors and reports to Members on key income trends, housing rent arrears, staff sickness and customer complaints on a quarterly basis.</li> <li>• The Authority has adequate internal control arrangements in place. Internal Audit gave the Authority a substantial assurance opinion for the 2009/10 financial year. During the year the Authority has improved its risk management arrangements by updating the Corporate Risk Register and providing training to members and officers. The Authority is aware it still has some work to do and is in the process of developing service level Risk Registers.</li> <li>• The Authority works closely with its Members to ensure they are appropriately equipped to fulfil their duties. In 2009 the Authority was highly commended in the Municipal Journal national achievement awards for "Councillor Development Achievement of the Year".</li> <li>• The Authority is inventive in how it operates and has a good track record of looking at individual service areas and identifying how things can be done differently. As a result, the Authority has instigated service changes which have led to service improvements. For example, the Authority was selected as a pilot for the Department of Works and Pensions Project on Voice Risk Analysis.</li> </ul>	<p>Areas for improvement have been noted below:</p> <ul style="list-style-type: none"> <li>• The Authority's Business Continuity Plan needs to be formally approved and a number of supporting service specific business continuity plans need to be put in place. In particular, the IT disaster recovery plan. The plans once in place should be regularly reviewed and tested.</li> <li>• The Authority has a significant number of partnerships in place which are governed by Service Level Agreements (SLAs) or Memorandums of Understanding (MoU). The Authority should ensure that all SLAs/MoU that are in draft are reviewed and approved as soon as possible.</li> <li>• The Authority has a good track record of looking at individual service areas at the operational level, identifying how things can be done differently and driving through performance improvements. However, in the past fundamental questions about whether services should be provided, the level of service and how have not been asked across all services areas. This issue should be addressed through the Authority's Budget Delivery work-stream on prioritisation. Members will need to ensure that the budget delivery framework is implemented robustly.</li> <li>• The Authority does have whistle-blowing and anti-fraud policies in place, however they have not been reviewed or updated for a number of years. In addition, the Authority needs to introduce a pro-active programme of counter-fraud and corruption work which is adequately resourced, risk based and proportionate, and which aims to create a zero tolerance culture.</li> </ul>



**The Authority has sound arrangements in place relating to managing human resources.**

**The Authority is in the early stages of assessing its impact on the natural environment. The Authority needs to develop a strategy to outline how it will reduce its impact on the environment.**

### Managing resources

Headlines	Issues arising
<p>The Authority performs well in the following areas:</p> <ul style="list-style-type: none"> <li>The Authority has sound arrangements in place in relation to Human Resources, for example the Authority:           <ul style="list-style-type: none"> <li>- is committed to putting in place effective programmes of action to attract, retain, develop and motivate a 'fit for the future' workforce;</li> <li>- considers workforce planning on an annual basis, with Service Heads being responsible for ensuring they have the correct workforce plans in place to deliver the corporate objectives linked to their service area; and</li> <li>- has low staff sickness and staff turnover levels.</li> </ul> </li> <li>The Authority has done a lot of work helping the local community reduce its carbon footprint e.g. working with EON in introducing SMART meters to help people Finish Group to reduce their energy consumption and save money on their bills.</li> </ul>	<p>Areas for improvement have been noted below:</p> <ul style="list-style-type: none"> <li>The Authority needs to develop a strategy (supported by delivery plans) which shows how it will reduce its own use of natural resources and its impact on the environment. The strategy should be based on a clear understanding of the Authority's own:           <ul style="list-style-type: none"> <li>- energy use and the resulting carbon, and other greenhouse gas, emissions;</li> <li>- water use; and</li> <li>- consumption of other resources.</li> </ul> </li> <li>The Authority needs to develop systems to monitor progress in achieving the targets it has set itself in relation to reducing the amount of natural resources it uses. Once the systems are in place, the Authority should use the management information available to assess the progress made in achieving the objectives set out in its strategy.</li> </ul>

**Our opinion states whether the accounting statements and related notes give a true and fair view of the financial position of the Authority and its income and expenditure for the year.**

