

**AUDIT COMMISSION GOVERNANCE LETTER /
DRAFT STATEMENT OF ACCOUNTS**

1 Purpose

- 1.1 To update the Audit Committee on the progress of External Audit work and discuss the Audit Commission Governance Letter.

2 Recommendations/for decision

- 2.1 The Committee is asked to note the contents of the report.

3 Supporting information

- 3.1 The Council is required to receive the External Auditor's Governance letter at a formal committee meeting before the end of September 2007.

4 Options considered

- 4.1 None

5 Reasons for Recommendation

- 5.1 These reports are an integral part of the independent external audit process and require formal reporting and consideration.

6 Resource implications

- 6.1 None

7 Response to Key Aims and Outcomes

- 7.1 The external audit review process underpins the Council's own performance management framework which is designed to ensure optimum delivery of the key aims and outcomes.

Annual Governance Report

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Annual Governance Report

Aylesbury Vale District Council

Audit 2006/07

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Author Alan Witty

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

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Contents

Purpose of this document	4
Key messages	5
Audit status	6
Accounts and Statement on Internal Control	7
Unadjusted misstatements	7
Adjustments to the financial statements	7
Accounting practices	7
Systems of internal control	8
Use of resources	9
Work performed	9
Data quality work	9
Best value performance plan	9
Audit fee update	10
Appendix 1 – Action plan	11
Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity	13
Appendix 3 – Audit reports issued	14
Appendix 4 – Proposed independent auditor’s report to the Members of Aylesbury Vale District Council	15
Opinion on the financial statements	15
Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources	17
Appendix 5 – Management representation letter	19
Appendix 6 – Summary of unadjusted misstatements	21
Appendix 7 – Summary of adjusted misstatements	22
Appendix 8 – Value for money conclusion	23

Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance in this case the Audit Committee.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged With Governance', by reporting to you matters relating to the audit of the financial statements. Other auditing standards require us to communicate with you in other specific circumstances including:
 - where we suspect or detect fraud;
 - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
 - non-compliance with legislative or regulatory requirements and related authorities.
- 3 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 2.
- 4 This report has been prepared for presentation to the audit committee on 18 September 2007. Members are invited to:
 - consider the matters raised in the report before the financial statements are approved;
 - approve the representation letter on behalf of the Authority and those charged with governance before we issue our opinion; and
 - consider amending the financial statements for unadjusted misstatements, significant qualitative aspects of financial reporting and any recommendations for improvement in the action plan.
- 5 Our work during the year was performed in line with the plan that we presented to you in March 2006. We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 3.

Key messages

- 6 Our work on the financial statements is currently in progress and we are on target to complete our work in time to meet the accounts deadline of 28 September 2007. Should any further matters come to our attention following the Audit Committee that we need to report to those charged with governance we will discuss them with the Head of Finance and the Chair of the Audit Committee.
- 7 Currently we are proposing to issue an unqualified audit opinion on 28 September 2007 (a draft is attached at Appendix 4).
- 8 In our view, the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.
- 9 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. Currently we are proposing to issue an unqualified conclusion on the use of resources on 28 September 2007 (a draft is attached at Appendix 4).
- 10 Recommendations to improve the final accounts process are set out in Appendix 1.

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Audit status

- 11 Our work on the financial statements is currently in progress and we are on target to complete our work in time to meet the accounts deadline of 28 September 2007. Should any further matters come to our attention following the Audit Committee that we need to report to those charged with governance we will discuss them with the Head of Finance and the Chair of the Audit Committee.
- 12 The Council has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for the Council's assistance and co-operation.

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Accounts and Statement on Internal Control

- 13 Our work on the financial statements is currently in progress and we are on target to complete our work in time to meet the accounts deadline of 28 September 2007. Should any further matters come to our attention following the Audit Committee that we need to report to those charged with governance we will discuss them with the Head of Finance and the Chair of the Audit Committee.
- 14 Auditors are required to obtain written confirmation of certain representations from management and those charged with governance before an audit report is issued, such as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 15 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 16 The final draft of the letter of representation has been attached as Appendix 5.

