Purpose of Report
1.1 This report informs members that the Council’s external auditors, KPMG, have issued an interim audit report.

Executive Summary
2.1 An interim audit report has been received and management comments made on the points raised by the auditor.

Proposed Action
3.1 The Committee is invited to RESOLVE that the report is received.

Background
4.1 The Statement of Accounts for 2008/09 is subject to a separate report to this Committee. The Council’s external auditors, KPMG, have to report to those charged with governance before the end of September. As part of the process an interim audit report has been issued.

Discussion
5.1 The interim audit report is attached. The recommendations and management comments are in Appendix A on page 11 to which members attention is drawn. Representatives from KPMG will be in attendance to present the report.

Legal Powers

Financial and value for money implications
7.1 There are no direct financial implications arising from this report. The 2009/10 audit and inspection fee budget is £151,200.
8 Risk analysis

<table>
<thead>
<tr>
<th>Nature of risk</th>
<th>Consequences if realised</th>
<th>Likelihood of occurrence</th>
<th>Control measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>It is a requirement that the statement of accounts is approved.</td>
<td>Breach of duty</td>
<td>Unlikely</td>
<td>External audit and inspection regime.</td>
</tr>
<tr>
<td>Possible qualification if audit requirements are not met.</td>
<td>Loss of prestige and standing for the council with resulting impact on CPA score.</td>
<td>Highly likely</td>
<td>Reporting to members on governance issues.</td>
</tr>
</tbody>
</table>

8.1 Implications for Resources
(a) None directly.

8.2 Implications for Stronger and Safer Communities
(a) None directly.

8.3 Implications for Equalities
(a) None directly.

9 Author and Contact Officer
Rob Wilton, Head of Financial Services

10 Consultees
Corporate Management Team

11 Background Papers
None
Content

The contacts at KPMG in connection with this report are:

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nicholas.sone@kpmg.co.uk

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

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

If you have any concerns or are dissatisfied with any part of KPMG’s work, in the first instance you should contact Saverio Della Rocca who is the engagement lead to the Authority, telephone 0121 335 2367, email saverio.dellarocca@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4063, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG’s work with the Audit Commission. After this, if you 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 Team, Nicholson House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SU or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.
Section one

Executive summary

Scope of this report
This report summarises the results of our planning and interim audit work at the Borough Council of Wellingborough (‘the Authority’) in relation to the 2008/09 financial statements. A significant proportion of our accounts audit is completed before we receive your financial statements. In particular, our work to date covers:

- Audit planning and risk analysis: We have identified the key issues for the 2008/09 financial statements and discussed the Authority’s progress in addressing these.
- Control evaluation: We have reviewed the Authority’s progress in relation to closedown and accounts production and have also tested controls over the key financial systems. We rely on the work of internal audit wherever possible, and assess the internal audit function as part of this work.

Section 2 provides further details of the work completed and sets out our findings. Key messages are summarised below. Our recommendations are included in Appendix A. We have also reviewed the Authority’s progress in implementing prior year recommendations and this is detailed in Appendix B.

Summary of findings

Risk assessment
We have reviewed the current risks to the Authority and have not changed our audit plan as a result. We have identified emerging risks in the year relating to the current economic climate, particularly in relation to fixed asset valuation and debt recoverability. The Authority is currently undertaking an impairment review and we will undertake appropriate testing as part of our final accounts audit in relation to both of these issues.

New ledger system
The Authority implemented a new ledger system (Agresso) in January 2009 to replace its existing Powersolve system, and we have kept up to date with the Authority’s progress. However we have not yet completed our detailed testing of the controls over Agresso, including the controls over the migration of data onto Agresso. We will report our findings in our ISA 260 report.

IT controls
The Authority has entered into partnership with Kettering Borough Council (KBC), which hosts Agresso; and a shared service arrangement with East Northamptonshire District Council (ENDC), which provides IT support services to the Authority. Risks relate to the transfer of data to Agresso and the continuity of IT controls, particularly where they are now operated outside of the Authority. There are currently no formal agreements in place between the Authority and KBC or ENDC, or any evidence that the Authority has gained assurance over the adequacy of the IT controls that it now relies on at these Authorities.

We have made a number of suggestions as to the content of the Authority’s proposed Memorandum Of Understanding with KBC, and we are undertaking additional testing as part of our IT General Controls work to ascertain whether appropriate control arrangements are in place. This work is ongoing and we will report the results in our ISA 260 Report to Those Charged With Governance.

Accounts production process
We have reviewed the Authority’s plans for closedown and preparation of the accounts. We reported an improvement in these processes in 2007/08, partly due to the Authority securing temporary accounting support from a CIPFA placement accountant. At the time of our audit the Authority had not yet secured similar support for 2008/09, although we understand that an agreement has been reached in principal for support to be provided by KBC. We will continue to keep up to date with the Authority’s progress in this area.

Financial system controls
We noted that there were several financial control issues during Agresso’s initial implementation period, which means that some controls have not operated fully throughout the whole of 2008/09:

- Debtors - Debt monitoring/recovery procedures were not undertaken for the final three months of the year following Agresso’s implementation. There are also no procedure notes in place and there was no Agresso training for the debtors team during 2008/09. These issues increase the risk of debtors balances being misstated in the accounts. We will increase the size of our sample of debtors for testing at the year end, and will reperform the Authority’s bad debt provision calculation.
Section one

Executive summary (continued)

Council Tax and NNDR – The Authority had problems in reconciling the interface from Academy (in relation to Council Tax and NNDR) to Agresso the final three months of the year following Agresso’s implementation, due to errors in the Agresso coding structure. These issues increase our risk assessment of the related balances in the accounts being misstated. We will reperform the Authority’s year end reconciliations of Council Tax and NNDR, (which we understand have now been completed) and we will undertake a detailed analytical review of Council Tax and NNDR income.

Budgetary control – Financial monitoring reports were not being produced and presented to Council between November 2008 and April 2009. There is a risk that key financial risks were not routinely managed at a senior level throughout the year. We will review the Authority’s final outturn position and determine whether it is consistent with our own expectations, and increase the level of analytical procedures that we perform on the outturn position, including the Authority’s level of reserves.

Payroll – Throughout 2008/09 there has been no pro-forma in place for changes to payroll details, with most changes being communicated to the payroll team by email. Establishment lists have not been circulated to key officers during the year, although we understand that this control has been in place since April 2009. We will undertake additional year end testing to confirm the existence of a sample of employees.

The Authority will also need to consider the current position in relation to the above issues, and their impact on the overall control environment, and include appropriate commentary in its Annual Governance Statement (AGS).

Review of internal audit work

We have relied on the work of internal audit for our opinion purposes. We have identified several performance improvement observations to enhance the quality of internal audit’s work, including improving system notes; ensuring a consistent approach to the documentation of systems and controls testing; and tailoring sample sizes according to risk and frequency of the control.

Use Of Resources

We have reviewed the Authority’s initial Use Of Resources self assessment for 2009 and have provided feedback to senior management. We are not yet in a position to report on our findings in relation to Use Of Resources. We will report formally on the findings of the 2008/09 Use Of Resources assessment in our 2008/09 Report to Those Charged With Governance.

Acknowledgements

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

Financial statements

Introduction

Our work in respect of the audit of financial statements is split into four stages as shown below:

<table>
<thead>
<tr>
<th>Stage</th>
<th>Tasks</th>
<th>Timing</th>
<th>Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning</td>
<td>Updating our business understanding and risk assessment</td>
<td>January 2009 to March 2009</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Assessing the organisational control environment</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Issuing our accounts audit protocol</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Control Evaluation</td>
<td>Reviewing the accounts production process</td>
<td>March to April 2009</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Evaluating and testing controls over key financial systems</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Review of internal audit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Substantive Testing</td>
<td>Planning and performing substantive work</td>
<td>July to August 2009</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Concluding on critical accounting matters</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Completion</td>
<td>Completion procedures</td>
<td>September 2009</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Forming our audit opinion</td>
<td></td>
<td></td>
</tr>
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</table>

Key issues in respect of each of these tasks is summarised below.

Planning - Risk assessment

The 2008/09 Audit and Inspection Plan presented to the Authority in April 2008 included our initial assessment of the risks impacting on the 2008/09 financial statements. We reviewed the plan and have not made any changes. The main risks identified at the planning stage of our audit are shown below:

- The Authority is working through a transformation project to align its services with its revised priorities. This has led to a significant change in the structure of the Authority and its senior management team. We have kept up to date with the Authority’s progress in relation to this issue as part of our Use Of Resources work for 2009.

- The 2008 Statement of Recommended Practice on Local Authority Accounting in the UK (SORP) includes a number of changes, including prohibiting the revaluation of fixed assets on disposal and introducing the concept of “revenue expenditure funded from capital under statute”. We will review the Authority’s compliance with these requirements during our final accounts audit.

As well as the issues above, we have identified risks in relation to the current economic climate:

- the reduction in property prices nationally may have an impact on the value of the Authority’s land and buildings, and the value of its fixed assets may be impaired. The Authority is currently undertaking an impairment review to ascertain the impact of this issue on its asset base. We will assess the findings from this review during our final accounts audit.

- Council Tax and NNDR payers may also be finding it more difficult to pay, which could impact on account balances such as the Authority’s income and it’s assessment of the recoverability of debt. We will review the Authority’s bad debt provision at the year end and undertake an analytical review of the level of Council Tax and NNDR income.

We will continue to review the situation with regard to these risks throughout the year. We have identified further issues in relation to the Authority’s IT arrangements, and these are detailed in the following section.
Section two

Financial statements (continued)

Planning - IT control environment

We consider the Authority’s use of Information Technology (IT) and the key IT controls in place over its main financial systems. IT controls include passwords; physical security; backup and disaster recovery procedures; firewall and virus protection; and IT support.

The Authority implemented a new ledger system (Agresso) in January 2009 to replace its existing Powersolve system and has entered into partnership arrangements with:

- Kettering Borough Council (KBC) - who host Agresso and provide the Authority access via a fibre optic link; and
- East Northamptonshire District Council (ENDC) - who provide IT support services. The Authority has transferred its IT staff to ENDC and no longer has its own IT staff.

Risks relate to the transfer of data to the new ledger and the continuity of IT controls, particularly where they are now operated at KBC and ENDC. There is currently no formal agreement or SLA between the Authority and either KBC or ENDC, or any evidence that the Authority has gained assurance over the adequacy of the IT controls that it now relies on at these Authorities.

The Authority has recently produced a plan to establish a Memorandum Of Understanding with KBC, which lists the proposed contents. We have reviewed this plan and consider that the Authority has not:

- set out the responsibilities around the IT controls operated at KBC;
- established a method of gaining assurance that these controls are adequately designed and operate effectively;
- determined how it will ensure, on an ongoing basis, that data is secure and complete; and
- established contingency plans should the contract be terminated by either party.

We are undertaking additional testing as part of our IT General Controls work to ascertain whether appropriate control arrangements are in place. This work is ongoing and we will report the results of it in our ISA 260 Report to Those Charged With Governance.

Recommendations in relation to these findings are included in Appendix A.

Planning - Accounts audit protocol

This important document explains our audit process with details of our audit team, audit approach and timetable. It also summarises the working papers and other evidence we require you to provide as part of the preparation of the financial statements. We discussed this in detail with the Head of Financial Services as part of our final accounts planning meeting on the 16th March 2009 and issued it on the 17th March 2009.

Control Evaluation - Accounts production process

We have reviewed the Authority’s plans for closedown and accounts preparation. We reported an improvement in the accounting process in 2007/08, partly due to the Authority securing temporary accounting support from a CIPFA placement accountant. At the time of our audit the Authority had not yet secured similar support for 2008/09, although we understand that an agreement has been reached in principal for support to be provided by Kettering Borough Council.

We will keep up to date with the situation in relation to this issue.
Control Evaluation - Controls over key financial systems

To assess the adequacy of the Authority’s key financial systems, we have: updated our understanding of the systems; completed walkthrough testing; and tested controls within the systems. We also aim to rely on relevant work internal audit have completed for 2008/09 in line with our joint working protocol. For each of the key financial systems, internal audit agreed to test the high level controls that we would expect to be in place to address the key risks, including reconciliations and exception reports.

The changeover from Powersolve to Agresso has meant that there have been two separate ledger systems in place in 2008/09, with their own specific controls. Internal audit have tested the controls within Powersolve only, and we have had to undertake additional testing of the controls within Agresso during our interim audit.

Internal Audit have planned an Agresso post-implementation review for July. We would recommend that this audit is undertaken sooner, in light of the control weaknesses we have identified. These weaknesses have increased our risk assessment of the systems concerned and the amount of testing required:

- **Debtors**
  Debt monitoring and recovery procedures (such as review of aged debt reports and sending out of reminder letters) were not undertaken for the final three months of the year following Agresso’s implementation. There are also no procedure notes in place and there was no Agresso training for the debtors team during 2008/09. These issues increase the risk of debtors balances being misstated in the accounts. We will increase the size of our sample of debtors for testing at the year end, and will reperform the Authority’s bad debt provision calculation.

- **Council Tax and NNDR**
  The Authority had problems in reconciling the interface from Academy (in relation to Council Tax and NNDR) to Agresso the final three months of the year following Agresso’s implementation, due to errors in the Agresso coding structure. These issues increase our risk assessment of the related balances in the accounts being misstated. We will reperform the Authority’s year end reconciliations of Council Tax and NNDR, (which we understand have now been completed) and we will undertake a detailed analytical review of Council Tax and NNDR income.

- **Budgetary control**
  Financial monitoring reports were not being produced and presented to Council between November 2008 and April 2009. There is a risk that key financial risks were not routinely managed at a senior level throughout the year. We will review the Authority’s final outturn position and determine whether it is consistent with our own expectations, and increase the level of analytical procedures that we perform on the outturn position, including the Authority’s level of reserves.