**We define what mean by 'accounting statements'.**

## **Independent auditors' report to the Members of Kettering Borough Council**

### **Opinion on the accounting statements**

We have audited the accounting statements and related notes of Kettering Borough Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account, and the Collection Fund. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to Kettering Borough Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Kettering Borough Council, as a body, those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Kettering Borough Council, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Head of Finance and auditors**

The Head of Finance's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounting statements and related notes give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009, of the financial position of the Authority and its income and expenditure for the year.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the accounting statements and related notes and consider whether it is consistent with the audited accounting statements and related notes. This other information comprises the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements and related notes. Our responsibilities do not extend to any other information.

**Our proposed opinion is unqualified.**

**There are no expected modifications to the auditors' report.**

### **Basis of audit opinion**

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

### **Opinion**

In our opinion:

- The accounting statements and related notes give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

### **Certificate**

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

**Saverio Della Rocca (Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH  
30 September 2010

**Our proposed use of resources conclusion is unqualified.**

### **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Authority's Responsibilities**

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 regularly to review the adequacy and effectiveness of these arrangements.

#### **Auditors' Responsibilities**

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### **Conclusion**

We have undertaken our audit in accordance with the Code of Audit Practice. Having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, we are satisfied that, in all significant respects, Kettering Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010 except that it did not have adequate arrangements in place for managing its use of natural resources.

**Saverio Della Rocca (Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**




*Chartered Accountants*

One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH  
30 September 2010

The Authority is in the process of disposing of an asset whose original purchase was externally grant funded. Review of grant conditions identified that funders should be made aware of the disposal.

The Authority needs to ensure the correct accounting treatment is applied to the deferred government grants linked to this asset.

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><b>Priority one:</b> 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><b>Priority two:</b> 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><b>Priority three:</b> 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.	Priority	Issue & Recommendation	Management Response / Responsible Officer / Due Date
1	2	<p><b>Disposal of Lawrences Site</b></p> <p>As part of the Town Centre regeneration project, the Authority is in the process of disposing of Lawrences site. The original acquisition of this site was funded from external grants.</p> <p>The Authority needs to ensure that they notify the external grant funders of the disposal as required by the grant conditions.</p> <p>In addition, on completion of the disposal the Authority will need to ensure the correct accounting treatment is applied to the £1m of deferred government grants that are linked to this asset which will need to be written-off.</p>	<p>We are awaiting a response from the funders.</p> <p>Responsible Officer: Head of Finance</p> <p>Due date: Ongoing</p>

Further improvements could be made to audit working papers.

No.	Priority	Issue & Recommendation	Management Response / Responsible Officer / Due Date
2	3	<p><b>Audit working papers</b></p> <p>The Authority has strengthened its financial reporting process by developing its working papers. However, there is scope to improve this further, in particular:</p> <ul style="list-style-type: none"> <li>• ensuring the Statement of Recommended Practice (SORP) Disclosure Checklist is completed and fully referenced to the draft financial statements. Any deviations from recommended practice should be dealt with appropriately prior to finalising the financial statements; and</li> <li>• developing working papers for debtors and creditors that clearly map the balances per the general ledger to the balances disclosed in the notes to the accounts.</li> </ul>	<p>Agreed – this will be done for the next set of accounts</p> <p>Responsible Officer: Group Accountant</p> <p>Due date: June 2011</p>
3	2	<p><b>Benchmarking</b></p> <p>Whilst the Authority has increased the amount of benchmarking it has undertaken and has used this to drive performance improvements, e.g. housing benefits, housing and IT, we believe the Authority can take this further. For example through:</p> <ul style="list-style-type: none"> <li>• extending current bench-marking across all parts of the organisation, i.e. Internal Audit, Payroll etc</li> <li>• using the information gathered consistently to feed into Next Steps and other exercises to improve performance;</li> <li>• using comparable data from other Authorities as a means of identifying areas for improvement; and</li> <li>• routinely reporting results to Members to ensure they have a more transparent view of the Authority's Value for Money position.</li> </ul> <p>Benchmarking information can be used to contribute to the Authority's decision-making as part of its prioritisation work stream.</p>	<p>Agreed – we will look to extend the benchmarking activity. This will be important in relation to our continued strive towards value for money.</p> <p>Responsible Officer: Head of Finance</p> <p>Due date: Ongoing</p>

The Authority needs to ensure the budget delivery framework is implemented robustly.

