

Annual Governance Report

Aylesbury Vale District Council

Audit 2007/08

November 2008

DRAFT

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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.

Summary

Purpose of this report

- 1 This is the third and final governance report which updates the reports taken to the Audit Committee on 16 September 2008 and 5 November 2008. It summarises the findings from our 2007/08 audit and identifies the key issues for your consideration.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

Financial statements

- 3 We issued an unqualified opinion on the financial statements on 10 November 2008. All issues raised in the previous governance reports were satisfactorily resolved. The number and scale of the issues identified during our audit underpins why the opinion was issued after the original deadline for local government audits of 30 September 2008.
- 4 The overall effect of the cumulative errors identified is best summarised in the impact on the four key financial statements where there were material changes to each:
 - income and expenditure account: the net operating expenditure for the year changed by £4.36million from a £4.33million deficit to a surplus of £33,000;
 - balance sheet: the Council's net assets disclosed changed by £8.7million from £205.85million to £214.56million;
 - cashflow statement - a cashflow statement that reconciled to the cash/bank figure in the accounts was not available until the beginning of October and a version that met our audit requirements was not available until the end of October;
 - statement of total recognised gains and losses; this changed by £4.36million - from a £6.66million to a £11.03million gain - as a result of the changes to the income and expenditure account.
- 5 The main areas which led to the delayed opinion and the material changes in the key financial statements were around:
 - the identification and classification of the Council's fixed assets;
 - the correct accounting treatment and disclosure of the capital transactions and financing to account for the changes in the asset base during 2007/08 and, in certain cases, previous years.
- 6 In addition there were a number of issues around the cashflow statement and the difficulty in demonstrating the reconciliation of this statement to the income and expenditure account. These issues, referred to in the revised annual governance report to the November 2008 Audit Committee, were subsequently resolved.
- 7 There were numerous other errors and omissions in the financial statements that are detailed in this report.

Value for Money

- 8** We issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources on 10 November 2008.

Formal audit powers

- 9** We did not issue a report in the public interest under section 8 of the Audit Commission Act 1998.

Next steps

- 10** We asked the Audit Committee to:

- consider the matters raised in the report before approving the financial statements/recommend the financial statements for approval;
- agree to adjust the financial statements as set out in our recommendations;
- approve the representation letter on behalf of the Council before we issue our opinion, conclusion and certificate; and
- agree the proposed action plan.

- 11** The Audit Committee has complied with the first three of these stages. Given the number of issues raised, and to allow officers to provide a response to these, we will bring the completed action plan to the next Audit Committee.

- 12** The Council is already preparing for the implications of the implementation of the International Financial Reporting Standards (IFRS). These will involve both a change in the disclosure of certain aspects of the Council's activities - and of its assets - in the financial statements and represent a significant accounting exercise that will require appropriate resources to ensure a successful implementation.

- 13** In the light of the findings from this year's opinion audit, we would urge Committee members to ensure the Council has taken the necessary steps to ensure it is well-placed to implement the change to IFRS successfully.

Financial statements and Annual Governance Statement

- 14** The Council's financial statements and Annual Governance Statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before adopting the financial statements and the Annual Governance Statement.
- 15** This report is presented in a number of sections and covers the specific areas of professional and auditing standards by which we are required to report to you. These are:
- in planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas;
 - auditing standards also require us to report to you on the following:
 - the draft representation letter which we are asking management and you to sign;
 - our views about the Council's accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to our report;
 - weaknesses in internal control; and
 - certain other matters.
- 16** Many of the issues identified cover more than one of these areas; a significant error in the financial statements could also indicate issues around accounting practices and financial reporting. Therefore, the recommendations made in this report cover generic issues rather than specific points arising; this also means there are fewer recommendations for management to respond to (although many are consequently wider in scope).

Key areas of judgement and audit risk

17 In planning our audit we identified key areas of judgement and audit risk that we considered as part of our audit. Our findings on these are set out in Table 1.