- **Payroll**
  Throughout 2008/09 there has been no pro-forma in place for changes to payroll details, with most changes being communicated to the payroll team by email. Establishment lists have not been circulated to key officers during the year, although we understand that this control has been in place since April 2009. We will undertake additional year end testing to confirm the existence of a sample of employees.

The Authority will also need to consider the current position in relation to the above issues, and their impact on the overall control environment, and include appropriate commentary in its Annual Governance Statement (AGS). Recommendations in relation to these findings are included in Appendix A.
Section two
Financial statements (continued)

Control Evaluation - Review of internal audit

The Accounts and Audit Regulations 2003 require public bodies to maintain an adequate and effective system of internal audit of their accounting records and of their system of internal control. For principal local authorities, guidance is contained in the Code of Practice for Internal Audit in Local Government (‘the Code’). The Code defines the way in which internal audit should be established and operated and applies equally to in-house audit teams and those provided by external contractors.

The Audit Commission, in its capacity as external auditor to Wellingborough Corby Borough Council, has assessed internal audit against the requirements of the Code. Their draft report identified that Internal Audit is fully compliant in six areas of the Code, partially compliant in five areas and has no areas of non-compliance.

We have identified a number of performance improvement observations through our own review and reperformance of Internal Audit work:

- there are some inconsistencies between the approaches taken by different internal auditors with regard to documenting system notes and control testing. In some cases there is sufficient evidence retained on file in the form of copy documentation or detailed working papers to allow the test to be reperformed. In other cases there is insufficient evidence to allow such reperformance;

- although system notes generally record the controls identified within a system, they could be further improved to provide detail as to how the control operates, who operates the controls; the frequency of the control; and the risk mitigated; and

- Internal Audit testing continues to be based on the expected high level controls within a system and not the actual controls identified within the system notes.

We have also noted that as the Authority does not update its fixed asset register until the year end, internal audit have only been able to undertake limited testing on this system during the year, focusing primarily on capital monitoring arrangements. Internal Audit have not been able to test controls over such areas as additions, disposals and revaluations. We will increase our final accounts testing in these areas as a result.
Use Of Resources

Our 2008/09 Audit and Inspection Plan included our initial assessment of the risks impacting on our 2008/09 Use Of Resources assessment and value for money conclusion.

We have reviewed the Authority’s initial Use Of Resources self assessment for 2009 and have provided feedback to senior management, which primarily recommends that:

• the assessment needs to be updated to demonstrate a more realistic and rounded assessment for the whole year, taking into account the Authority’s revised CPA score and comments raised in the CPA report. The self assessment should also show the progress made against the weaknesses identified by the Audit Commission;

• further explanation and an increased level of evidence is required in some areas, such as on performance management.

We are not yet in a position to report on our findings in relation to Use Of Resources. We will report formally on the findings of the 2008/09 Use Of Resources assessment in our 2008/09 Report to those charged with governance.
Appendices

Appendix A: Recommendations

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.

<table>
<thead>
<tr>
<th>Priority rating for recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Priority one</strong></td>
</tr>
<tr>
<td><strong>Priority two</strong></td>
</tr>
<tr>
<td><strong>Priority three</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No.</th>
<th>Risk</th>
<th>Issue and recommendation</th>
<th>Management response</th>
<th>Officer and due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>(two)</td>
<td><strong>Financial systems issues</strong></td>
<td>Work on the audit of the systems was undertaken part way during the implementation of Agresso. An update of the position is as follows:</td>
<td>Head of Financial Services / Director of Resources June 2009</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• a lack of debt monitoring and debt recovery action since Agresso was implemented;</td>
<td>In order to ensure that business’ did not suffer at this difficult time, priority was given to the creditors module of the Agresso system on implementation. Invoices were raised during Jan-March, staff training given on the debtors module and the full recovery process was implemented from mid April.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• problems in reconciling the Academy system (Council Tax and NNDR) with Agresso due to errors in the Agresso coding structure;</td>
<td>These issues were resolved and reconciliations were fully embedded with effect from February.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• lack of financial monitoring since November at a senior level due to problems in producing financial outturn reports from Agresso.</td>
<td>Reporting arrangements are now in place and an outturn position will be reported in due course.</td>
<td></td>
</tr>
</tbody>
</table>

These issues increase the risk of significant misstatement of related accounts balances.

**Recommendations**

The Senior Management Team (SMT) should reinforce the importance of the control environment across the Authority in relation to the key financial systems and the importance of Internal Audit’s findings.

Sufficient resources should be allocated to the above areas during the closedown process to ensure that the risk of misstatement in the accounts is minimised.

A robust review of the accounts should be undertaken by a senior officer, with particular focus on the above issues.

Agreed
## Appendix A: Recommendations (continued)

<table>
<thead>
<tr>
<th>No.</th>
<th>Risk</th>
<th>Issue and recommendation</th>
<th>Management response</th>
<th>Officer and due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>(two)</td>
<td><strong>IT control issues</strong>&lt;br&gt;The IT control environment over the Authority’s key financial systems underpins the financial system controls in place and provides additional assurance over the robustness of those systems.&lt;br&gt;The Authority has entered into a shared service arrangement with East Northamptonshire District Council (ENDC) for the provision of IT support services; and with Kettering Borough Council (KBC) for hosting the Authority’s ledger and server.&lt;br&gt;The Authority has not gained assurance over the design and operation of the IT controls at KBC or ENDC. These controls include system access, backups, disaster recovery procedures, and the provision of a firewall and virus protection.</td>
<td><strong>Recommendations</strong>&lt;br&gt;The Authority should obtain assurances on the adequacy of the control environment within both of these partner organisations and determine whether any action needs to be taken to improve controls.</td>
<td><strong>ENDC</strong>&lt;br&gt;It was agreed that the assurance arrangements referred to would form part of the work of ENDC internal auditors who would advise on any findings of concern.&lt;br&gt;<strong>KBC</strong>&lt;br&gt;Tacit assurance has been given that the control environment is adequate.</td>
</tr>
<tr>
<td>3</td>
<td>(two)</td>
<td><strong>Partnership governance arrangements</strong>&lt;br&gt;The Authority does not have formal agreements in place with either the host of its ledger system (KBC), or with the provider of its IT support service and helpdesk (ENDC). Roles and responsibilities over these arrangements are unclear. Monitoring procedures have not been established for these arrangements and there is no documented assessment of the associated risks.</td>
<td><strong>Recommendations</strong>&lt;br&gt;The Authority should address these issues and ensure that the arrangements are formalised, risks have been assessed, and performance monitoring arrangements are in place.</td>
<td><strong>ENDC</strong>&lt;br&gt;ENDC is not a provider of services to this Council. The IT Service is a shared service hosted by ENDC. Roles and responsibilities are not unclear and these are laid out in the agreement. These are monitored by regular meetings of a Shared Services Board.&lt;br&gt;<strong>KBC</strong>&lt;br&gt;The Agresso system is run on KBC servers for both councils and system administration is a shared cost. This is set out in a memorandum of understanding which intended to give maximum flexibility to the arrangement.</td>
</tr>
</tbody>
</table>
Appendices

Appendix A: Recommendations (continued)

<table>
<thead>
<tr>
<th>No.</th>
<th>Risk</th>
<th>Issue and recommendation</th>
<th>Management response</th>
<th>Officer and due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td></td>
<td><strong>Internal audit development</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>We have identified a number of improvements that could be made to enhance the quality of internal audit’s work and reduce the level of top up testing we are required to complete to satisfy our audit requirements.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Recommendations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Internal audit should:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• ensure that a consistent approach is taken to the documentation of systems and controls testing particularly in relation to the retention and recording of evidence documentation to allow the testing to be reperformed;</td>
<td>Agree</td>
<td>Andrew Gibson Audit Manager May 2009</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• consider improving their system notes in terms of documenting who operates the controls; their frequency; the risk mitigated and details of how the control operates; and</td>
<td>Agree</td>
<td>Andrew Gibson Audit Manager May 2009</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• base testing on the actual high level controls identified in the system notes (which mitigate the system’s risks), and not on the standard expected controls within the system.</td>
<td>Agree</td>
<td>Andrew Gibson Audit Manager April 2009</td>
</tr>
</tbody>
</table>

Andrew Gibson
Audit Manager
May 2009

Andrew Gibson
Audit Manager
April 2009
Appendices

Appendix B: Prior year recommendations

This appendix summarises the progress made to implement the recommendations identified in our previous reports.

<table>
<thead>
<tr>
<th>Report</th>
<th>Number of recommendations that were:</th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Included in original report</td>
<td>Implemented in year or superseded</td>
<td>Remain outstanding (re-iterated below)</td>
<td></td>
</tr>
<tr>
<td>Interim Audit Report 2007/08</td>
<td>4</td>
<td>0</td>
<td>(None fully implemented)</td>
<td>4</td>
</tr>
<tr>
<td>ISA260 Report 2007/08</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>0</td>
<td>4</td>
<td></td>
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<table>
<thead>
<tr>
<th>No.</th>
<th>Risk</th>
<th>Issue and recommendation</th>
<th>Management response</th>
<th>Officer and due date</th>
<th>Status at 27/3/2009</th>
</tr>
</thead>
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<tr>
<td>1</td>
<td></td>
<td>Interim Audit Report 2007/08</td>
<td>An overview of internal audit reports will be brought before SMT to determine underlying reasons and ensure appropriate action is taken.</td>
<td>Chris Pittman - Corporate Director to bring before SMT With immediate effect.</td>
<td>A recommendation tracking spreadsheet has been introduced and this is presented to the SMT.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Summary reports of significant Internal Audit recommendations; tracking and monitoring of recommendation implementation will be reported to the Audit and Performance Committee.</td>
<td>Head of Resources / Head of Performance in conjunction with Internal Audit Manager October 2008</td>
<td>Internal Audit produce an annual report and quarterly reports for the Audit and Performance Committee which summarise the recommendations raised. Any reports given limited assurance or worse are also presented to the Committee.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>The Annual Report includes the level of assurance for each report, with commentary in the body of the report for any significant recommendations.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>However, we have identified several significant control issues in 2008/09. See Recommendation 1 in Appendix A.</td>
</tr>
</tbody>
</table>

Significant control weaknesses

Several significant control weaknesses have been identified by Internal Audit in the key financial systems. Internal Audit have only given ‘Limited’ assurance on the fixed assets, creditors and council tax systems.

The Senior Management Team (SMT) should reinforce the importance of the control environment across the Authority in relation to the key financial systems and the importance of Internal Audit’s findings, and should:

• take an overview of each internal audit report to understand the key issues being reported and the appropriateness of management responses. The SMT should determine whether there are any underlying reasons why these issues have occurred and should ensure that appropriate action is being taken; and

• improve procedures to ensure that Internal Audit recommendations are tracked and implemented, including making the Audit Committee aware of the detail of significant recommendations (and reporting progress against them) on a regular basis.
### Appendix B: Prior year recommendations

<table>
<thead>
<tr>
<th>No.</th>
<th>Risk</th>
<th>Issue and recommendation</th>
<th>Management response</th>
<th>Officer and due date</th>
<th>Status at 27/3/2009</th>
</tr>
</thead>
</table>
| 2   | (two) | **IT arrangements**
The Authority has entered into a partnership arrangement with ENC from 1 April 2008 whereby the IT partnership provides both Authorities with IT support services, including an IT helpdesk. In addition, the Authority is also due to implement a new ledger system during 2008/09 which will be hosted by Kettering Borough Council (KBC). |
| | | • The Authority should put in place a service level agreement with ENC regarding the provision of IT support services, and should put arrangements in place to ensure that the SLA is being delivered. |
| | | • The Authority should review its Information Security Policy and take account of the joint working arrangements it has entered into with ENC and also the proposed arrangements with KBC. |
| | | A partnership agreement is in place and is to be formally signed by ENC and BCW, An IT Partnership Board responsible for overseeing delivery of the partnership agreement is already in place and operating. |
| | | The Information Security Policy will be reviewed to take account of new partnership arrangements. |
| | | Chris Pittman - Corporate Director |
| | | September 2008 |
| | | Head of Organisational Development |
| | | This has been superceded by Recommendations 2 and 3 in Appendix A. |

| 3   | (two) | **Finance capacity**
The Head of Financial Services has been supported through the closedown process by several temporary members of staff who have had a significant input into the production of the accounts. The Authority is acutely aware of the issues in relation to ongoing capacity in finance and is looking at options to remedy the situation, including the potential of working with a neighbouring Authority. |
| | | The Authority needs to ensure that there is sufficient technical capacity in finance and should continue to explore the options for the future provision of finance services. |
| | | Managerial and technical capacity is to be addressed through the recruitment of a Head of Resources and review of the service establishment. The pursuance of collaborative working with a neighbouring authority in respect of financial services will continue to be explored. |
| | | SMT, Terry Wright - Corporate Director / Head of Resources |
| | | October 2008 |
| | | Implemented. |
### Appendix B: Prior year recommendations

<table>
<thead>
<tr>
<th>No.</th>
<th>Risk</th>
<th>Issue and recommendation</th>
<th>Management response</th>
<th>Officer and due date</th>
<th>Status at 27/3/2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>4</td>
<td><strong>Internal Audit development</strong>&lt;br&gt;Internal Audit should enhance their approach to auditing financial systems and should focus on the actual controls in place which mitigate risks in the system. Their approach should include the following steps:&lt;br&gt;• understand the activities and the significant risk points within a system;&lt;br&gt;• identify the actual controls in the system using the standard high level controls as a guide, and look for compensating controls;&lt;br&gt;• assess whether the controls cover all identified risks and are adequately designed to mitigate the risks;&lt;br&gt;• identify any uncontrolled risks, or any controls which are not adequately designed; and&lt;br&gt;• test the remaining controls for operating effectiveness.&lt;br&gt;Internal Audit’s recommendations should distinguish between uncontrolled risks, inappropriately designed controls and controls which are not operating effectively.</td>
<td><strong>Internal Audit approach to auditing financial systems is to be reviewed to address the steps identified.</strong></td>
<td>Head of Financial Services / Head of Resources in conjunction with the Internal Audit Manager</td>
<td>December 2008</td>
</tr>
</tbody>
</table>

(two)
INTERNAL AUDIT UPDATE REPORT 2009/10

1 Purpose of Report

1.1 To provide Members with an update of the work undertaken so far on the 2009/10 audit plan by ConsortiumAudit. This is in accordance with the Council’s objective in relation to the effective use of resources.