The Authority will need to review the adequacy of its approach to managing potential funding gaps following the CSR .

The Authority's business continuity plan needs to be formally approved and supported by service specific business continuity plans.

The Authority needs to ensure that signed Service Level Agreements/ Memorandums of Understanding are in place for each and every partnership that it is involved in.

No.	Priority	Issue & Recommendation	Management Response / Responsible Officer / Due Date
4	2	<p><b>Future funding gap</b></p> <p>The Authority has done scenario planning and has identified a potential funding gap going forwards. It has put in a place a framework for managing the shortfall which includes 8 work streams focused on driving efficiency savings. The Authority is now reporting to Members and officers monthly so that they can keep up to date with progress.</p> <p>Whilst the Authority's approach is sound, it will need to review the adequacy of its approach in light of the results of the CSR.</p>	<p>Agreed – the approach is constantly under review and Members and officers will be kept informed.</p> <p>Responsible Officer: Head of Finance</p> <p>Due date: Ongoing</p>
5	2	<p><b>Business Continuity Plan</b></p> <p>During the year the Authority has prepared a draft Business Continuity Plan with the assistance of Zurich, their insurers. The document was prepared after Zurich facilitated a number of workshops with the Authority's SMT and CMT. However, at the date of this report the business continuity plan was still in draft form.</p> <p>The Authority needs to formally approve the Business Continuity Plan and put in place a number of supporting service specific business continuity plans. Once approved, the plans should be regularly reviewed and tested.</p>	<p>This will be approved in November.</p> <p>Responsible Officer: Head of Finance</p> <p>Due date: November 2010</p>
6	2	<p><b>Formalisation of Service Level Agreements</b></p> <p>The Authority has a significant number of partnerships in place which are governed by Service Level Agreements (SLAs) or Memorandums of Understanding (MoU), for example Connect Law and Consortium Audit.</p> <p>The Authority should ensure that all SLAs/MoU that are in draft are reviewed and approved by all parties concerned as soon as possible.</p>	<p>Agreed – the two SLA's referred will be finalised within the next month.</p> <p>Responsible Officer: Head of Finance</p> <p>Due date: October 2010</p>

The Authority needs to undertake a formal exercise to assess service options going forwards, e.g. shared back-office functions.

The Authority needs to review its whistle-blowing and anti-fraud policies and put in place a pro-active programme of anti-fraud work.

No.	Priority	Issue & Recommendation	Management Response / Responsible Officer / Due Date
7	2	<p><b>Improvements to service delivery</b></p> <p>The Authority has a good track record of looking at individual service areas at the operational level, identifying how things can be done differently and driving through performance improvements.</p> <p>However, potential future funding gaps will require difficult decisions about service provision to be made across all service areas. As part of its decision-making process, we would encourage the Authority to explore different delivery options.</p> <p>This issue should be addressed through the Authority's Budget Delivery work streams. Members will need to ensure that the budget delivery framework is implemented robustly.</p>	<p>Agreed – the work streams have been set to enable us to address the issues identified.</p> <p>Responsible Officer: Head of Finance</p> <p>Due date: December 2010</p>
8	3	<p><b>Counter-fraud arrangements</b></p> <p>The Authority does have whistle-blowing and anti-fraud policies in place, however they have not been reviewed or updated for a number of years. The Authority should review and update these policies, where necessary, as soon as possible.</p> <p>In addition, to further improve its counter-fraud arrangements, the Authority needs to introduce a pro-active programme of counter-fraud and corruption work which is adequately resourced, risk-based and proportionate, and which aims to create a zero-tolerance culture.</p>	<p>We have completed the Anti-Fraud Policy and are finalising the Whistle-Blowing Policy and these will be reported to Committee in the new year.</p> <p>Responsible Officer: Head of Finance</p> <p>Due date: January 2011</p>