Table 1 Key areas of judgement and audit risk

| Issue or risk | Action required/taken |
|---|---|
| There were delays in signing the 2006/07 financial statements due to complications in the application of accounting standards (Statement of Recognised Practice - SoRP), production of the Statement of Total Recognised Gains and Losses (STRGL) and the adoption of the accounts. | Draft financial statements were submitted in accordance with the timetable and no issues arising to date around the application of accounting standards and the STRGL. Note, however, the issues referred to later in this report surrounding fixed asset and capital accounting arising from our opinion audit, in part due to issues over application of accounting standards. |
| Bring income into line with expenditure as planned. | Medium term financial plan in place. |
| Waterside and theatre developments represent significant capital developments | Project management plans in place for both developments. |
| Reduce central costs as a result of the housing transfer | Plans in place to achieve cost reductions. |

Recommendation

R1 Ensure expenditure is brought into line with income, particularly given the impact of the change in wider economic conditions on the Council's sources of income.

R2 Ensure there is active monitoring of both individual schemes and effective project management of the overall capital programme.

Representation letter

18 Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:

- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
- you have approved the financial statements;
- you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;

Financial statements and Annual Governance Statement

- you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
- you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
- you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
- you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
- you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures;
- you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
- you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
- cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.

19 Appendix 2 contains the letter of representation we sought from you. The specific representations required from the Council are at the end of the letter. These were in response to specific requirements of this year's audit work, and to provide added assurance to us:

- The Council has carried out an assessment of whether it is required to make a provision for equal pay claims in 2007/08 and has determined that none is required;
- In addition to the general representations listed under 'Irregularities' in this letter, there are no frauds of which we are aware that have not been brought to your attention;
- The Council considered and obtained best consideration in the disposal of the Tring Road Cemetery to Aylesbury Town Council;
- all unappropriated capital contributions are for general schemes/purposes and not specific schemes;
- the VAHT VAT debtor is a capital receipt.

20 These specific representations were included in the final letter of representation signed by the Head of Finance and the Chair of the Audit Committee.

Accounting policies and financial reporting

21 We consider the qualitative aspects of your financial reporting. Table 2 contains the issues we want to raise with you. As mentioned earlier in this report, the implications of some of these have been errors and omissions in the financial statements that have required subsequent amendment.

Table 2 Accounting practice and financial reporting

| Issue or risk | Action required |
|---|--|
| <p>Fixed assets</p> <p>The following issues were identified around the Council's accounting treatment of fixed assets:</p> <ul style="list-style-type: none"> the Council's asset register system is not set up in accordance with SORP guidance (pp 602 & 603) which states that the asset register should record individual assets with the following headings: gross cost, accumulated depreciation, accumulated impairment and NBV for both historic cost and current value; where the fixed asset comprises two or more major components with substantially different useful economic lives, each component should be accounted for separately for depreciation purposes and depreciated over its individual useful life. The authority has not followed this requirement as per the SORP; the Council has not maintained accumulated depreciation and impairment on an individual asset basis; the Council did not use the correct useful economic life in calculating depreciation. It valued some of its assets at 1 March 2008 and has not complied with SORP (para C.74 'the date of valuation is the first day of the accounting year in which the revaluation takes place. However the balance sheet should reflect the asset held at the end of that accounting year. Valuation can therefore be prepared through the accounting year. The valuation can be adjusted retrospectively | <p>Ensure the Council has an asset register and accounting package that meets the requirements of the SoRP for disclosure of fixed assets and will meet the requirements for disclosure of information under IFRS.</p> |