2 Executive Summary

2.1 The Internal Audit reviews are completed in accordance with the annual Internal Audit Plan, agreed by this committee. This programme of reviews are identified through the completion of a risk assessment of the Council’s Systems and activities, with appropriate consultation and input from the Head of Financial Services.

3 Proposed Action:

3.1 The Committee is invited to recommend that the Internal Audit Update Report for 2009/10 be received.

4 Background

4.1 Internal Audit is responsible for reviewing the Council’s systems of internal controls with a view to reporting any weaknesses identified and making practical recommendations to management to assist with the following:
   (a) Providing assurance that the internal control systems in place are adequate to meet the achievement of the Council’s objectives;
   (b) Safeguarding the assets against the risks of material fraud and error;
   (c) Achieving where possible, value for money.

4.2 ConsortiumAudit meets its delivery targets by employing temporary resources and outside agencies throughout its busiest period (September to March). During April and May ConsortiumAudit delivered 36.24 audit days which was in line with the audit plan as set out at the beginning of the year. However, resources have been concentrated on another consortium client Council due to a special project. Delivery is expected to substantially increase by the date of the next meeting.

5 Discussion
5.1 The table within Appendix A contains the audit reports that have been finalised since the last progress report to committee on 6th May 2009. Information relating to the status, level of assurance and recommendations made for each report can also be found in this Appendix.

5.2 Recommendations arising from the finalised reports have been discussed and agreed with management. Implementation of the agreed recommendations is monitored by the Head of Financial Services as part of on-going performance and risk management arrangements. In addition ConsortiumAudit carries out follow up reviews by seeking responses from staff and performing audit testing to confirm that agreed actions have been undertaken.

5.3 At the date of this report the following reviews were in progress:

<table>
<thead>
<tr>
<th>Audit Review</th>
<th>Audits in Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creditors Duplicates Review</td>
<td></td>
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<tr>
<td>Payroll Duplicates Review</td>
<td></td>
</tr>
<tr>
<td>Mobile Telephone Arrangements</td>
<td></td>
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<tr>
<td>Wellingborough Homes Monitoring</td>
<td></td>
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<tr>
<td>IT Partnership with ENDC</td>
<td></td>
</tr>
<tr>
<td><strong>Audit Review</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Follow up audits in progress</strong></td>
<td></td>
</tr>
<tr>
<td>Waste Collection</td>
<td></td>
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<tr>
<td>Freedom of Information</td>
<td></td>
</tr>
<tr>
<td>IT Application Controls</td>
<td></td>
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<tr>
<td>IT Assets &amp; Physical Security</td>
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<tr>
<td>IT BACS</td>
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<tr>
<td>IT Change Control</td>
<td></td>
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<tr>
<td>IT Security</td>
<td></td>
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<tr>
<td>Petty Cash</td>
<td></td>
</tr>
<tr>
<td>Risk Management</td>
<td></td>
</tr>
<tr>
<td>Travel Concessions</td>
<td></td>
</tr>
</tbody>
</table>
6 Legal Powers

6.1 Internal Audit is a statutory function as detailed in the following:
   i. Audit and Accounts Regulations 2003 (England).

7 Financial and Value For Money Implications

7.1 There are no direct financial implications as a result of this report. Value for money is a consideration integral to the audit requirement.

8 Risk Analysis

<table>
<thead>
<tr>
<th>Nature of risk</th>
<th>Consequences if realised</th>
<th>Likelihood of occurrence</th>
<th>Control measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk dependant on activity subject to audit in audit plan.</td>
<td>There could be fraud, financial or reputational loss to the Council.</td>
<td>Varies depending upon nature of risk.</td>
<td>Sound internal control and management processes including regular monitoring and review of audit reporting.</td>
</tr>
</tbody>
</table>

9 Implications for Resources

9.1 There are no implications on resources as a result of this report.

10 Implications for Stronger and Safer Communities

10.1 There are no implications for stronger and safer communities as a result of this report.

11 Implications for Equalities

11.1 There are no implications regarding equalities as a result of this report.

12 Authors and Contact Officers

Rob Wilton – Head of Financial Services (and Section 151 officer), ext 1650, E-mail rwilton@wellingborough.gov.uk
Andrew Gibson – ConsortiumAudit, Audit Manager, ext 1671, E-mail andrewgibson@consortiumaudit.org.uk
13 Consultees
Not applicable

14 Background Papers
Internal Audit Reports
Internal Audit Files and Working Papers
### Appendix A

**Summarised Information from Audit Reports 2009/10**
(Reports issued since last update to committee in May 2009)

<table>
<thead>
<tr>
<th>Audit Description</th>
<th>Level of Assurance</th>
<th>Status</th>
<th>Summary of Audit Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>High Priority Made</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Made</td>
</tr>
<tr>
<td>0809 Accounting Systems (Agresso)</td>
<td>Acceptable</td>
<td>Complete</td>
<td>2</td>
</tr>
<tr>
<td>0809 Creditors</td>
<td>Acceptable</td>
<td>Complete</td>
<td>1</td>
</tr>
<tr>
<td>0809 Contract Audit Stanton Cross Project Governance</td>
<td>Substantial</td>
<td>Complete</td>
<td>0</td>
</tr>
<tr>
<td>Grant Claim Verification</td>
<td>N/A</td>
<td>Complete</td>
<td>N/A</td>
</tr>
</tbody>
</table>

### Summarised Information from Follow Up Audit Reports 2009/10
(Reports issued since last update to committee in May 2009)

<table>
<thead>
<tr>
<th>Audit Description</th>
<th>Previous Level of Assurance</th>
<th>Summary of Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>High</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0809 Findings 0910</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(i)</td>
</tr>
<tr>
<td>0809 Contract Audit Partnerships</td>
<td>Limited</td>
<td>4</td>
</tr>
<tr>
<td>BVPI Checks</td>
<td>Limited</td>
<td>3</td>
</tr>
<tr>
<td>Capital Programme Management</td>
<td>Substantial</td>
<td>0</td>
</tr>
<tr>
<td>Disability Discrimination Act</td>
<td>Acceptable</td>
<td>0</td>
</tr>
<tr>
<td>Industrial Property Management</td>
<td>Substantial</td>
<td>1</td>
</tr>
<tr>
<td>Audit Description</td>
<td>Previous Level of Assurance</td>
<td>Summary of Recommendations</td>
</tr>
<tr>
<td>---------------------------</td>
<td>----------------------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0809 Findings 0910</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(i)</td>
</tr>
<tr>
<td>Leisure Services Contract Monitoring</td>
<td>Substantial</td>
<td>0</td>
</tr>
<tr>
<td>S106 Arrangements</td>
<td>Substantial</td>
<td>1</td>
</tr>
<tr>
<td>Sundry Debtors</td>
<td>Limited (Note 1)</td>
<td>2</td>
</tr>
</tbody>
</table>

**Legend**

(i) Implemented  
(II) Partially Implemented  
(III) Not Implemented

*Recommendation no longer applicable

**Note 1**

As discussed at the last Audit and Performance Committee a quick follow up review of Sundry Debtors was to be undertaken. This was completed on 27 May 2009 and the results of this follow-up review show that of the nine recommendations made five have been fully implemented, two are no longer applicable due to the change in the system, one has now been incorporated in another specific audit (Markets) and one was yet to be implemented. It is Consortium Audit’s opinion that if an audit were carried out today that Sundry Debtors’ would achieve a level of assurance of either acceptable or substantial.
EXTERNAL AUDIT RESPONSIBILITIES

1 Purpose of Report
1.1 This report informs members that the Council’s external auditor, Sav DellaRocca of KPMG, is to be replaced by the Audit Commission in house audit service.

2 Executive Summary
2.1 The Audit Commission periodically rotates councils’ external audit work between a number of private sector audit specialists and its own in house audit service, previously known as the District Audit Service. As part of this change, the Audit Commission wish that terms of engagement are reported to those charged with governance.

3 Proposed Action
3.1 The Committee is invited to RESOLVE that the report is received and the terms of engagement noted.

4 Background
4.1 The Audit Commission has the statutory responsibility for establishing the external audit provision for local authorities. Around every five years there is a rotation of provision in order to ensure that relationships with the external auditor remain fresh.

5 Discussion
5.1 The Commission has appointed its in house service and Neil Bellamy will be the Council’s Auditor, with Yola Geen as Audit Manager. The change takes effect from the time when KPMG have issued an opinion on the 2008/09 Accounts and reported to this Committee as those in charge of governance which will be on 30th September 2009.
5.2 A number of initial meetings have been held and the Auditor has asked that the terms of engagement are reported. Attached are two papers:
   • Statement of responsibilities for auditors and audited bodies; and
   • Code of audit practice 2005 for local government bodies.
5.3 Members’ attention is drawn to both of these documents as the basis of appointment together with respective responsibilities under the code.

6 Legal Powers
6.1 The Local Government Act 1999 and the Audit Commission Act 1998 contain the
7 **Financial and value for money implications**

7.1 There are no direct financial implications arising from this report as the basis of the audit fee is the same, regardless of who carries out the audit. The 2009/10 audit and inspection fee budget is £151,200.

8 **Risk analysis**

<table>
<thead>
<tr>
<th>Nature of risk</th>
<th>Consequences if realised</th>
<th>Likelihood of occurrence</th>
<th>Control measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor performance and ineffective use of resources.</td>
<td>Poor services to local people in comparison to other councils. Intervention by the Audit Commission leading to lower CPA and loss of control by the Council.</td>
<td>Existing controls provide a level of assurance on these issues.</td>
<td>Corporate governance and performance management arrangements in place.</td>
</tr>
</tbody>
</table>

8.1 **Implications for Resources**

(a) None directly.

8.2 **Implications for Stronger and Safer Communities**

(a) None directly.

8.3 **Implications for Equalities**

(a) None directly.

9 **Author and Contact Officer**

Rob Wilton, Head of Financial Services

10 **Consultees**

Corporate Management Team

11 **Background Papers**

None
Statement of responsibilities of auditors and of audited bodies
The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we seek to ensure that public services are good value for money and that public money is properly spent.

For further information about the Audit Commission, visit our website at www.audit-commission.gov.uk
General introduction

1 The Audit Commission (the Commission) is responsible for appointing auditors and determining their terms of appointment, as well as for preparing a Code of Audit Practice, which prescribes the way in which auditors are to carry out their functions. The Commission has prepared a Code for the audits of local government bodies and a Code for the audit of local NHS bodies. From time to time, the Commission issues guidance to auditors under section 3(8) of the Audit Commission Act 1998 (the Act) and paragraph 7 of Schedule 1 to the Act. This statement sets out guidance on general responsibilities relevant to audits in both sectors and so supports each Code.

2 The purpose of this statement is to assist auditors and audited bodies by summarising where, in the context of the usual conduct of an audit, the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas. Throughout this statement, the term ‘audited body’ covers both the members of the body (for example, elected members in local authorities and directors of NHS bodies) and its management (the senior officers of the body).

3 The responsibilities of auditors are derived from statute (principally the Audit Commission Act 1998) and from the Code. Nothing in this statement is intended to limit or extend those responsibilities. In particular, audited bodies should note that, because auditors must not prejudice their independence of the audited body, the audit role does not include providing financial or legal advice or consultancy to the audited body.

4 Auditors may wish to refer to, and/or incorporate, this statement in audit planning documents, annual audit letters, reports and other audit outputs.
Introduction to responsibilities

5 Those who are responsible for the conduct of public business and for spending public money are accountable for ensuring both 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.

6 In discharging this accountability, public bodies and their management (both members and officers) are responsible for putting in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal. They are also required to report on their arrangements in their annual published statements on internal control (NHS bodies) or annual governance statement (local government bodies).

7 It is the responsibility of the audited body to ensure that proper arrangements are in place, but certain individuals have specific responsibilities. NHS bodies have a unitary board, consisting of executive members and part-time non-executive members, chaired by a non-executive member. The chairman and non-executive members are responsible for monitoring the executive management of the body and are responsible to the Secretary of State for the discharge of these responsibilities. In addition, there is a requirement for an audit committee, which contributes independently to the board’s overall process for ensuring that an effective internal control and risk management system is maintained. The chief executive is responsible to the board for the day-to-day management of the organisation and, as accountable officer, is also responsible to the Department of Health for the proper stewardship of public money and assets.

8 Local government bodies have three designated statutory officers, each of whom has a specific role in relation to accountability and control. These are:

- the head of paid service, usually the chief executive, responsible to the full council for the corporate and overall strategic management of the authority;
- the monitoring officer, who is responsible for reporting to the authority any actual or potential breaches of the law or any maladministration, and for ensuring that procedures for recording and reporting key decisions are operating effectively; and
- an officer with responsibility for the proper administration of their financial affairs.
In carrying out their responsibilities, auditors may wish to obtain representations from management, both orally and in writing, on important matters.

The following paragraphs summarise the responsibilities of auditors and of audited bodies in relation to the responsibilities of auditors described in the Code.