**The Authority needs to develop a strategy that outlines its objectives for reducing the amount of natural resources used to deliver services.**

**The Authority needs to develop systems and processes to monitor the amount of natural resources it uses and use the information to assess progress in achieving its strategic objectives in this area.**

No.	Priority	Issue & Recommendation	Management Response / Responsible Officer / Due Date
9	2	<p><b>Use of natural resources in service delivery</b></p> <p>As part of this year’s use of resources, we were required to assess whether the Authority is making effective use of natural resources and more specifically assess whether it:</p> <ul style="list-style-type: none"> <li>• understands and can quantify its use of natural resources;</li> <li>• manages performance to reduce its impact on the environment; and</li> <li>• manages the environmental risks it faces by working effectively with partners.</li> </ul> <p>During our use of resources work we established that the Authority does not have a strategy in place that details its objectives in relation to reducing the amount of natural resources it uses to deliver services and how these objectives will be achieved.</p> <p>The Authority should develop a strategy, that is supported by individual delivery plans, which shows how it will reduce its own use of natural resources and its impact on the environment.</p> <p>The strategy should be based on a clear understanding of the Authority’s own:</p> <ul style="list-style-type: none"> <li>• energy use and the resulting carbon, and other greenhouse gas, emissions;</li> <li>• water use; and</li> <li>• consumption of other resources.</li> </ul> <p>In addition, the Authority should develop systems to monitor progress in achieving the targets it has set itself and assess the progress made in achieving the objectives set out in its strategy.</p>	<p>Agreed – the Council is developing its approach to National Indicator 185 and 188 which will involve establishing a baseline and putting in place plans to reduce it.</p> <p>Responsible Officer: Head of Corporate Development</p> <p>Due date: December 2010</p>

**The Authority has not implemented all of the recommendations in our ISA 260 Report 2008/09.**

**We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.**

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2008/09* and re-iterates any recommendations that are still outstanding.

Number of recommendations that were:		
Included in original report	Implemented in year or superseded	Remain outstanding (re-iterated below)
11	5	6

No.	Priority	Recommendation	Officer Responsible and Due Date	Status as at September 2010
1	2	<p><b>Rent Assistance Scheme</b></p> <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"> <li>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.</li> <li>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.</li> <li>working papers prepared by the Authority also identified that loan agreements could not be located for 19 debtor accounts.</li> </ul> <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>Head of Housing November 2009</p>	<p><b>No longer applicable</b></p> <p>The Rent Assistance Scheme has now been reviewed and has substantially changed.</p> <p>The Authority no longer give rent deposits but provide a bond or guarantee to the landlord instead. This removes any recovery element from the process.</p> <p>Each of the loan agreement files has been reviewed and updated and a new administrative process introduced for recovering debts when the tenancy expires.</p> <p>A recommendation has been raised in relation to the adequacy of the provision for bad and doubtful Rent Assistance Scheme debtors. See Appendix C above.</p>

No.	Priority	Recommendation	Officer Responsible and Due Date	Status as at September 2010
2	2	<p><b>Statement of Recommended Practice (SORP) Disclosure Checklist</b></p> <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"> <li>• financial instruments;</li> <li>• retirement benefits;</li> <li>• leases, specifically where the Authority is the lessor; and</li> <li>• non-operational assets.</li> </ul> <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>	<p>Group Accountant June 2009</p>	<p><b>On-going</b></p> <p>A partially completed SORP checklist was made available to the auditors as part of the final accounts working papers.</p> <p>However, where deviations from recommended practice were identified, there was no evidence that they had been dealt with appropriately prior to the finalisation of the financial statements.</p>
3	2	<p><b>Back-ups</b></p> <p>The integrity of data backups is not subject to regular testing.</p> <p>There has been no full restoration of the back-up tapes for the network to confirm that a full restoration would be successful.</p> <p>A full restoration of the back-up tapes or key data should be undertaken periodically.</p>	<p>IT Manager and Head of Finance April 2010</p>	<p><b>In progress</b></p> <p>The Authority's business continuity arrangements have now been reviewed and new protocols drafted.</p> <p>These will be reported to the Monitoring &amp; Audit Committee in September 2010.</p>

