



PUBLIC SECTOR

Kettering Borough Council

Annual Audit Letter 2009/10

22 November 2010

AUDIT

Introduction

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Background

This Annual Audit Letter summarises the key issues arising from our 2009/10 audit of Kettering Borough Council (the Council). Although this letter is addressed to the Members of the Council, it is also intended to communicate these issues to key external stakeholders, including members of the public. The letter will also be published on the Audit Commission's website. It is the responsibility of the Council to publish the letter on the Council's website at www.kettering.gov.uk. In the letter we highlight areas of good performance and also provide recommendations to help you improve further. We have reported all the issues in this letter to you throughout the year and a list of all reports we have issued is provided in Appendix A.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the code) which requires us to report on:

Use of Resources (UoR)

We conclude on the arrangements in place for securing economy, efficiency and effectiveness ('value for money') in your use of resources.

Financial Statements

We provide an opinion on your accounts.

Fees

Our fee for 2009/10 was £114,500 excluding VAT (2008/09: £111,000). This is higher than the fee agreed in our audit plan of £109,000 as it includes an extra amount of £5,500 as a result of additional work we were required to do during the financial statements audit.

This report is addressed to Kettering Borough Council (the Council) and has been prepared for the sole use of the Council. 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 DellaRocca who is the engagement lead to the Council or Trevor Rees, the national contact partner for all of KPMG's work with the Audit Commission. After this, if you still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. You can contact the Complaints Unit by phone (0844 798 3131), by email (complaints@audit-commission.gov.uk), through the audit commission website (www.audit-commission.gov.uk/aboutus/contactus), by textphone/minicom (020 7630 0421), or via post to Complaints Unit, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR.

Headlines

Use of Resources	Use of Resources assessment	<ul style="list-style-type: none"> ● In May 2010 the government announced that the Comprehensive Area Assessment (CAA) would be abolished. The Audit Commission subsequently confirmed that work related to CAA should cease with immediate effect. This included work for UoR scored 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 therefore we used this work to inform our 2009/10 VFM conclusion. ● The Council has improved in most areas of the assessment and there were no significant issues arising from our work on specific risks.
	Our conclusion	<ul style="list-style-type: none"> ● We issued an unqualified value for money conclusion for 2009/10. This means that we are satisfied that you have put into place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.
Financial Statements	Annual accounts	<ul style="list-style-type: none"> ● Our audit identified one audit adjustment which was material, in relation to the accounting treatment for impairment charges. We identified three non-material audit differences, two of which were corrected by the Council. We also identified a number of presentational adjustments which the Council adjusted in its final set of financial statements. ● There were no significant matters which we were required to report to 'those charged with governance'.
	Annual Governance Statement	<ul style="list-style-type: none"> ● We reviewed the Annual Governance Statement and confirmed that it complies with <i>Delivering Good Governance in Local Government: A Framework</i> published by CIPFA/SOLACE in June 2007 and is not misleading or inconsistent with other information we are aware of from our audit of the financial statements. ● We made a number of suggestions to management in respect of the format and content of the statement which the Council agreed to amend where significant.
	Our conclusion	<ul style="list-style-type: none"> ● We issued an unqualified opinion on your accounts on 30 September 2010. This means that we believe the accounts give a true and fair view of the financial affairs of the Council and of the income and expenditure recorded during the year.

Headlines (continued)