| Issue or risk | Action required |
|---|---|
| <p>for changes through the year but cannot be projected forward'). The value of the asset as per the valuer's report has been reflected as being the closing value at 31/3/08. (However, impact was very small - depreciation understated by £2,000);</p> <ul style="list-style-type: none"> the Council must ensure all capitalised expenditure is supported by adequate documentation. | |
| <p>Capitalisation of assets Our review of the capital system identified that:</p> <ul style="list-style-type: none"> although assets purchased through capital expenditure codes are identified and included in the fixed asset register, there is no evidence to ensure assets with a value in excess of the de minimis level purchased through revenue are identified and capitalised if appropriate; the Council does not capitalise IT assets, and there is evidence that there are assets which have been purchased in previous years through both revenue and capital which have not been identified for inclusion in the fixed asset register (e.g. playground surfacing, and equipment such as CCTV, car parking machines); the Council does not account in the fixed asset register for depreciation on the "buildings" element of surface car parks which consists of the surfacing and furniture (e.g. bollards). These would be expected to have a determinable and finite useful life and so should be in the register; for the revaluation of Gatehouse Road, the District Valuer was not instructed to carry out any impairment review on valuation carried out during the year. | <p>Review revenue expenditure (including but not exclusively Repairs & Maintenance) over the de minimis limit to identify capital items, and reclassify these as appropriate;</p> <p>Review the IT asset register and other records of assets and determine whether items are appropriate to be recognised in the fixed asset register. Where a decision is taken to include a category of asset, this should be appropriately disclosed in the fixed asset register;</p> <p>Determine the useful lives of the Buildings elements of its surface car parks and reflect the current values and depreciation in the Fixed Asset Register;</p> <p>Carry out an impairment review as part of the valuation.</p> |
| <p>Reserves The Council needs to make clear the risk that is being covered by the following reserves:</p> | <p>Ensure the reasons for holding specific reserves are clearly disclosed.</p> |

| Issue or risk | Action required |
|--|--|
| <ul style="list-style-type: none"> • the balance of £2,297,000 on the Benefit Subsidy Reserve; • how the Council has determined the balance of £4,932,000 on the Interest Equalisation Reserve is the appropriate level to maintain to meet the risks for which it was set up; • the Industrial Rent Loss Reserve was identified as including £750,000 to fund the Council's Property Strategy. For clarity, the reserve title and associated narrative disclosure should clearly describe the purpose of the fund. Alternatively, the Reserve should be split into two parts and disclosed separately; • the Council was unable to substantiate how the balance of £5million on the Property Sinking Fund reserve is appropriate to meet the risks which it was set up to meet. | |
| <p>Capital commitments</p> <p>There are potentially committed projects not included in the notes to the financial statements. As reported in 2006/07, there is still no central contract register. Finance staff only know a scheme is contractually committed and a contract signed on receipt of the first instalment for payment.</p> <p>The note in the financial statements was not up to date on future capital commitments. The note should be updated to more accurately show the capital commitments position at present. A similar issue was also raised in the 2006/07 audit memorandum.</p> | <p>Implement a system to ensure the date contracts are signed is communicated to the Accounts team to ensure all capital commitments are accurately recorded in the accounts.</p> <p>Ensure all relevant capital commitments are included in the note to the accounts.</p> |
| <p>Treatment of income</p> <p>Although the Council was able to provide a cashflow statement that reconciled to the bank/cash figure in the statements, it changed its treatment of Council Tax (CT) and NNDR income. In 2007/08 it has been netted off with the refunds being taken off the actual collected amount. However, in last year's account this figure was gross with the refunds not being netted - in fact this</p> | <p>Ensure correct treatment of income in future as part of the process of ensuring the cashflow statement agrees to the bank/cash figure disclosed in the accounts.</p> |

Financial statements and Annual Governance Statement

| Issue or risk | Action required |
|---|--|
| <p>inclusion of the gross figure was only shown in the corrected version. Originally, as this year the cash flow statement showed the net figures for CT & NNDR income.</p> | |
| <p>Car parking income reconciliation Income on APTOS was £25,000 higher than that as per the Car Parking Daily Banking Reconciliation spreadsheet maintained by Property Services. Further investigation revealed that 5 days' income collected in March 2008 did not appear in APTOS until April. Therefore, income on APTOS was overstated.</p> | <p>Ensure there is a correct reconciliation of the full year's car parking income at the financial year end.</p> |
| <p>Debtor and creditor impairment The Council has not reviewed debtors and creditors for impairment as per SoRP requirements (review debtor and creditor balances against the seven-step approach to identification of fair value).</p> | <p>Comply with the SoRP on reviewing debtors and creditors for impairment. Ensure the full requirements of the SoRP are met.</p> |
| <p>Investment income Our review of the investment income system identified the following improvements:</p> <ul style="list-style-type: none"> • ensure a regular periodic reconciliation and an annual reconciliation between LOGOTECH (the investment system) and APTOS (the ledger system) for both capital and interest; • ensure Prudential Capital Controls set for 2008/09 are met on maximum lending to any one institution in the light of the wider economic position; • review the overall investment strategy given current wider economic conditions. | <p>Implement improvements to the investment income system.</p> |