No.	Priority	Recommendation	Officer Responsible and Due Date	Status as at September 2010
4	2	<p><b>Upgrades</b></p> <p>Application patches / upgrades are not always subject to testing in test environments prior to being uploaded on to the live system.</p> <p>The Authority should ensure that all system upgrades are tested in test environments before being uploaded on to the live system.</p>	IT Manager	<p><b>On-going</b></p> <p>This is constantly under review and a decision is taken proactively considering the risks before upgrades are uploaded.</p> <p>In practice if a system has a test environment an upgrade is tested prior to live upload. However, if there is no test environment localised testing within IT is undertaken before rolling out to all staff.</p>
5	1	<p><b>Payroll Application Controls</b></p> <p>The password parameters in place are not in line with best practice (complexity, alphanumeric, forced password change).</p> <p>In line with Information Security best practice, Officers should liaise with the supplier to ensure that password controls, as a minimum, include the following:</p> <ul style="list-style-type: none"> <li>• forced password change after 90 days or number of log-ins;</li> <li>• forced password change after 30 days for System Administrators / Super Users;</li> <li>• the system should prevent the same password being reused within 12 months; and</li> <li>• temporary passwords are forcibly changed at the first log-on.</li> </ul>	Group Accountant June 2009	<p><b>In progress</b></p> <p>The Authority's existing payroll system is unable to be adapted to incorporate the recommendations made. The system is one of the only remaining legacy systems the Authority uses and needs to be replaced. Officers are currently evaluating potential options for replacing the existing system, which would enable the recommendations to be met.</p> <p>The Authority is in discussions with the Borough Council of Wellingborough regarding the joint implementation of a new HR &amp; Payroll system. Discussions are at an early stage the target for completion is currently March 2011.</p>

No.	Priority	Recommendation	Officer Responsible and Due Date	Status as at September 2010
6	2	<p><b>Capital Accounting and Asset Management Plan</b></p> <p>The Authority does not perform a full physical verification exercise of plant and equipment. Failure to do this may result in the Authority not recognising disposal or obsolescence of fixed assets.</p> <p>The Asset Management Plan (AMP) 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>Head of Finance July 2009</p>	<p><b>In progress</b></p> <p>The Authority is currently assessing the impact of the new International Financial Reporting Standards (IFRS). The main changes relate to capital and assets.</p> <p>Officers are working with other colleagues in the County and are in the process of setting up an officer working group. The points raised will also be considered as part of this work.</p> <p>The Authority is on track to complete its work on IFRS however the review of the AMP has been delayed.</p> <p>The Authority is in discussions with the Borough Council of Wellingborough regarding the joint implementation of a new asset management system, which would support the changes required under IFRS. It is proposed to refresh the AMP as part of the same piece of work to ensure the strategic and operational elements of the Asset Management function are properly aligned.</p> <p>Discussions are at an early stage the target for completion is currently March 2011.</p>

No.	Priority	Recommendation	Officer Responsible and Due Date	Status as at September 2010
7	2	<p><b>Risk Management</b></p> <p>The Authority should develop its risk management arrangements further, in particular it should ensure:</p> <ul style="list-style-type: none"> <li>• risks associated with specific partnerships are considered, monitored and appropriate action is taken to mitigate any identified risks;</li> <li>• formal risk training is provided to both Members and staff who have responsibility for risk management; and</li> <li>• regular reports are produced for Members to allow them to take appropriate action to ensure corporate risks are being identified and effectively managed.</li> </ul>	<p>Head of Finance April 2009</p>	<p><b>In progress</b></p> <p>Member training in relation to Risk Management was undertaken in January 2010.</p> <p>The Annual Risk Management Internal Audit review will be reported to the Monitoring &amp; Audit Committee in September 2010. This will incorporate a revised Corporate Risk Register and propose a template for regular reporting for approval.</p>

The reversal of prior year impairment charges had been accounted for in a different way to that prescribed by the SORP although this had nil impact .