Unadjusted misstatements

- 17 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. At the moment there are no unadjusted misstatements for us to bring to the attention of members. Should any such misstatements arise then we will include them in Appendix 6.

Adjustments to the financial statements

- 18 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them to be relevant to your wider governance responsibilities. If any such amendments are made these will be recorded in Appendix 7.

Accounting practices

- 19 We are also required to report to you our view on the qualitative aspects of the Authority's accounting practices and financial reporting and have set out below our observations on key issues affecting the Council.

- 20 During 2003/04 the Council took responsibility for administrating the Special Parking Area in Aylesbury and Buckingham on behalf of Buckinghamshire County Council. The agreement is for 5 years with the yearly surplus or deficit being carried forward until the end of the scheme. At 31 March 2007 the scheme was reporting a cumulative deficit of £851,000. The agreement is that the Council will meet the first £310,000 of the deficit and Buckinghamshire County Council will meet the rest.
- 21 The indications are that the scheme will generate a further deficit in 2007/08. Currently the Council have not raised a debtor in their accounts for any amount relating to this transaction. We would recommend that a debtor is created for the amount due from Buckinghamshire County Council and that the disclosure note relating to this item is amended to include the cumulative position.
- 22 To meet the timetable for closing down the accounts the Council closed some parts of their financial systems prior to the year end. However some elements continued to operate normally. This meant that on 31 March 2007 some payments that had been made prior to this date were not recorded in the accounts of the Council as being paid. The Council have had to create a number of journals to ensure that the accounts reflect the underlying position. One effect has been to inflate both creditors and debtors in the accounts. We would recommend that in future close down procedures are applied consistently across all financial systems.
- 23 This is the first year of revised accounting procedures that have required major changes in the way financial information is presented in the accounts of the Council. We have identified opportunities to improve presentation and make them easier to follow. We would recommend that the notes to the main financial statements are brought together and numbered consecutively and cross reference to the appropriate line in the main statements. This should make the accounts easier to follow and enable some duplication of notes to be removed.

Systems of internal control

- 24 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified.
- 25 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.
- 26 We have not identified any material weaknesses in the systems of accounting and financial control that we wish to report to you.
- 27 We are also reviewing whether the SIC has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit. To date there are no matters arising which we wish to bring to Members attention.

Use of resources

Work performed

- 28 The Code requires us to reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources - the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. Our work to support our conclusion included the following elements:
- data quality work; and
 - the best value performance plan.
- 29 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 8.

Data quality work

- 30 Our data quality review is currently in progress and we will report our findings to relevant officers. To date no significant issues have been identified

Best value performance plan

- 31 Our work in respect of the Authority's 2006/07 Best Value Performance Plan (BVPP) was reported in the 2006 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

Audit fee update

- 32 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the outturn fee against that plan.

Table 1

	Plan 2006/07	Actual 2006/07
Accounts and Statement on Internal Control	84,961	84,961
Use of Resources	36,076	36,076
Total Audit Fees	121,037	121,037
Grants certification work	30,000	work in progress
Other work	Nil	Nil

- 33 The analysis above shows that our audit fee has been contained within the totals you have already agreed.

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Appendix 1 – Action plan

Page Recommendation	Priority	Responsibility	Agreed Comments	Anticipated Implementation Date
	1 = Low 2 = Medium 3 = High			
That a debtor is created for the amount due from Buckinghamshire County Council relating to the Special Parking Area and that the disclosure note relating to this item is amended to include the cumulative position.	High			
That in future close down procedures are applied consistently across all financial systems in the Council to ensure that timing differences do not impact adversely on close down.	High			
That the notes to the main financial statements are brought together and	High			

12 Annual Governance Report | Appendix 1 – Action plan

Page Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed Comments	Anticipated Implementation Date
<p>numbered consecutively and cross reference to the appropriate line in the main statements.</p>				

Appendix 2 – The Audit Commission's requirements in respect of independence and objectivity

- 1 We are required to communicate the following matters to those charged with governance:
 - the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
 - any safeguards adopted and the reasons why they are considered to be effective;
 - any independent partner review;
 - the overall assessment of threats and safeguards; and
 - information about the general policies and processes for maintaining objectivity and independence.
- 2 We are not aware of any relationships that may affect the independence and objectivity of the audit team and which are required to be disclosed under auditing and ethical standards.