Recommendation

R3 For fixed assets:

- ensure the Council has an asset register and accounting package that meets the requirements of the Statement of Recognised Practice (SoRP) for disclosure of fixed assets and will meet the requirements for disclosure of information under IFRS;
- review revenue expenditure (including but not exclusively Repairs & Maintenance) over the de minimis limit in 2007/08 to identify capital items purchased through revenue, and reclassify them as appropriate;
- review the register of IT assets and other records of assets and consider whether items are appropriate to be recognised in the Fixed Asset Register. Where a decision is taken not to include a category of asset, this should be appropriately disclosed in the Fixed Asset Register;
- determine the useful lives of the Buildings elements of its surface car parks and reflect the current values and depreciation in the Fixed Asset Register.

R4 For reserves:

- ensure the reasons for holding specific reserves are clearly disclosed.

R5 For capital commitments:

- implement a system to ensure the date contracts are signed is communicated to the Accounts team to ensure all capital commitments are accurately recorded in the accounts;
- ensure all relevant capital commitments are included in the note to the accounts.

R6 Ensure correct treatment of income in future as part of the process of ensuring the cashflow statement agrees to the bank/cash figure disclosed in the accounts.

R7 Comply with the SoRP on reviewing debtors and creditors for impairment.

R8 Ensure the full requirements of the SoRP are met.

R9 Implement improvements to the investment income system.



Errors in the financial statements

22 We identified a large number of material errors in the financial statements. A material error was one where the figure changed by £>1.7million. The overall effect of the cumulative errors identified between the draft (version 1) and final (version 7) of the accounts is best summarised in the impact on the key financial statements:

- income and expenditure account: the net operating expenditure for the year changed by £4.36million leading to a £4.33million deficit becoming a surplus of £33,000;
- balance sheet: the net assets disclosed changed by £8.7million from £205.85million to £214.56million;
- cashflow statement - a cashflow statement that reconciled to the cash/bank figure in the accounts was not available until the third version of the accounts at the beginning of October and a version that met our requirements for audit was not available until the end of October;
- statement of total recognised gains and losses; this changed by £4.36million from a £6.66million to a £11.03million gain.

23 In addition, changes were required to 16 of the 41 notes to the accounts.

24 We did not identify any errors (other than those of a trivial nature) that management declined to correct. The errors are disclosed in Table 3, identifying those that are material and significant.

Table 3 Errors in the financial statements

| Issue or risk | Action taken |
|---|-------------------------|
| <p>Fixed assets - material errors</p> <ul style="list-style-type: none"> • assets under Construction (AUC) were not correctly stated: £4,343,000 relating to 2006/07 was not disclosed in the 2006/07 balance sheet and initially excluded from the 2007/08 balance sheet and note 16. Therefore AUC was understated by £4,343,000. This was a material difference; • £5,377,000 in the balance sheet was not disclosed in the relevant note (note 16) to the accounts. | <p>Accounts amended</p> |
| <p>Capital accounting - material errors</p> <ul style="list-style-type: none"> • capital receipts in the balance sheet omitted the Walton Street 'land swap' capital receipt of £3.6million. It was netted off against fixed assets instead of creation of a debtor balance of £3.6million. In addition, the net book value (NBV) of the asset was written out as a loss rather than NBV less proceeds received of £176,000. | <p>Accounts amended</p> |