The audit of the financial statements

11 The financial statements, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. It is the responsibility of the audited body to:

- put in place systems of internal control to ensure the regularity and lawfulness of transactions;
- maintain proper accounting records; and
- prepare financial statements that present fairly (or, for NHS bodies and local probation boards, give a true and fair view of) the financial position of the body and its expenditure and income and that are in accordance with applicable laws, regulations and accounting policies.

12 A local authority that is the administering authority for a local authority pension fund must prepare pension fund financial statements for each financial year that present fairly:

- the financial transactions of its pension fund during the year; and
- the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

13 The audited body is also responsible for preparing and publishing with its financial statements:

- for health bodies and probation boards, a statement on internal control prepared in accordance with specified guidance; and
- for local government bodies, an annual governance statement, prepared in accordance with proper practice set out in the Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives and Senior Managers publication *Delivering Good Governance in Local Government: A Framework*, and related guidance.
In preparing their financial statements, audited bodies are responsible for:

- preparing realistic plans that include clear targets and achievable timetables;
- assigning responsibilities clearly to staff with the appropriate expertise and experience;
- providing necessary resource to enable delivery of the plan;
- maintaining adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements;
- ensuring that senior management monitors, supervises and reviews work to meet agreed standards and deadlines; and
- ensuring that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor. At local government bodies, the responsible financial officer must sign, date and certify the financial statements before they are approved by the body.

If draft financial statements and working papers of appropriate quality are not available at the agreed start date of the audit, the auditor is unable to meet the planned audit timetable and the start date of the audit will be delayed. The audit fee is calculated on the basis that the draft financial statements, and detailed working papers, are provided to an agreed timetable and are of an acceptable standard. If information is not provided to this timetable, or is provided to an unacceptable standard, the auditor will charge additional fees for any extra work that is necessary.

Auditors audit the financial statements and give their opinion, including:

- whether they present fairly, or give a true and fair view of, the financial position of the audited body and its expenditure and income for the year in question;
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards;
- for certain bodies, on the regularity of their expenditure and income; and
- for certain bodies, on whether the part of the remuneration report to be audited has been properly prepared.

In carrying out their audit of the financial statements, auditors will have regard to the concept of materiality.
Subject to the concept of materiality, auditors provide reasonable assurance that the financial statements:

- are free from material misstatement, whether caused by fraud or other irregularity or error;
- comply with statutory and other applicable requirements; and
- comply with all relevant requirements for accounting presentation and disclosure.

Auditors plan and perform their audit on the basis of their assessment of risk. Auditors will examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body in preparing the statements.

Subject to the concept of materiality, auditors of specified NHS bodies and local probation boards also provide reasonable assurance on the regularity of expenditure and income. In giving such assurance, auditors do not perform detailed tests of transactions to the extent that would be necessary to disclose all unlawful transactions or events that may have occurred or might occur, and the audit process should not be relied upon to disclose such matters.

Auditors evaluate significant financial systems, and the associated internal financial controls, for the purpose of giving their opinion on the financial statements. Where auditors identify any weaknesses in such systems and controls, they will draw them to the attention of the audited body, but they cannot be expected to identify all weaknesses that may exist.

Auditors review whether the statement on internal control (NHS bodies) or annual governance statement (local government bodies) has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information of which the auditor is aware. In doing so auditors take into account the knowledge of the audited body gained through their work in relation to the audit of the financial statements and through their work in relation to the body’s arrangements for securing economy, efficiency and effectiveness in the use of its resources. They will also have regard to the work of other regulators, to the extent that it is relevant to auditors’ responsibilities. Auditors are not required to consider whether the statement on internal control (NHS bodies) or annual governance statement (local government bodies) covers all risks and controls, nor are auditors required to express a formal opinion on the effectiveness of the audited body’s corporate governance procedures or risk and control procedures.
23 In carrying out their work on the financial statements, auditors will:

- plan to complete work and meet agreed deadlines;
- maintain close liaison with the audited body; and
- provide appropriate and adequate resources and assign responsibilities to staff with the relevant expertise and experience.

24 Where audited bodies do not meet agreed timetables and/or provide poor documentation such that additional audit work is necessary, or the audit is delayed, auditors will charge additional fees to cover the costs incurred.

**Electronic publication of the financial statements**

25 Where the audited body wishes to publish its financial statements electronically, it is responsible for ensuring that the publication accurately presents the financial statements and the auditor’s report on those financial statements. This responsibility also applies to the presentation of any financial information published in respect of prior periods. The auditor’s report on the financial statements should not be reproduced or referred to electronically without the auditor’s written consent.

26 The audited body may also wish to distribute electronic copies of the financial statements, and the auditor’s report on those financial statements, to its stakeholders and must ensure that these are presented accurately. The auditor’s report on the financial statements distributed electronically should not be reproduced or referred to electronically without the auditor’s prior written agreement.

27 The examination of the controls over the electronic publication of audited financial statements is beyond the scope of the audit of the financial statements and the auditor cannot be held responsible for changes made to audited information after the initial publication of the financial statements and the auditor’s report.
Responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources

28 It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- establishing strategic and operational objectives;
- determining policy and making decisions;
- ensuring that services meet the needs of users and taxpayers and for engaging with the wider community;
- ensuring compliance with established policies, procedures, laws and regulations;
- identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working;
- ensuring compliance with the general duty of best value, where applicable;
- managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body;
- monitoring and reviewing performance, including arrangements to ensure data quality; and
- ensuring that the audited body’s affairs are managed in accordance with proper standards of financial conduct, and for preventing and detecting fraud and corruption.

29 The audited body is responsible for reporting on these arrangements as part of its annual statement on internal control (NHS bodies) or annual governance statement (local government bodies).
30 Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In meeting this responsibility auditors should review and, where appropriate, examine evidence that is relevant to the audited body’s corporate performance management and financial management arrangements, as summarised above, and report on these arrangements.

31 Auditors report annually their conclusion on those arrangements, having regard to the criteria specified by the Audit Commission and will report if significant matters have come to their attention that prevent them from concluding that the audited body has put in place proper arrangements. However, auditors are not required to consider whether all aspects of the audited body’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively in practice.

32 In planning this work, auditors consider and assess the relevant significant business risks. These are the significant operational and financial risks to the achievement of the audited body’s statutory functions and objectives, which apply to the audited body and are relevant to auditors’ responsibilities under the Code, and the arrangements it has put in place to manage these risks. The auditor’s assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors discuss their assessment of risk with the audited body.

33 When assessing risk auditors consider:

- the relevance and significance of the potential business risks faced by all bodies of a particular type;
- other risks that apply specifically to individual audited bodies;
- the audited body’s own assessment of the risks it faces; and
- the arrangements put in place by the body to manage and address its risks.
34 In assessing risks auditors have regard to:

- evidence gained from previous audit work, including the response of the audited body to previous audit work;
- the results of assessments of performance carried out by the Commission;
- the work of other statutory inspectorates; and
- relevant improvement needs, identified in discussion with the Commission or other statutory inspectorates.

35 Where auditors rely on the reports of statutory inspectorates as evidence relevant to the audited body’s corporate performance management and financial management arrangements, the conclusions and judgements in such reports remain the responsibility of the relevant inspectorate or review agency.

36 In reviewing the audited body’s arrangements for its use of resources, it is not part of auditors’ functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. It is the responsibility of the audited body to decide whether and how to implement any recommendations made by auditors and, in making any recommendations, auditors should avoid any perception that they have any role in the decision-making arrangements of the audited body.

37 While auditors may review audited bodies’ arrangements for securing economy, efficiency and effectiveness in the use of resources, they cannot be relied on to have identified every weakness or every opportunity for improvement. Audited bodies should consider auditors’ conclusions and recommendations in their broader operational or other relevant context.

38 Auditors are specifically required to review audited bodies’ arrangements for ‘monitoring and reviewing performance, including arrangements to ensure data quality’.

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1 Code of Audit Practice 2005, section 3: Auditors’ responsibilities in relation to the use of resources.
The responsibility for applying data quality standards, collecting data that are fit for purpose and where appropriate conform to prescribed definitions, and reporting performance information that is reliable and accurate, rests with audited bodies.

Before performance information is reported externally or submitted to external auditors for review, it should be subject to scrutiny and approval by senior management and those charged with governance.

In order to fulfil their responsibilities under the Code, auditors will review an audited body’s corporate arrangements to secure the quality of its data. This review will be informed by other relevant work, for example any detailed reviews of the data supporting specific performance information.

The findings of the review of corporate arrangements for data quality will contribute to the auditor’s conclusion under the Code of Audit Practice on the audited body’s arrangements to secure value for money, in relation to the specific criterion on data quality. Where weaknesses have been identified in an audited body’s arrangements for data quality, the auditor will consider the overall impact on the conclusion under the Code of Audit Practice, and where appropriate make recommendations to support improvement.

Audit work in relation to the audited body’s arrangements to ensure that its affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption, does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected. Nor is it auditors’ responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although they will be alert to the possibility and will act promptly if grounds for suspicion come to their notice.

The reviews arising from national studies developed by the Commission, or in support of the Healthcare Commission’s national work programme, and the extent to which auditors are expected to apply them at relevant bodies, are prescribed by the Commission and are notified to audited bodies each year by the Commission in its annual work programme and by auditors in their audit planning documents. When carrying out national studies, auditors are required to follow the methodologies and, for certain studies, use comparative data provided by the Commission. Responsibility for the adequacy and appropriateness of these methodologies and the data rests with the Commission.
Specific powers and duties of auditors

45 Auditors have specific powers and duties under the Audit Commission Act 1998 in relation to matters of legality and, in local government, electors’ rights. Fees arising in connection with auditors’ exercise of these powers and duties, including costs relating to the appointment of legal or other advisers to the auditors, are borne by the audited body.

Reporting the results of audit work

46 Auditors provide:

- an audit planning document;
- oral and/or written reports or memoranda to officers and, where appropriate, members on the results of, or matters arising from, specific aspects of auditors’ work;
- a report to those charged with governance, normally submitted to the audit committee, summarising the work of the auditor;
- an audit report, including the auditor’s opinion on the financial statements and a conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources;
- a certificate that the audit of the accounts has been completed in accordance with statutory requirements; and
- an annual audit letter.

47 In addition, the following outputs, the need for which may arise at any point during the audit process, are issued where appropriate:

- a report dealing with any matter that the auditor considers needs to be raised in the public interest under section 8 of the Act;
- any recommendations under section 11(3) of the Act (local government bodies);
- any referral to the Secretary of State under section 19 of the Act (NHS bodies) where the auditor considers that a decision by a body or officer has led to, or would lead to, unlawful expenditure, or that some action by a body or officer has been, or would be, unlawful and likely to cause a loss or deficiency; and
- information to be reported to the Commission in a specified format to enable it to carry out any of its other functions, including assessments of performance at relevant
bodies, or to assist other bodies, such as the Healthcare Commission, the Commission for Social Care Inspection and the National Audit Office, in carrying out their functions.

48 When considering the action to be taken on audit reports, audited bodies should bear in mind the scope of the audit and responsibilities of auditors, as set out in the Code and as further explained in this statement. Matters raised by auditors will be drawn from those that come to their attention during the audit. The audit cannot be relied upon to detect all errors, weaknesses or opportunities for improvements in management arrangements that might exist. Audited bodies should assess auditors’ conclusions and recommendations for their wider implications before deciding whether to accept or implement them.

49 Although annual audit letters and reports may be addressed to officers or members of the audited body, they are prepared for the sole use of the audited body. Auditors do not have responsibilities to officers or members in their individual capacities (other than in the exercise of auditors’ specific powers and duties in relation to matters relating to electors’ rights in local government) or to third parties that choose to place reliance upon the reports from auditors.

Ad hoc requests for auditors’ views

50 There may be occasions when audited bodies will seek the views of auditors on the legality, accounting treatment or value for money of a transaction before embarking upon it. In such cases, auditors will be as helpful as possible, but are precluded from giving a definite view in any case because auditors:

- must not prejudice their independence by being involved in the decision-making processes of the audited body;
- are not financial or legal advisers to the audited body; and
- may not act in any way that might fetter their ability to exercise the special powers conferred upon them by statute.
In response to such requests, auditors can offer only an indication as to whether anything in the information available to them at the time of forming a view could cause them to consider exercising the specific powers conferred upon them by statute. Any response from auditors should not be taken as suggesting that the proposed transaction or course of action will be exempt from challenge in future, whether by auditors or others entitled to raise objection to it. It is the responsibility of the audited body to decide whether to embark on any transaction.

Access to information

Auditors have wide-ranging rights of access to documents and information in relation to the audit. Such rights apply not only to documents and information held by the audited body and its members and staff, including documents held in electronic form, but also to the audited body’s partners and contractors, whether in the public, private or voluntary sectors.

There are restrictions on the disclosure of information obtained in the course of the audit, subject only to specific exemptions. The Freedom of Information Act 2000 does not apply to the Commission’s appointed auditors, as they have not been designated as ‘public authorities’ for the purposes of that legislation. Audited bodies wishing to disclose information obtained from an auditor are required by law to seek the auditor’s consent to that disclosure.

Grant claims and returns – certification

The Commission agrees to make certification arrangements in accordance with the framework set out in the separate Statement of Responsibilities of Grant-paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns. The responsibility for ensuring the completion, accuracy and completeness of grant claims and returns lies with the audited body. Grant-paying bodies may require independent examination as a condition of their acceptance of claims and returns and may ask the Commission to make arrangements for auditor certification of claims and returns. The Commission will have regard to what it is appropriate, practically and professionally, to expect the certification process and auditors to do before agreeing to make certification arrangements.
Audit of charitable funds

55 This section is relevant to those charities to which the Audit Commission appoints auditors under s43A of the Charities Act 1993.

56 Trustees of charitable funds subject to audit have a duty to prepare financial statements for each financial year which give a true and fair view of:

- the state of the charity’s affairs at the end of the financial year; and
- the incoming resources and the application of those resources by the charity for that period.