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Appendix 3 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit plan	February 2006	March 2006	Audit Panel
Annual governance report	September 2007	September 2007	Audit Committee
Opinion on financial statements	September 2007	September 2007	Head of Finance
Use of resources conclusion	September 2007	September 2007	Chief Executive
Final accounts and interim memorandum	October 2007		Head of Finance
BVPP report	December 2007		Chief Executive
Data quality report	November 2007		Head of Corporate Policy and Performance
Annual audit letter	March 2007		Members

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Appendix 4 – Proposed Independent auditor's report to the Members of Aylesbury Vale District Council

Opinion on the financial statements

I have audited the financial statements of Aylesbury Vale District Council for the year ended 2007 under the Audit Commission Act 1998, which comprise the Explanatory Foreword, Income and Expenditure Account, Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Aylesbury Vale District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

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

I report to you my opinion as to whether the financial statements presents fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

I review whether the statement on internal control reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit regulations 2003' published in April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the content of the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended.

Mick West

Address Unit 5, Isis Business Centre, Horspath Road, Oxford OX4 2RD

Date September 2007

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

Authority's Responsibilities

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

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

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

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Aylesbury Vale District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.

Certificate

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

Mick West

Address Unit 5, Isis Business Centre, Horspath Road, Oxford OX4 2RD

Date September 2007

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Appendix 5 – Management representation letter

Mick West

District Auditor and Relationship Manager

Audit Commission

Unit 5

Isis Business Centre

Horspath Road

Oxford OX4 2RD

September 2007

Dear Sirs

Aylesbury Vale District Council – Financial statements for year ended 31 March 2007

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other officials of the Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2007.

There have been no significant transactions with related parties, other than those disclosed in the notes to the accounts and we are not aware of any other such matters required to be disclosed in the financial statements whether under Financial Reporting Standard 8 or other requirements.

We are not aware of any actual or possible instances of non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.

All minutes of Council, Committee and Sub Committee meetings during and since the financial year have been made available to you.

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records.

Aylesbury Vale District Council

There have been no events since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto. Should further material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.

We are not aware of any fraudulent acts or other irregularities involving management or employees which could have a material effect on the financial statements.

All known material liabilities have been properly included in the financial statements and all material contingent liabilities have been disclosed.

There are no material events or change in circumstances that indicate a reduction in the value of the Authority's fixed assets as defined in the Code of Practice on Local Authority Accounting.

There is not significant pending litigation, proceedings or claims other than those disclosed in the statement of accounts.

For and on behalf of Aylesbury Vale District Council

Peter Watson
Head of Finance

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Chairman of Audit Committee

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Appendix 6 – Summary of unadjusted misstatements

1 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. The items below are brought to your attention to enable you to consider whether the financial statements should be amended for them. If you choose not to amend the financial statements in respect of these items, you should extend the representation letter to explain why.

To be completed as necessary

Unadjusted misstatements Description of Misstatement	Nature of Adjustment	Income and Expenditure Account		Balance Sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Dr					
Cr					
Net Effect					

Appendix 7 – Summary of adjusted misstatements

1 The following misstatements were identified during the course of our audit and the financial statements have been adjusted by management. We bring them to your attention to assist you in fulfilling your governance responsibilities.

To be completed as necessary		Income and Expenditure Account	Balance Sheet
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s
Description of Misstatement		Dr £000s	Cr £000s
Dr			
Cr			
Net Effect			

Appendix 8 – Value for money conclusion

- 1 The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources.

Code Criteria	Description	Proposed VFM Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control.	Adequate
6	The body has put in place arrangements to manage its significant business risks.	Adequate
7	The body has put in place arrangements to manage and improve value for money.	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	Adequate
10	The body has put in place arrangements for managing performance against budgets.	Adequate

Code Criteria	Description	Proposed VFM Conclusion
11	The body has put in place arrangements for the management of its asset base.	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	Adequate

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