| Issue or risk | Action taken |
|---|--|
| <ul style="list-style-type: none"> housing capital receipts of £4.6million from VAHA were incorrectly treated as a surplus on disposal. These should have been treated as 'unattached' receipts (as per ACOP Practitioner's Guide p.117). | |
| <p>Capital grants, capital financing and accounting</p> <ul style="list-style-type: none"> the Council is entitled to 50% of the VAT reclaimed by VAHT in respect of Repairs and Maintenance carried out on the housing stock formerly owned by the Council. This money is paid over to AVDC on a monthly basis by VAHT, but the Council were unable to supply working papers to demonstrate that the £1.4million received in 2007/08 was the amount due; due to a lack of supporting documentation we were unable to confirm the accuracy of capital grants of £2.8million of the £4.5million of total capital grants unapplied; the Council was unable to supply the remittance advices in respect of grants totalling £1,467,000 received from DCLG for the Circus Fields development. note 18 - the capital expenditure and funding statement was initially incorrectly produced on a cash basis and the revised note did not agree to Note 16 - fixed assets (resolved on version 4 of the financial statements). Also a number of schemes were missed from capital grants and advances (grants should be £3,409,000 rather than £3,161,000 and reduce fixed asset purchases by £248,000). | <p>Account amended</p> <p>Ensure an adequate audit trail and supporting documentation to support significant financial transactions.</p> <p>Accounts amended</p> |
| <p>Cashflow statement and reconciliation of the statement to the income and expenditure account</p> <p>This was only reconciled in October. Although this was subsequently reconciled, the original difference in the draft financial statements between the two was a material error.</p> | <p>Accounts amended</p> <p>Ensure cashflow statement that reconciles to the cash/bank figure is available as part of the draft set of financial statements.</p> |
| <p>Accounting policies - omissions and amendments required</p> <p>We identified the following:</p> <ul style="list-style-type: none"> accounting policies for intangible assets and earmarked reserves needed additional explanatory text; no accounting policy for financial instruments - amendments were also subsequently required to the analysis in Note 19; omission of note on intangible fixed assets in the | <p>Accounts amended</p> |

Financial statements and Annual Governance Statement

| Issue or risk | Action taken |
|--|---|
| <p>balance sheet. However, the value of these was not significant;</p> <ul style="list-style-type: none"> • amendment of Note 29 on the movement of reserves to ensure the analysis of reserves was consistent with prior year figures and other notes in the financial statements; • note 2 on the Special Parking Area required updating for the cumulative deficit for the 5-year period; • disclosure required of the vehicle leases in the operating leases note to include 29 vehicles (valued at £2.5million) being leased; • disclosure of the lessor and lessee values from among the Council's assets; • additional text required in the Financial Summary in the Explanatory Foreword to explain the movements on both the General Fund and capital. | |
| <p>Debtors and creditors - errors and issues arising</p> <p>Differences between the 2006/07 audited accounts and the opening balances in the 2007/08 accounts identified for prepayments and other creditors meant total debtors and creditors differences of £606,000;</p> <p>The Council is entitled to receive 50% of VAT reclaimed by VAHT in respect of Repairs and Maintenance carried out on the housing stock formerly owned by the Council. Evidence received 22/10/08 which revealed that the £1.4million was the amount received during 0207/08; February and March VAT due of £640,000 was omitted. An estimate of the amount due was not made and accounted for in the draft accounts;</p> <p>As there is no systemic approach to the raising of accruals for creditors, this could be enhanced by retaining a monthly folder or spreadsheet to assist in ensuring that all necessary and relevant creditor accruals are raised each month and at the year end.</p> | <p>Accounts amended</p> <p>Ensure there is correct disclosure of estimates in the financial statements that cover the entirety of the financial year.</p> <p>Ensure there is a process to capture all relevant creditor accruals.</p> |

Recommendation

R10 Ensure correct disclosure of significant capital financing transactions in the financial statements in accordance with ACOP and other relevant accounting standards, particularly in relation to fixed assets and capital accounting.