57 Trustees must ensure that the financial statements are prepared in accordance with the Statement of Recommended Practice – ‘Accounting and Reporting by Charities’.

58 It is the duty of the auditor to report to the trustees whether the financial statements give a true and fair view and whether they have been prepared in accordance with the Charities Act 1993 and the Charity (Accounts and Reports) Regulations.

59 Auditors are also required to report immediately to the Charity Commissioners any matter which they have reasonable cause to believe is, or is likely to be, of material significance to the Commissioners’ functions under s8 (general power to institute inquiries) or s18 (power to act for protection of charities) of the 1993 Act. Such matters may relate not only to the activities or affairs of the charity, but also to any institution or body corporate which is connected with the charity.

60 The audit fee is calculated on the basis that detailed working papers, and other specified information, are provided to an agreed timetable. Where audited bodies do not meet agreed timetables and/or provide poor documentation such that additional audit work is necessary, or the audit is delayed, auditors will charge additional fees to cover the costs incurred.

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I S43A of the Charities Act 1993 prescribes that all English NHS charities shall, at the election of the Audit Commission, be subject to an independent examination or audit. The Commission has decided that it will require an audit for all those charities above the threshold of £500,000, as defined in s43. Those below this threshold will be subject to an independent examination, unless the trustees elect for an audit. The auditor or examiner appointed must then follow the procedures required under s43(7)(b) of the Charities Act. Where an independent examination is carried out, the responsibilities of the examiner are more limited.
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For local government bodies
The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

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The Code of Audit Practice – local government bodies

1 General principles
2 Auditing the financial statements
3 Auditors’ responsibilities in relation to the use of resources
4 Reporting the results of audit work
5 Principles relating to the exercise of specific powers and duties of local government auditors

Schedule 1: The audit of small bodies
Appendix 1: Glossary

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Foreword

We are pleased to present the Audit Commission’s new Code of Audit Practice for local government bodies.

The Code determines the nature, level and scope of local audit work and, as such, underpins all of our activities. It has been developed with the benefit of input from a range of key stakeholders who have responded to consultation documents and worked with us to produce a Code which will provide a robust framework for the delivery of the Commission’s strategic aims and objectives over the next five years.

At the core of the Commission’s strategy is a commitment to Strategic Regulation and the Code embodies the key principles which will contribute to the delivery of Strategic Regulation in practice.

We believe that this Code will produce benefits for local government bodies by maximising the impact and minimising the burden of regulation. It will result in:

- a more streamlined audit targeted to those areas where auditors have most to contribute to improvement;
- specific auditor judgements in respect of value for money, with a focus on overall financial and performance management arrangements;
- a reduction in mandatory value for money work on individual services and functions;
- better and clearer reporting of the results of audits; and
- auditors working in partnership with other regulators to provide a coherent and co-ordinated approach.

Our mission is to be a driving force in the improvement of local public services. The Code will enable us to provide the assurances on proper stewardship and value for money in the use of resources which underpin the delivery of high quality services to the public.

James Strachan
Chairman

Steve Bundred
Chief Executive
Preface

The role of external audit in the public sector

External audit is an essential part of the process of accountability for public money. It makes an important contribution to the stewardship of public resources and the corporate governance of public services. External auditors in the public sector give an independent opinion on public bodies’ financial statements and may review, and report on, aspects of the arrangements put in place by public bodies to ensure the proper conduct of their financial affairs and to manage their performance and use of resources. Because of the special accountabilities attached to public money and the conduct of public business, external audit in the public sector is characterised by three distinct features:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors’ work is extended to cover not only the audit of financial statements, but also aspects of corporate governance and arrangements to secure the economic, efficient and effective use of resources; and
- auditors may report aspects of their work to the public and other key stakeholders.

These features are consistent with the ‘principles of public audit’ as defined by the Public Audit Forum, which comprises all the national audit agencies in the UK.

The role of the Audit Commission

The Audit Commission (the Commission) is an independent body with statutory responsibilities to regulate the audit of local government and NHS bodies in England, and to promote improvements in the economy, efficiency and effectiveness of public services. The Commission also has statutory responsibilities to carry out inspections of best value authorities and to assess the performance of local authorities. In particular, the Commission is responsible for:

- appointing auditors to local government and NHS bodies;
- setting the required standards for its appointed auditors; and
- regulating the quality of audits.
The Commission appoints auditors from the Commission’s own staff and from private firms of auditors. It provides advice and support to auditors on technical matters and monitors their performance through a rigorous quality review process. Once appointed, auditors carry out their statutory and other responsibilities, and exercise their professional judgement, independently of the Commission.

Statutory responsibilities and powers of appointed auditors

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998 and Local Government Act 1999. In discharging these specific statutory responsibilities and powers, auditors are required to carry out their work in accordance with the Commission’s Code of Audit Practice (the Code).

The Code of Audit Practice

The Audit Commission Act 1998 (the Act) requires the Commission to ‘prepare, and keep under review, a Code of Audit Practice prescribing the way in which auditors [appointed by the Commission] are to carry out their functions under the Act, and which embodies what appears to the Commission to be the best professional practice with respect to the standards, procedures and techniques to be adopted by auditors’.

The Act also provides for the preparation of ‘a different Code with respect to the audit of the accounts of health service bodies as compared with the Code applicable to the accounts of other bodies’.1

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1 This Code covers the audits of local government bodies. These comprise the various bodies that provide public services locally, including local authorities, fire authorities, police authorities, local councils and local probation boards. It also incorporates the code relating to the audit of best value performance plans. A separate Code has been prepared for the audits of NHS bodies.
Under the Local Government Act 1999 the Commission is also required to prepare and keep under review a code of practice prescribing the way that auditors should carry out their functions in relation to the audit of best value performance plans. The Commission has prepared a combined *Code*, to emphasise the integrated nature of the Commission’s audit regime and also, for practical purposes, to provide a single point of reference on the Commission’s audit requirements, for both auditors and interested parties. Paragraphs 21, 31 and 41 relate specifically to the responsibilities of auditors of local government bodies in relation to best value performance plans.

The *Code* must be read in conjunction with any regulations that are in force under section 27 of the Act.

The Commission is committed to keeping the *Code* up to date to reflect changes both in the operating environment of audited bodies and in auditing standards and practice, and may amend the *Code* where appropriate in the light of practical experience.

The *Code* must be approved by a resolution of each House of Parliament at intervals of not more than five years. In the intervening period, the *Code* may be amended by laying proposed alterations before Parliament. The *Code* prescribes the way in which auditors are to carry out their functions under the Act and, where relevant, section 7 of the Local Government Act 1999.

In addition to the *Code*, the Commission publishes separate documents that are aimed specifically at audited bodies and members of the public:

- **Statement of Responsibilities of Auditors and of Audited Bodies** – which highlights the different responsibilities of the auditor and the audited body, and the limits on what the auditor can reasonably be expected to do;

- **Council Accounts: Your Rights** – which sets out the rights of members of the public to inspect, and of local electors to question and object to, local government bodies’ accounts, and explains the powers of the auditor; and

- **Something to Complain About?** – which explains how audited bodies or members of the public can complain about the work of the Commission and its auditors.
The Commission’s model of public audit

The Code has been developed on the basis of the Commission’s model of public audit, which defines auditors’ responsibilities in relation to:

- the financial statements of audited bodies; and
- audited bodies’ arrangements for securing economy, efficiency and effectiveness in their use of resources.

The model reflects the Commission’s concept of an ‘integrated audit’, in which work in relation to one element of the audit informs audit work in relation to other elements. Central to auditors’ work in relation to each of these audit responsibilities is a risk-based approach to audit planning, which reflects their overall knowledge of the audited body’s business and assessment of the relevant business risks that it faces.

The contents of the Code

The Code comprises five sections:

- general principles;
- auditing the financial statements;
- auditors’ responsibilities in relation to the use of resources;
- reporting the results of audit work; and
- principles relating to the exercise of specific powers and duties of local government auditors.

Schedule 1 to the Code provides for the audit of small bodies. Appendix 1 contains a glossary of terms.
General principles

Status and application of the Code

1 This Code has been laid before Parliament under section 4 of the Act and section 8 of the Local Government Act 1999 and has been approved by resolution of each House of Parliament. It came into effect on 9 March 2005 and replaces the Code that has been in effect from 29 March 2000, as amended on 1 April 2002. The provisions of the Code apply to audit work that relates to financial years ending on or after 31 March 2006.

Scope of the Code

2 This Code of Audit Practice (Code) prescribes the way in which auditors of local government bodies, as defined in Schedule 2 of the Audit Commission Act 1998 (the Act), appointed by the Audit Commission (the Commission) should carry out their functions under the Act, and the way in which auditors should carry out their functions in relation to the audit of best value performance plans under section 7 of the Local Government Act 1999. As with any code that attempts to cover a wide variety of circumstances, the application of the Code in any particular case will depend on the specific circumstances and on auditors’ assessment of what is reasonable and appropriate in those circumstances. All the provisions of the Code are to be read and applied with that necessary qualification.

3 The Commission may wish to appoint different auditors to carry out different elements of the audit at an audited body. In such cases, auditors should apply the Code in so far as, in their judgement, it is appropriate, taking into account any relevant guidance issued by the Commission.

4 There will be circumstances in which aspects of the Code that are potentially applicable may be inappropriate to the audit of certain bodies, for example, because of the nature of their business or the relatively small amounts of public money controlled by the bodies in question. In carrying out the audit of such bodies auditors should apply the Code in so far as, in their judgement, it is appropriate, taking into account the nature of the business of the body and any relevant guidance issued by the Commission. In carrying out the audit of bodies with either annual income or annual expenditure below a financial limit determined by the Commission from time to time, auditors should apply Schedule 1 to the Code if directed to do so by the Commission.
From time to time, when necessary, the Commission also issues guidance to auditors. The Commission does so under its powers under section 3(8) of the Act and paragraph 7 of Schedule 1 to the Act, to appoint auditors and to determine their terms of appointment.

**Scope of the audit and auditors’ objectives**

Because of the special accountabilities attached to public money and the conduct of public business, the scope of external audit in local government is extended to cover not only the audit of the financial statements but also the audited body’s arrangements for securing economy, efficiency and effectiveness in its use of resources. The audit of the financial statements is covered by professional auditing standards and so this *Code* focuses more on how the wider range of functions of auditors appointed by the Commission should be carried out.

Auditors’ objectives are to review and report on, to the extent required by the relevant legislation and the requirements of this *Code*:

(a) the audited body’s financial statements and its statement on internal control; and
(b) whether the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Auditors should plan and carry out their audits to meet these audit objectives and comply with the requirements of the *Code*. Overall responsibility for carrying out an audit that meets these objectives is the responsibility of the appointed auditor.

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.
The audit approach

Auditors should carry out the audit economically, efficiently and effectively, and in as timely a way as possible. In framing an audit approach to meet the objectives of the audit, they should:

(a) plan and perform the audit on the basis of their assessment of audit risks, determining where to direct their work and to allocate resources to ensure that the audit is tailored to the circumstances of the audited body. They should obtain such information and explanations as they consider necessary to provide themselves with sufficient evidence to meet their responsibilities under statute and the Code. Auditors are not expected to review or perform detailed tests of all financial or other systems and processes or of all accounting procedures and transactions;

(b) have regard to the principle that each part of the audit needs to be viewed in the context of the whole, or integrated, audit. No one part stands alone and work in relation to one element of the audit informs work in relation to other elements;

(c) have regard to the fact that local government bodies operate and deliver their services in a range of partnerships and other forms of joint working or contracts with other public sector, voluntary or private sector bodies. Auditors should therefore consider whether they need to follow public money into and across such arrangements;

(d) discuss with the audited body the need for timely and effective production of working papers and other information required for audit so that the process can be carried out as efficiently and effectively as possible;

(e) establish effective co-ordination arrangements with internal audit. Auditors should seek to place maximum reliance on the work of internal audit whenever possible;

(f) co-operate with other external auditors and the Commission, and provide information to the Commission (both locally and nationally), to enable knowledge of good practice to be transferred effectively across local government and from one audited body to another;

(g) have regard to the wider system of regulation of local government bodies, and establish effective co-ordination arrangements with the Commission and other statutory inspectorates to minimise the burden of regulation on audited bodies, so far as is consistent with the discharge of auditors’ responsibilities, and to make best use of overall audit and inspection resources; and
(h) adopt a constructive and positive approach wherever possible, thereby supporting and encouraging worthwhile change, while providing independent scrutiny and assurance, and fulfilling their statutory and professional responsibilities.

**Integrity, objectivity and independence**

11 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.

**Confidentiality**

12 Auditors should take all reasonable steps to ensure that they and their staff comply with relevant statutory and other requirements relating to the holding and disclosure of information received or obtained during the audit.
Auditing the financial statements

This section sets out how auditors fulfil the following statutory functions. References in the table are to the Audit Commission Act 1998.

<table>
<thead>
<tr>
<th>Function</th>
<th>Statute</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. To be satisfied that the accounts comply with statutory requirements.</td>
<td>s5(1), (b), (c)</td>
</tr>
<tr>
<td>2. To be satisfied that proper practices have been observed in compiling the accounts.</td>
<td>s5(1)(d)</td>
</tr>
<tr>
<td>3. To express an opinion on the accounts.</td>
<td>s9(1)(b)</td>
</tr>
</tbody>
</table>

The financial statements, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. It is the responsibility of the audited body to:

- put in place systems of internal control to ensure the regularity and lawfulness of transactions;
- maintain proper accounting records; and
- prepare financial statements that present fairly (or, for local probation boards, give a true and fair view of) the financial position of the body and its expenditure and income.

The audited body is also responsible for preparing and publishing with its financial statements a statement on internal control.