Recommendations	High risk recommendations	<ul style="list-style-type: none"> • We are pleased to report that there are no new high risk recommendations arising from our 2009/10 audit work. • In our ISA 260 Report to ‘those charged with governance’ we identified 6 recommendations relating to prior years which remain outstanding. Management have provided revised implementation dates. We will continue to monitor progress in implementing these recommendations during 2010/11.
Public Interest Reporting		<ul style="list-style-type: none"> • We did not issue a report in the public interest or exercise other audit powers in 2009/10.
Fraud		<ul style="list-style-type: none"> • As part of our Use of Resources work we identified that the Council has a whistle-blowing and an anti-fraud policy in place, however they have not been reviewed or updated for a number of years. We understand that both policies are in the process of being reviewed and will be presented to Committee for approval in January 2011.
High profile issues	Use of Natural Resources	<ul style="list-style-type: none"> • During our use of resources work we established that the Council has an overarching strategy in place that details its objectives in relation to reducing the amount of natural resources it uses to deliver services however it has not yet developed detailed delivery plans to achieve these objectives. <p>A recommendation has been raised in our ISA 260 report to ‘those charged with governance’ in relation to the need for the Council to develop individual delivery plans, setting out how it will reduce its own use of natural resources and its impact on the environment.</p>
	International Financial Reporting Standards (IFRS)	<ul style="list-style-type: none"> • During the year we have completed two auditor surveys on behalf of the Audit Commission and continued to hold discussions with the Council to assess the progress made in this area. • The Council is making good progress in managing the transition to IFRS and aims to produce a set of restated accounts by 31 December 2010.

High profile issues

Economic Downturn and pressure on the public sector

- Following the Comprehensive Spending Review (CSR) announcement in October 2010, there is now greater clarity on the spending cuts that will affect local government. Local authorities will face 7.1% annual cuts representing 26% reductions over the next few years. Although this is less than many commentators had predicted, this still represents one of the biggest cuts for any part of the public sector. Detailed analysis will be required as further details of these funding cuts are clarified - the real impact will not be known until the government departments produce their business plans in November and organisations have a chance to digest the Chancellor's messages.
- The Council has been preparing for cuts of this magnitude for some time. Prior to the CSR announcement and as part of the 2010/11 budget setting process the Council carried out a number of budget modelling exercises which considered the impact of a reduction in Planning Delivery Grant and also Revenue Support Grant. The Council built in £550k of savings for 2010/11. A budget report for the period 1st April 2010 – 30th September 2010 projects expenditure to exceed the budget by £484k, however this is compensated by additional income of £535k resulting in a projected overall deficit of £50k. The Council is carefully monitoring its budget position and presenting this information to Members on a monthly basis.
- The Council's Budget Model for 2011/12 assumed a grant reduction of 10% which highlighted a potential budget gap of approximately £1m. As a result the Council developed a Budget Delivery Framework and is in the process of reviewing 8 work streams to drive efficiency and generate savings for 2011/12 and beyond. The work on the 8 streams to date has identified potential savings / additional income of approximately £600k of which £119k has been realised. The Council still has some work to do in this area if it is to generate the savings it needs.
- Whilst the Council continues to work on delivering the target savings of £1.5m to £2m (spread over 4 years), the Council has made a decision not to update its Medium Term Financial Strategy in light of the CSR announcement but to wait for further details regarding their provisional grant allocations which they are due to receive in December 2010. It is important at that point that the Council develops a robust 3 – 5 year Medium Term Strategy for the Council going forward.

Future audit work

Changes to next year's value for work programme

- Given the scale of the pressures facing public bodies in the current economic climate, the Audit Commission has reviewed its work programme for 2010/11 onwards. As part of this exercise, the Commission has been discussing possible options for a new approach to local value for money (VFM) audit work with key national stakeholders. From 2010/11 we will therefore apply a new, more targeted and better value approach to our local VFM audit work. This will be based on a reduced number of reporting criteria specified by the Commission, concentrating on:
 - securing financial resilience; and
 - prioritising resources within tighter budgets.
- We will determine a local programme of VFM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We will no longer make annual scored judgements relating to our local VFM audit work. Instead we will report the results of all the local VFM audit work and the key messages for the audited body in our annual report to those charged with governance and in a clear and accessible annual audit letter.

Future audit arrangements

- In August 2010 the Secretary of State for Communities and Local Government announced proposals to abolish the Audit Commission. The proposed abolition will be from 2012 and the government will seek legislation in this session of Parliament.
- There is no immediate change to the current audit arrangements. We will keep you informed about the future audit programme and any changes to audit arrangements.

Appendix A: Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