A number of credit balances had been included within debtors.

The allocation of creditors within the disclosure note was incorrect.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in the Authority's case is the Monitoring and Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

#### Corrected audit differences

The following table sets out the significant audit differences identified by our audit of Kettering Borough Council's financial statements for the year ended 31 March 2010. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Income and expenditure	Statement of Movement on GF Balance	Impact			Basis of audit difference
		Assets	Liabilities	Reserves	
Cr £15,277k	Cr £15,277k			Dr Revaluation Reserve £15,277k Cr Capital Adjustment Account £15,277k	The reversal of prior year impairment charges had been accounted for in a different way to that prescribed by the SORP.  The reversal had been accounted for via the Revaluation Reserve rather than via the Income and Expenditure account as required by the SORP.
			Dr Government Department Creditors £53k Cr Local Authority Creditors £53k		A number of invoices relating to Local Authority creditors had been incorrectly included within Government Department creditors.
		Dr Debtors £45k	Cr Creditors £45k		A number of credit balances had been incorrectly included within the debtors account.
<b>Cr £15,277k</b>	<b>Cr £15,277k</b>	<b>Dr £45k</b>	<b>Cr £45k</b>	<b>-</b>	<b>Total impact of adjustments</b>

The bad debt provision for the Rent Assistance Scheme is, in our opinion, understated.

Review of Council records identified debtors with a total outstanding loan balance of £152k have not made any repayments during the 2009/10 financial year.

### Uncorrected audit differences

The following table sets out the uncorrected audit differences identified by our audit of Kettering Borough Council's financial statements for the year ended 31 March 2010.

Impact					Basis of audit difference
Income and expenditure	Statement of Movement on GF Balance	Assets	Liabilities	Reserves	
Dr £68k			Cr Provision for bad and doubtful debts £68k		The bad debt provision for the Rent Assistance Scheme is understated.  There is currently, in our opinion, inadequate provision for those debtors who have not made any loan repayments during the 2009/10 financial year.
<b>Dr £68k</b>			<b>Cr £68k</b>		<b>Total impact of audit differences</b>



**The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Authority.**

### Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

*“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s *Standing guidance for local government auditors* (‘Audit Commission Guidance’) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (‘Ethical Standards’).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Monitoring and Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.**

### **General procedures to safeguard independence and objectivity**

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

### **Auditor Declaration**

In relation to the audit of the financial statements of Kettering Borough Council for the financial year ending 31 March 2010, we confirm that there were no relationships between KPMG LLP and the Kettering Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

**We ask you to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud.**

**The wording for these representations is standard and prescribed by auditing standards.**

**We require a signed copy of your management representations before we issue our audit opinion.**

Dear KPMG LLP,

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other members of the Authority, the following representations given to you in connection with your audit of the financial statements for Kettering Borough Council for the year ended 31 March 2010.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by Kettering Borough Council has been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management and Committee meetings, have been made available to you.

We confirm that we have disclosed all material related party transactions relevant to the Authority and that we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Authority to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2010.

We acknowledge that we are responsible for the fair presentation of the financial statements in accordance with the Local Government Statement of Recommended Practice ("SORP") and wider UK accounting standards. We have considered and approved the financial statements.

We confirm that we:

- understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;
- are responsible for the design and implementation of internal control to prevent and detect fraud and error;
- have disclosed to you our knowledge of fraud or suspected fraud affecting the Authority involving:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others; and
- have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with applicable reporting standards. The amounts disclosed represent our best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Authority where relevant to the fair value measurements or disclosures.

We confirm that there are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

We consider the effects of uncorrected financial statement mis-statements to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter was tabled at the meeting of the Monitoring and Audit Committee on 28 September 2010.

Yours faithfully

Name of Executive Director signing letter on behalf of Kettering Borough Council

On behalf of Kettering Borough Council