Auditors are required to audit the financial statements and to give their opinion, including:

(a) whether they present fairly, or, for local probation boards, give a true and fair view of, the financial position of the audited body and its expenditure and income for the year in question;

Although local probation boards are local government bodies for the purposes of this Code, they are not local authorities. In particular, local probation boards are subject to a different accounting framework from other bodies covered by this Code. Where relevant, requirements that apply specifically to local probation boards are highlighted in the Code.
(b) whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards; and
(c) for local probation boards, on the regularity of their expenditure and income.

16 In carrying out this responsibility, auditors should provide reasonable assurance that the financial statements:
(a) are free from material mis-statement, whether caused by fraud or other irregularity or error;
(b) comply with statutory and other applicable requirements; and
(c) comply with all relevant requirements for accounting presentation and disclosure.

17 Auditors should review whether the statement on internal control has been presented in accordance with relevant requirements and they should report if the statement:
• does not meet these requirements;
• is misleading; and/or
• is inconsistent with, or incomplete in the light of, other information of which the auditor is aware.

In doing so auditors should take into account the knowledge of the audited body that they gain through carrying out audit work in relation to the body’s arrangements for securing economy, efficiency and effectiveness in its use of resources.

18 In carrying out their audit of the financial statements in accordance with the Code, auditors should comply with auditing standards currently in force, and as may be amended from time to time, and have regard to any other relevant guidance and advice issued by the Auditing Practices Board (APB), including that covering the work of auditors in relation to audited bodies’ statements on internal control. Auditors should also comply with the APB’s Ethical Standards currently in force, and as may be amended from time to time.
Auditors’ responsibilities in relation to the use of resources

This section sets out how auditors fulfil the following statutory functions. References in the table are to the Audit Commission Act 1998 unless otherwise stated.

<table>
<thead>
<tr>
<th>Function</th>
<th>Statute</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. To be satisfied that proper arrangements have been made for securing economy, efficiency and effectiveness in the use of resources.</td>
<td>s5(1)(e)</td>
</tr>
<tr>
<td>2. Where the Commission has issued a direction under section 44 of the Act requiring relevant bodies to publish information relating to their activities, to be satisfied that such audited bodies have proper arrangements for collecting, recording and publishing the information.</td>
<td>s5(1)(f)</td>
</tr>
<tr>
<td>3. To audit the annual performance plan published by a best value authority.</td>
<td>s7(1) Local Government Act 1999</td>
</tr>
</tbody>
</table>

It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- establishing strategic and operational objectives;
- determining policy and making decisions;
- ensuring that services meet the needs of users and taxpayers and for engaging with the wider community;
- ensuring compliance with established policies, procedures, laws and regulations;
- identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working;
- ensuring compliance with the general duty of best value, where applicable;
• managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body;
• monitoring and reviewing performance, including arrangements to ensure data quality; and
• ensuring that the audited body’s affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud and corruption.

20 The audited body is responsible for reporting on these arrangements as part of its annual statement on internal control.

Auditors’ responsibilities in relation to the use of resources

21 Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In meeting this responsibility auditors should review and, where appropriate, examine evidence that is relevant to the audited body’s corporate performance management and financial management arrangements and report on these arrangements. Auditors of best value authorities also have a responsibility to consider, and report on, the audited body’s compliance with statutory requirements in respect of the preparation and publication of its best value performance plan.

22 Auditors’ sources of assurance in discharging their responsibilities in relation to audited bodies’ arrangements for securing economy, efficiency and effectiveness in the use of resources are:
• the audited body’s whole system of internal control as reported on in its statement on internal control;
• the results of the work of statutory inspectorates, if the results of the work have an impact on their responsibilities;
• work specified by the Commission in support of carrying out its functions; and
• any other work that they feel necessary to discharge their responsibilities.
23 Auditors should normally place reliance on the reported results of the work of statutory inspectorates in relation to corporate or service performance without carrying out procedures to assess the quality of the work performed and without re-performing any of the work, except where particular circumstances or information lead them to conclude that it would not be reasonable to place reliance on such reported results.

24 In reviewing the audited body’s arrangements for its use of resources, it is not part of auditors’ functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. The audited body is responsible for deciding whether and how to implement any recommendations made by auditors. In making any recommendations, auditors should avoid any perception that they have any role in the decision-making arrangements of the audited body.

Considerations relating to planning audit work in relation to the use of resources

25 In planning their audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, auditors should consider and assess the relevant significant business risks. These are the significant operational and financial risks to the achievement of the audited body’s statutory functions and objectives, which apply to the audited body, and are relevant to auditors’ responsibilities under the Code. The auditor’s assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors should discuss their assessment of risk with the audited body.

26 Auditors’ assessment of risk should reflect their consideration of the relevance and significance of the potential business risks faced by all bodies of a particular type, and other risks that apply specifically to individual audited bodies. Auditors should also consider the audited body’s own assessment of the risks it faces and the arrangements put in place by the body to manage and address its risks. In assessing risks in relation to audited bodies’ arrangements to secure economy, efficiency and effectiveness auditors should have regard to:
• evidence gained from previous audit work, including the response of the audited body to previous audit work;
• the results of assessments of performance carried out by the Commission;
• the work of other statutory inspectorates; and
• relevant improvement needs, identified in discussion with the Commission or other statutory inspectorates.

27 On the basis of their risk assessment auditors should plan their work and decide whether to:
• highlight the risk to the audited body;
• defer any work in the light of current or planned work by the body or other review agencies; or,
• carry out work in relation to specific risks to form a view on the adequacy of aspects of the body’s stewardship and governance and corporate performance management and financial management arrangements.

28 In considering whether to carry out work in relation to a particular risk, auditors should have regard to the potential for them to contribute to improvement in the delivery of the functions of the audited body. Such work may include working with others in order to assess how well risks arising from the audited body’s involvement in partnerships or other joint-working arrangements are being addressed.

Risks identified by the Commission

29 The Commission may identify risks relating to the use of resources faced by all local government bodies of a particular type or within a locality. In the light of these risks the Commission may develop programmes of work or studies that require comprehensive coverage by auditors to enable comparisons to be made. The Commission may specify additional elements of work, to be carried out by auditors, which supplement the local risk-based approach to planning the audit.
## Reporting the results of audit work

This section sets out how auditors fulfil the following statutory functions. References in the table are to the Audit Commission Act 1998 unless otherwise stated.

<table>
<thead>
<tr>
<th>Function</th>
<th>Statute</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. To comply with the Code.</td>
<td>s5(2)</td>
</tr>
<tr>
<td>2. To consider whether, in the public interest, to report on any matter that comes to the attention of the auditor so that it may be considered by the body concerned or brought to the attention of the public.</td>
<td>s8</td>
</tr>
<tr>
<td>3. To certify the completion of the audit.</td>
<td>s9(1)(a)</td>
</tr>
<tr>
<td>4. To express an opinion on the accounts.</td>
<td>s9(1)(b)</td>
</tr>
<tr>
<td>5. To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.</td>
<td>s11(3)</td>
</tr>
<tr>
<td>6. To report on an audited body’s best value performance plan, including recommendations whether the Commission should carry out a best value inspection of the body under s10 of the Local Government Act 1999 and whether the Secretary of State should give a direction under s15 of that Act.</td>
<td>s7(4) Local Government Act 1999</td>
</tr>
</tbody>
</table>

### Outputs from the audit

30 The results of audit work will be reported in a range of outputs that, unless specified otherwise, should be addressed to the audited body.

31 The following outputs should be issued at key points in the audit process:

(a) audit planning document;

(b) oral and/or written reports or memoranda to officers and, where appropriate, members, on the results of, or matters arising from, specific aspects of auditors’ work;
(c) a report to those charged with governance summarising the conclusions of the auditor;

(d) an audit report including the auditor’s opinion on the financial statements\(^1\) and a conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. For best value authorities this conclusion incorporates the auditor’s report on the audit of the best value performance plan;

(e) a certificate that the audit of the accounts has been completed in accordance with statutory requirements; and

(f) an annual audit letter or, for those bodies where the Commission carries out inspections, information to be reported to the Commission in a specified format to enable it to prepare an annual audit and inspection letter to the audited body.

32 In addition, the following outputs, the need for which may arise at any point during the audit process, should be issued where appropriate:

(a) a report dealing with any matter that the auditor considers needs to be raised, in the public interest under section 8 of the Act;

(b) any recommendations under section 11(3) of the Act; and

(c) information to be reported to the Commission in a specified format to enable it to carry out any of its other functions, including assessments of performance at relevant bodies, or to assist bodies such as the Commission for Social Care Inspection and the National Audit Office in carrying out their functions.

### Principles of audit reporting

33 Auditors should maintain regular communications with audited bodies and ensure that emerging findings are discussed at the level within the audited body which auditors consider to be most appropriate and on a timely basis.

\(^1\) For local probation boards the opinion on the financial statements includes the auditor’s opinion on the regularity of expenditure and income.
34 All outputs from the audit should be:
- clear and succinctly expressed;
- relevant to the needs of the audited body;
- explicit when drawing conclusions and making recommendations; and
- issued promptly at the appropriate point in the audit process.

35 Auditors should report to the audited body in such a way as to enable its members or officers to understand:
- the nature and scope of the audit work;
- any significant issues arising from auditors’ work;
- the nature and grounds for any concerns they have; and
- where appropriate, any action that needs to be taken by the audited body to secure improvement.

36 Auditors’ recommendations, arising from their work in relation to audited bodies’ arrangements for securing economy, efficiency and effectiveness in the use of resources, should:
- be specific about what action the audited body should consider taking;
- be useful, practicable and based on an assessment of the benefits to the audited body of implementing them; and
- take account of the costs of implementation and, where these are likely to be significant, report this.

Audit planning documents

37 Audit planning documents should set out how auditors intend to carry out their responsibilities, in the light of their assessment of risks. Auditors should explain their assessment of risks and discuss audit planning documents with those charged with governance. They should include provision for effective follow-up arrangements to review whether the audited body has properly considered any matters that have been identified previously and, where appropriate, has implemented agreed actions. Planning documents should also demonstrate explicitly how planned audit work will relate to those
improvement planning priorities, relevant to the responsibilities of auditors, identified following any relevant assessments of performance by the Commission. Planning documents should be kept under review and updated as necessary.

38 For those audited bodies where the Commission carries out inspections, information derived from auditors’ planning documents may be summarised for inclusion in combined audit and inspection plans prepared by the Commission.

Reports or memoranda on individual aspects of audit work

39 Auditors may report the results of, and matters arising from, specific elements or parts of the audit in reports, memoranda or properly evidenced presentations. Such reports, memoranda or presentations should be prepared and issued or delivered as soon as possible after completion of the work.

Report to those charged with governance

40 Auditors’ reports to those charged with governance should cover the full range of auditors’ responsibilities under statute and the Code. However, these reports do not need to duplicate significant matters previously communicated to those charged with governance, for example through reports, memoranda or presentations on specific pieces of audit work during the course of the year. Auditors should satisfy themselves that these reports are considered at the level within the audited body that they consider to be most appropriate.

The audit report

41 The audit report covers all the responsibilities of the auditor under section 5 of the Act. Therefore, it comprises the auditor’s opinion on the financial statements and, having regard to relevant criteria, the auditor’s conclusion whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. For best value authorities this includes the auditor’s conclusion whether the best value performance plan has been prepared and published in accordance with relevant requirements. The audit report should also include, by exception, any report by the auditor on:
• the statement on internal control;
• any matters that prevent the auditor being satisfied that the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources;
• any matters that prevent the auditor from concluding that the best value performance plan has been prepared and published in accordance with relevant requirements;
• any recommendations relating to the audit of the best value performance plan arising from the auditor’s responsibilities under section 7 of the Local Government Act 1999;
• any recommendations whether the Commission should carry out a best value inspection of the body and whether the Secretary of State should give a direction;
• any matters reported in the public interest in the course of, or at the conclusion of, the audit;
• any recommendations made under section 11(3) of the Act; and
• the exercise of any other special powers of the auditor under the Act.

Auditors’ certificates

42 Auditors are required to certify the completion of each audit. The effect of the certificate is to close the audit and this marks the point when the auditor’s responsibilities in respect of the audit of the period covered by the certificate have been discharged.

43 There will be occasions when audit work in relation to the financial statements is substantially completed but the audit cannot be concluded – for example, because there are outstanding matters to be resolved arising from action or possible action under the Act. Auditors should consider issuing their audit report, including the opinion and the conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, as soon as the necessary audit work has been carried out, subject to any exception or other qualification that the auditor may need to consider.
Annual audit letters

44 The purpose of preparing and issuing annual audit letters is to communicate to the audited body and key external stakeholders, including members of the public, the key issues arising from auditors’ work, which auditors consider should be brought to the attention of the audited body. The annual audit letter should cover the work carried out by auditors since the previous annual audit letter was issued.

45 While the format of the annual audit letter is not prescribed it should highlight the key issues drawn from reports to those charged with governance and auditors’ conclusions on relevant aspects of the audit. It should be prepared in clear language that is concise and accessible to a wide audience.

46 The annual audit letter should be addressed to all the members of the audited body and the auditor should ensure that all members receive a copy. Where the audited body does not arrange for distribution to all members, the auditor should make the necessary arrangements. Although some audited bodies are not subject to a statutory requirement to publish their annual audit letters, auditors should encourage these bodies to publicise the availability of the letters.

47 The auditor should issue the annual audit letter to the audited body as soon as possible after completion of the audit and, other than in exceptional circumstances, no later than a date to be specified by the Commission, following the end of the financial year to which the accounts relate.

48 For those audited bodies where the Commission carries out inspections, auditors should provide information to the Commission on the key issues arising from their audit work, in a specified format, to enable the Commission to prepare and send to the audited body an annual audit and inspection letter. The letter should cover the work carried out by auditors since the previous annual letter was issued.
Reports in the public interest

49 Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public.

50 Auditors should consider whether the public interest requires any such matter to be made the subject of an immediate report rather than of a report to be made at the conclusion of the audit. A report in the public interest should be made where auditors consider a matter is sufficiently important to be brought to the notice of the audited body or the public as a matter of urgency.

51 In preparing and issuing reports in the public interest auditors should tailor their approach to the urgency and significance of their concerns.

Recommendations under section 11(3) of the Act

52 The auditor should consider whether to make any written recommendations to the audited body under section 11(3) of the Act, which need to be considered and responded to publicly. Where the auditor considers it necessary to make such recommendations, these can be included, where relevant, within other written outputs from the audit or they may be the subject of a specific report to the audited body.

Information to be reported to the Commission

53 From time to time auditors may be required to report information to the Commission in a specified format to enable it to carry out its functions.
Principles relating to the exercise of specific powers and duties of local government auditors

This section sets out how auditors fulfil the following statutory functions. References in the table are to the Audit Commission Act 1998.

<table>
<thead>
<tr>
<th>Function</th>
<th>Statute</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. To give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts.</td>
<td>s15 and 16</td>
</tr>
<tr>
<td>2. To apply to the court for a declaration that an item of account is contrary to law.</td>
<td>s17</td>
</tr>
<tr>
<td>3. To consider whether to issue and, if appropriate, to issue an advisory notice or to make an application for judicial review.</td>
<td>s19A, 19B and 19C</td>
</tr>
</tbody>
</table>

54 In addition to the general functions of auditors set out in previous sections of the Code, auditors of local government bodies have specific powers and duties under the Act. In exercising any of these specific powers and duties, including when they are carrying out audits of small local government bodies under Schedule 1, auditors should tailor their approach to the particular circumstances of the matters under consideration.

55 Where any representations are made or information is provided that is relevant to the audit, or matters relevant to the audit otherwise come to their attention, auditors should consider whether the matter needs investigation and action under their specific powers or whether it can be considered more effectively within planned work programmes and audit reporting arrangements under their general audit powers.
In considering whether to exercise any of their specific powers under the Act, auditors should apply a balanced and proportionate approach in determining the time and resources to be spent on dealing with matters that come to their attention. They should consider:

- the significance of the subject matter;
- whether there is wider public interest in the issues raised;
- the costs of dealing with the matter, bearing in mind that these fall directly on the taxpayer; and
- in the case of objections, the rights of both those subject to objection and the objector.

Auditors should reject objections that disclose no reasonable cause for action, are frivolous or vexatious, or are otherwise an abuse of the audit process.
Schedule 1: The audit of small bodies

Introduction

S1.1 It is inappropriate to apply the same level of audit scrutiny to certain bodies as to principal authorities, because of the relatively small amounts of public money controlled by the bodies in question. This Schedule sets out the approach to be adopted for the audit of small bodies with either annual income, or annual expenditure, of up to a financial level determined, after consultation with relevant bodies, from time to time by the Commission (referred to in this Schedule as small bodies).

Governance and accountability

S1.2 It is the responsibility of small bodies to put in place proper arrangements to ensure the proper conduct of their financial affairs, and to monitor the adequacy and effectiveness of those arrangements in practice. Small bodies are required to prepare their accounts in accordance with their statutory responsibilities, and to maintain an adequate system of internal audit of their accounting records and control systems.

S1.3 Small bodies meet their responsibilities by preparing and publishing, and providing the auditor with, the accounts prepared for the financial year, together with such additional information and explanation as is necessary to provide sufficient evidence that they have maintained adequate systems of internal control and internal audit throughout the financial year.

The audit approach

S1.4 Auditors of small bodies should undertake an examination of the annual accounts and additional information and explanation provided by the body.

S1.5 Auditors should meet their responsibility by:

- reviewing compliance with the requirements for the preparation of the annual accounts;
• carrying out a high-level analytical review of financial and other information provided to
  the auditor; and

• reviewing such additional information and explanation as is necessary to provide
  sufficient evidence that the body has maintained an adequate system of internal
  control and internal audit throughout the financial year.

S1.6 Where, on the basis of the auditor’s review, the auditor requires further evidence in relation
  to any relevant matter, additional testing should be undertaken to address the auditor’s
  concerns.

S1.7 When the auditor has completed an examination of the annual accounts and additional
  information and explanation provided, the auditor gives an opinion on the accounts and
  certifies the completion of the audit. Auditors provide assurance in the form of an opinion
  whether, on the basis of their review, the accounts and the other information provided are
  in accordance with the specified requirements and that no matters have come to their
  attention giving cause for concern that relevant legislative and regulatory requirements
  have not been met.
Appendix 1: Glossary

Act (the)

Annual audit letter
Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors’ opinions or conclusions (where appropriate) and significant issues arising from auditors’ work. For bodies where the Commission carries out inspections, the annual audit letter is included within the annual audit and inspection letter, which also contains a summary of inspection work carried out in the period.

Audit
The audit of the accounts of an audited body, which comprises the audit of the financial statements and other work to meet auditors’ other statutory responsibilities under the Audit Commission Act 1998 and the Local Government Act 1999.

Audit committee
A committee established as part of the overall governance arrangements of the audited body. Audit committees are not mandatory for local government bodies, except for police authorities and local probation boards. However, bodies are expected to put in place proper arrangements to allow those charged with governance (see below) to discuss audit matters with both internal and external auditors. In local authorities this is achieved in a variety of ways, for example, through the full council / authority, an audit committee, an overview and scrutiny committee or any other committee.

Audited body
Body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also ‘members’ and ‘those charged with governance’.)
Auditing Practices Board (APB)
The body responsible in the UK for issuing auditing standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards
Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)
Auditors appointed by the Audit Commission.

Best value/best value authorities
Statutory duty under the Local Government Act 1999 of specified local government bodies (best value authorities) to make arrangements to secure continuous improvement in the way in which their functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Best value performance plan
The plan that specified local government bodies are required to publish annually under section 6 of the Local Government Act 1999, summarising the body’s assessments of its performance and position in relation to best value.

Code (the)
The Code of Audit Practice.

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

Ethical standards
Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.
Financial statements
The annual financial statements in the prescribed form, or the books of account for those audited bodies that are not required to produce statements.

Inspectorates
Those organisations that are responsible for carrying out inspections, including bodies with statutory inspection functions such as OFSTED, the Commission for Social Care Inspection, the Benefits Fraud Inspectorate and Her Majesty’s Inspectorate of Constabulary. See also ‘review agencies’.

Internal control
The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Local government bodies
Bodies other than NHS bodies to which the Commission is responsible for appointing auditors, as set out in Schedule 2 of the Act. These include, for the purposes of applying this Code, local authorities, local councils (parish and town councils), police authorities, fire authorities, national park authorities and local probation boards. While some of these bodies, such as local probation boards, operate within their own national policy framework, the model of public audit set out in this Code applies to them.

Materiality (and significance)
The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a mis-statement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’. 
The term ‘materiality’ applies only to the audit of the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to audit the financial statements, which do not necessarily affect their opinion on the financial statements. The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

**Members**
The elected or appointed members of local government bodies who are responsible for the overall direction and control of the audited body. (See also ‘those charged with governance’ and ‘audited body’.)

**National studies by the Commission**
The Audit Commission has a power under section 33 of the Act to carry out ‘value for money’ studies in local government. Work carried out using these powers is referred to as national studies.

**Regularity (of the expenditure and income of local probation boards)**
Whether, subject to the concept of materiality, the expenditure and income of local probation boards have been applied for the purposes intended by Parliament, and whether they conform with the authorities that govern them.

**Review agencies**
Review agencies include inspectorates (see ‘inspectorates’) and others that have regulatory responsibilities in relation to local government bodies, including government departments, the government offices and relevant regulators of local government professions.

**Statement on internal control**
Local government bodies are required to publish a statement on internal control (SIC), in accordance with proper practice, with their annual accounts. Local probation boards are required to prepare a SIC in accordance with the requirements specified by HM Treasury in Government Accounting.
Those charged with governance
Those charged with governance are defined in auditing standards as ‘those persons entrusted with the supervision, control and direction of an entity’. In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit committee (where established), any other committee with delegated responsibility for approval of the financial statements;
- for police or fire authorities – the full authority, audit committee (where established), any other committee with delegated responsibility for approval of the financial statements; and
- for local probation boards – the board, audit committee; and
- for other local government bodies – the full authority/board/council, audit committee (where established), any other committee with delegated responsibility for approval of the financial statements.
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1 Purpose of Report

1.1 This report provides members with a summary of performance information for the year 2008/09 in accordance with the Council’s objective for efficient use of resources.

2 Executive Summary

2.1 The attached appendices contain the key performance indicators for the year ending 31st March 2009. Of these indicators 55 are above target (green), 9 are within 5% of target (amber) and 30 are more than 5% below target (red). Compared to last year’s scores 51 indicators are improved (槄, 22 within 5%槃 and 20 are more than 5% below槄).

2.2 There are currently 18 indicators that have both a red R.A.G. status and have a declining direction of travel.

2.3 The arrangements for reporting performance will change to take account the wishes of the Leadership Team following advice from the Challenge Board and IDeA to allow more detailed scrutiny of performance matters (see para 5.5).

3 Proposed Action:

The Committee is invited to RECOMMEND that:

3.1 The monthly reporting of key performance information to Council is replaced by detailed monthly reporting to Audit & Performance Committee and monthly reporting of selected performance information to policy committees.

4 Background

4.1 Monthly Reports are presented to Committee which represent the Council’s progress towards its priorities.

5 Discussion

5.1 The content of all performance reports are currently under review with the objective of providing a concise format that gives a clear indication of:
(a) The council’s performance in relation to its PRIDE objectives;
(b) The performance of the Council’s services both in relation to their targeted performance and benchmarked to similar councils. This second objective is currently being pursued through the possible formation of a ‘benchmarking club’ with similar councils as there is a lack of current up to date benchmarking data available.

5.2 Appendix A contains the statistical data and comments by service managers. The services with indicators that have both a red R.A.G. status and a declining direction of travel are:
(a) Community Safety 1
(b) Benefits 7
(c) Human Resources 2
(d) Waste Management 1
(e) Environmental Cleansing 4
(f) Neighbourhood Development 2
(g) Democratic Services 1

5.3 The decline in performance for the Benefits Service over seven of its indicators can be attributed to two underlying factors. Firstly, the recession has lead to a sharp increase in the number of applicants for benefits. Extra resources have been made available to deal with this upturn in demand and in the last two months the decline in performance has been reversed. Secondly, the fraud investigation unit had been understaffed for a number of months. The unit is once again up to full strength.

5.4 The decline in the Environmental Cleansing figures is due to a technicality because of new methods of calculation introduced with the National Indicator set.

5.5 New arrangements for reporting performance matters have been requested by the Leadership Team. It is proposed that the monthly reporting of selected performance indicators to full council be replaced with:
(a) A detailed monthly report to Audit and Performance committee of all performance indicators (as per appendix A)
(b) A monthly report of selected performance indicators to each policy committee for those areas relevant to each committee
The above arrangements should allow for a more detailed scrutiny of performance than can be achieved at full council.

5.6 With the increase in size of the Audit and Performance Committee it is felt that this is a more appropriate arena for the scrutiny of performance than at full council allowing for a more detailed investigation and

6 Legal Powers

6.1 Section 111 of The Local Government Act 1972 gives the Council the power to do anything which is calculated to facilitate, or is conductive or incidental to, the discharge of any of its functions.

6.2 Section 2 of The Local Government Act 2000 gives the Council the power (subject to certain exceptions which do not apply here) to do anything which they consider is likely to achieve the promotion or improvement of the economic,
social or environmental well-being of the Borough.

7  Financial and Value For Money Implications

7.1 The efficient use of resources is a fundamental requirement for providing value for money. By closely monitoring the performance of the Council both in terms of the efficiency of its services and progress towards its corporate objectives (along with effective budgetary control) timely and reliable value for money information can be obtained.

8  Risk Analysis

<table>
<thead>
<tr>
<th>Nature of risk</th>
<th>Consequences if realised</th>
<th>Likelihood of occurrence</th>
<th>Control measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance Targets not achieved</td>
<td>Services not delivered in time or to required quality</td>
<td>Medium</td>
<td>Regular scrutiny of performance data by senior officers and members</td>
</tr>
<tr>
<td>Performance Targets not appropriate</td>
<td>Either too little or too many resources are allocated to a service</td>
<td>Low</td>
<td>Regular scrutiny of performance data by senior officers and members</td>
</tr>
</tbody>
</table>

9  Implications for Resources

9.1 The delivery of performance to targeted levels should lead to efficiencies and increase the likelihood of attracting resources from stakeholders

10 Implications for Stronger and Safer Communities

10.1 The delivery of performance to targeted levels should increase the effectiveness of efforts aimed at forging safer and stronger communities.

11 Implications for Equalities

11.1 The delivery of performance to targeted levels should result in better outcomes for all people and communities served by the Council.

12 Author and Contact Officer

Graham Stoppani, Head of Performance

13 Consultees

Chief Executive

14 Background Papers
## Summary

<table>
<thead>
<tr>
<th>Direction Of Travel</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>less than 95% of the previous year’s result</td>
<td>2</td>
</tr>
<tr>
<td>within 5% of the previous year’s result</td>
<td>6</td>
</tr>
<tr>
<td>greater than or equal than the previous year’s result</td>
<td>17</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>R.A.G. Status (red, amber, green traffic lights)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>less than 95% of target</td>
<td>Red 6</td>
</tr>
<tr>
<td>within 5% of target</td>
<td>Amber 5</td>
</tr>
<tr>
<td>greater than or equal to target</td>
<td>Green 15</td>
</tr>
</tbody>
</table>

### Description

**Note:**

H = higher than target is better,
L = lower than target is better

#### DEVELOPMENT CONTROL

**Head of Service: Steven Wood**

Percentage of planning applications determined in line with Government targets:

<table>
<thead>
<tr>
<th>Performance Indicator Reference No.</th>
<th>Total Last Year</th>
<th>Target YTD</th>
<th>This year to March 31st</th>
<th>Dir. of Travel</th>
<th>R.A.G. Status</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) major commercial within 13 weeks</td>
<td>H NI.157a</td>
<td>P 42%</td>
<td>65%</td>
<td>70%</td>
<td>Green</td>
<td>The performance has 'held up well' bearing in mind the workload relative to the growth area. (i.e. especially Stanton Cross and NW Wellingborough planning enquiry) and the general increase in complexity of the planning system (e.g. new general development order [permitted development rights]).</td>
</tr>
<tr>
<td>(ii) minor commercial within 8 weeks</td>
<td>H NI.157b</td>
<td>P 80%</td>
<td>65%</td>
<td>83%</td>
<td>Green</td>
<td></td>
</tr>
<tr>
<td>(iii) all other applications within 8 weeks</td>
<td>H NI.157c</td>
<td>P 92%</td>
<td>80%</td>
<td>90%</td>
<td>Green</td>
<td></td>
</tr>
<tr>
<td>Description</td>
<td>Performance Indicator Reference No.</td>
<td>Total Last Year</td>
<td>Target YTD</td>
<td>This year to March 31st</td>
<td>Dir. of Travel</td>
<td>R.A.G. Status</td>
</tr>
<tr>
<td>-----------------------------------------------------------------------------</td>
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<td>---------------</td>
<td>---------------</td>
</tr>
<tr>
<td><strong>COMMUNITY SAFETY</strong> Head of Service: Carole Stephenson</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Serious Acquisitive Crime (target reduction of 11% by Mar 2011 from 2007/08 baseline)</td>
<td>NI.16</td>
<td>0%</td>
<td>4%</td>
<td>-0.5%</td>
<td></td>
<td>Red</td>
</tr>
<tr>
<td>Violence against the person in Wellingborough Town Centre (target reduction of 3% by Mar 2011 from 2007/08 baseline)</td>
<td>ComPaSS D1</td>
<td>0%</td>
<td>1%</td>
<td>18%</td>
<td></td>
<td>Green</td>
</tr>
<tr>
<td>Assault with injury per 1,000 population (target reduction of 11% by Mar 2011 from 2007/08 baseline)</td>
<td>NI.20</td>
<td>0%</td>
<td>4%</td>
<td>15%</td>
<td></td>
<td>Green</td>
</tr>
<tr>
<td>To reduce the numbers of young people offending and/or becoming the victims of crime (target reduction of 8.9% by Mar 2011 from 2007/08 baseline)</td>
<td>ComPaSS V1</td>
<td>0%</td>
<td>3%</td>
<td>22%</td>
<td></td>
<td>Green</td>
</tr>
<tr>
<td>Description</td>
<td>Performance Indicator Reference No.</td>
<td>P R I D E</td>
<td>Total Last Year</td>
<td>Target YTD</td>
<td>This year to March 31st</td>
<td>Dir. of Travel</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
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<td>-----------------</td>
<td>------------</td>
<td>------------------------</td>
<td>---------------</td>
</tr>
<tr>
<td><strong>HOUSING NEEDS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Households in temporary accommodation</td>
<td>LI.156</td>
<td>I</td>
<td>N/A</td>
<td>119</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average length of stay in B &amp; B accommodation - in weeks</td>
<td>WBV 183a</td>
<td>I</td>
<td>4.07</td>
<td>3.00</td>
<td>2.05</td>
<td></td>
</tr>
<tr>
<td>Number of homelessness applications outstanding</td>
<td>W 139</td>
<td>I</td>
<td>25.83</td>
<td>20</td>
<td>27.00</td>
<td></td>
</tr>
<tr>
<td>Homelessness turnaround times - in days</td>
<td>W 140</td>
<td>D</td>
<td>21.96</td>
<td>33</td>
<td>19.83</td>
<td></td>
</tr>
<tr>
<td><strong>FINANCIAL SERVICES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of invoices paid within 30 days</td>
<td>WBV 8</td>
<td>D</td>
<td>94.09%</td>
<td>98.00%</td>
<td>93.40%</td>
<td></td>
</tr>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of council tax collected</td>
<td>WBV 9</td>
<td>D</td>
<td>98.10%</td>
<td>98.60%</td>
<td>97.58%</td>
<td></td>
</tr>
<tr>
<td>Percentage of NDR collected</td>
<td>BV 10</td>
<td>D</td>
<td>99.83%</td>
<td>99.40%</td>
<td>99.00%</td>
<td></td>
</tr>
<tr>
<td><strong>BENEFITS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Processing new benefit claim from receipt date - days</td>
<td>BV 78a</td>
<td>D</td>
<td>27</td>
<td>24</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Processing completed new benefit claim - days</td>
<td>W 175</td>
<td>D</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Description</td>
<td>Performance Indicator Reference No.</td>
<td>Total Last Year</td>
<td>Target YTD</td>
<td>This year to March 31st</td>
<td>Dir. of Travel</td>
<td>R.A.G. Status</td>
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<td>---------------</td>
</tr>
<tr>
<td><strong>CUSTOMER SERVICES</strong></td>
<td>Head of Service: Bridget Lawrence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of calls answered by Customer Services in 30 seconds</td>
<td>H W 16 D</td>
<td>71.80%</td>
<td>80%</td>
<td>86.54%</td>
<td>Green</td>
<td>This indicator is showing steady improvement and is well above target.</td>
</tr>
<tr>
<td>Percentage of calls answered by Customer Services</td>
<td>H W 17 D</td>
<td>89.4%</td>
<td>95%</td>
<td>93.65%</td>
<td>Amber</td>
<td>At the current rate of improvement this indicator should meet target in the coming months.</td>
</tr>
<tr>
<td>Percentage of calls defined as &quot;avoidable contact&quot;</td>
<td>L NI.14 D</td>
<td>N/A</td>
<td>40%</td>
<td>39%</td>
<td>Green</td>
<td>This is one of the new national indicators used to measure how much contact the public has had with the council that could have been avoided had the council delivered its services in a more efficient and ‘user friendly’ manner.</td>
</tr>
<tr>
<td><strong>HUMAN RESOURCES</strong></td>
<td>Head of Service: Bridget Lawrence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of employees from minority ethnic communities</td>
<td>H BV 17a D</td>
<td>6.29%</td>
<td>9.00%</td>
<td>6.88%</td>
<td>Red</td>
<td>As part of our HR strategy consultations we will be asking members of the BME community if they perceive any barriers to employment with the council.</td>
</tr>
<tr>
<td>Number of working days lost to sickness per employee</td>
<td>L BV 12 D</td>
<td>10.88</td>
<td>8.43</td>
<td>10.58</td>
<td>Red</td>
<td>The first tranche of management sickness management training has been completed. The Council's sickness policy and procedures are currently being re-drafted and further training will take place after this.</td>
</tr>
<tr>
<td>Performance Indicator</td>
<td>Total</td>
<td>Target</td>
<td>This year</td>
<td>Dir. of Travel</td>
<td>R.A.G.</td>
<td>Comments</td>
</tr>
<tr>
<td>-----------------------</td>
<td>-------</td>
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<td>-----------</td>
<td>----------------</td>
<td>--------</td>
<td>----------</td>
</tr>
<tr>
<td><strong>WASTE MANAGEMENT &amp; RECYCLING</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of household waste recycled</td>
<td>H</td>
<td>NL.192</td>
<td>E</td>
<td>20.00%</td>
<td>21.00%</td>
<td>19.52%</td>
</tr>
<tr>
<td>Percentage of household waste composted</td>
<td>H</td>
<td>WBV 82b</td>
<td>E</td>
<td>14.61%</td>
<td>16.00%</td>
<td>16.48%</td>
</tr>
<tr>
<td>Number of missed bins</td>
<td>L</td>
<td>W 21</td>
<td>E</td>
<td>1,866</td>
<td>1,700</td>
<td>1301</td>
</tr>
<tr>
<td>Bulky collection response times - in days</td>
<td>L</td>
<td>W 22</td>
<td>E</td>
<td>11.76</td>
<td>10.00</td>
<td>5.75</td>
</tr>
<tr>
<td><strong>ENVIRONMENTAL CLEANSING</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of fixed penalty notices issued</td>
<td>H</td>
<td>W 23</td>
<td>E</td>
<td>27</td>
<td>80</td>
<td>25</td>
</tr>
<tr>
<td>Amount of litter/fly-tipping collected in tonnes</td>
<td>H</td>
<td>W 18</td>
<td>E</td>
<td>894</td>
<td>850</td>
<td>914</td>
</tr>
</tbody>
</table>
STATEMENT OF ACCOUNTS 2008/09

1 Purpose of Report
1.1 This report seeks member approval of the Statement of Accounts for 2008/09. It contributes to the Council’s objective in respect of the effective use of resources.

2 Executive Summary
2.1 The Council’s Accounts must be approved by members in order to comply with regulations. External audit seek evidence of robust debate on this point so that public confidence in local governance arrangements can be assured.

3 Proposed Action
3.1 The Committee is invited to RESOLVE that the Statement of Accounts for 2008/09 is approved.

4 Background
4.1 The Accounts and Audit Regulations issued by the Secretary of State set out the requirements for the production and publication of the Annual Statement of Accounts. One of the requirements is for the formal approval of the accounts by Members on or before 30th June.

4.2 Members’ role in approval is to demonstrate their ownership of the accounting statements and their confidence in the Head of Financial Services as the “Responsible Financial Officer” required under the Regulations.

4.3 A more detailed report has been submitted to the Resources Committee in respect of the outturn.

5 Discussion
5.1 The Statement of Accounts for 2008/09 is attached and is subject to external audit.

5.2 The audit of the accounts will commence during July by KPMG the Council’s appointed auditors. Members of the public have a right to question the auditor on the accounts and a date for this will be advertised shortly. A report on the outcome of the audit will be submitted to this Committee before the statutory deadline of 30th September.
5.3 The brief explanation of the Statement of Accounts and the purpose of each one are shown in the attached Appendix. The Statements follow recommended practice in terms of style and layout. There have been a number of changes to the recommended practice for 2008/09 in order to bring local authority accounts more in line with generally accepted practice. These are detailed in the Explanatory Foreword.

6 Legal Powers
6.1 Local authorities are required to publish a statement of accounts and comply with proper practice under the Local Government and Housing Act 1989.

7 Financial and value for money implications
7.1 The financial implications are stated in the attached appendix. Value for money is an inherent consideration in all financial matters.

8 Risk analysis

<table>
<thead>
<tr>
<th>Nature of risk</th>
<th>Consequences if realised</th>
<th>Likelihood of occurrence</th>
<th>Control measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>It is a requirement that the statement of accounts is approved.</td>
<td>Breach of duty</td>
<td>Unlikely</td>
<td>External audit and inspection regime.</td>
</tr>
</tbody>
</table>

8.1 Implications for Resources
(a) None directly.

8.2 Implications for Stronger and Safer Communities
(a) None directly.

8.3 Implications for Equalities
(a) None directly.

9 Author and Contact Officer
Rob Wilton, Head of Financial Services

10 Consultees
Corporate Management Team

11 Background Papers
None
<table>
<thead>
<tr>
<th>Item</th>
<th>Pages</th>
<th>Brief Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explanatory Foreword</td>
<td></td>
<td>Sets out changes to the accounts. Summarises comparison of the final outturn with the budget with broad explanations of differences on both revenue and capital accounts.</td>
</tr>
<tr>
<td>Statement of Accounting Policies</td>
<td></td>
<td>Indicates the compliance with the Accounting Code of Practice and policies adopted for the preparation of the accounts.</td>
</tr>
<tr>
<td>Income and Expenditure Account</td>
<td></td>
<td>Shows the net cost of all the functions and how that cost has been financed from central government grants and local taxpayers.</td>
</tr>
<tr>
<td>Statement of Movement on the General Fund Balance</td>
<td></td>
<td>Shows the additional amount by statute required to be charged or credited to the General Fund.</td>
</tr>
<tr>
<td>Statement of Total Recognised Gains and Losses</td>
<td></td>
<td>Summarises all the resources that the authority has generated, set aside or consumed in the year.</td>
</tr>
<tr>
<td>Balance Sheet</td>
<td></td>
<td>Sets out the financial position of the authority at the 31st March.</td>
</tr>
<tr>
<td>Cash Flow Statement</td>
<td></td>
<td>Summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.</td>
</tr>
<tr>
<td>Notes to the Core Statements</td>
<td></td>
<td>Detailed explanatory notes as required by the SORP.</td>
</tr>
<tr>
<td>Housing Revenue Account and Notes</td>
<td></td>
<td>Shows detailed income and expenditure on HRA services included in the whole authority Income and Expenditure Account.</td>
</tr>
<tr>
<td>Collection Fund and Notes</td>
<td></td>
<td>Shows transactions in relation to non domestic rates and council tax and the way these have been distributed to preceptors and the General Fund.</td>
</tr>
<tr>
<td>Statement of Responsibilities</td>
<td></td>
<td>Sets out the responsibilities of the Authority and the Head of Financial Services</td>
</tr>
<tr>
<td>Annual Governance Statement</td>
<td></td>
<td>A replacement for the Statement of Internal Control which explains the governance arrangements in place, how the council has complied with the code of practice and reviews effectiveness.</td>
</tr>
<tr>
<td>Glossary of Financial Terms</td>
<td>Further information to help readers.</td>
<td></td>
</tr>
</tbody>
</table>