R11 Ensure reconciliation of the cashflow statement to the other supporting statements and to the cash/bank figure.

| |
|---|
| R12 Ensure there are processes in place to identify and disclose all relevant accounting policies |
| R13 Ensure an adequate audit trail and supporting documentation to support significant financial transactions |
| R14 Ensure there is correct disclosure of estimates in the financial statements that cover the entirety of the financial year. |
| R15 Ensure there is a process to capture all relevant creditor accruals. |

The audit report

25 We issued an unqualified audit opinion on the financial statements on 10 November 2008. Appendix 1 contains a copy of our report.

Material weaknesses in internal control

- 26** We did identify any weakness in the design or operation of an internal control that resulted in a material error in your financial statements of which you are not aware (note that the issues of omission of assets under construction and capital accounting are dealt with under the previous section on errors in the financial statements).
- 27** We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which came to our attention because of the audit procedures we performed. Our significant findings are in Table 4.

Table 4 Issues over internal control

| Issue or risk | Action required/taken |
|--|---|
| <p>Commercial rents</p> <p>Our sample testing of commercial rents, rents are not reviewed when the lease comes to its end and the original rent will continue to be charged unless someone in Legal looks at the particular file - there is no mechanism in place to ensure that rents are reviewed when the lease comes to an end.</p> | <p>Ensure the Council carries out regular rent reviews to maximise income available.</p> |
| <p>Analysis of the bad debt provision for the Council identified the following:</p> <ul style="list-style-type: none"> outstanding debt for council tax dates back to 1995. Aged amounts should be reviewed and written off to cleanse the data being held. current arrangements for receipt of large Housing Benefit overpayments are unlikely to regain the full amount. | <p>Consider</p> <ul style="list-style-type: none"> writing off all Council Tax debtors greater than 3 years (unless specific reason to maintain based on likelihood of collection); writing off 90% of HB overpayment on identification of error unless clear evidence that likelihood of collection is higher. |

Recommendation

R16 Carry out regular rent reviews to maximise income available.

R17 Consider

- writing off all Council Tax debtors greater than 3 years (unless specific reason to maintain based on likelihood of collection);
- writing off 90% of HB overpayment on identification of error unless clear evidence that likelihood of collection is higher.

Other matters

- 28** Under ISA (UK&I) 250 Considering laws and regulations in an audit of financial statements, we are awaiting confirmation of the current position surrounding the special car parking areas arrangements that currently exist between the County and District Councils in Buckinghamshire.
- 29** During 2003/04 the Council took responsibility for administering 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. We queried the legal nature of the current arrangements between the County Council and District Councils surrounding establishing joint committees (the view of AVDC officers is that establishment of such a committee was not necessary) and whether the Council could bring forward a deficit on this account into future years (rather than write the amount off at the year end to the General Fund).
- 30** This issue was subsequently resolved; although we did not accept the treatment of the reserve we exercised discretion in not challenging the failure to charge the deficit to the General Fund and the understatement of debtors by £312,000. Therefore, no further action or disclosure was required.
- 31** Under ISA (UK&I) 550 Related parties, we reviewed the arrangements for disclosure of related party transactions. Unlike arrangements at other councils, senior management are not included and if a return is not made then a nil return is assumed. Also, the register of interests reviewed had not been updated for changes since June 2007.
- 32** Due to the delay in issuing an opinion on the financial statements, under ISA (UK&I) 560 Subsequent events, an additional disclosure was made around the Council's exposure to debts with Icelandic banks: 'The Council held £3million of deposits with Icelandic banks at 31 March 2008. These deposits were paid back to the Council after the 31 March 2008. During the current financial year the Council placed another £3million of deposits with Icelandic banks. These banks have collapsed and there is a risk that the Council will not recover all or some of the money on deposit.'
- 33** The Audit Commission will be identifying issues arising from the investment by public bodies in Icelandic banks and will report on these findings in early 2009. In the interim, the Council needs to consider its approach to investment as a result of the recent turbulence in the financial markets.
- 34** Table 5 lists the other issues that we wish to bring to your attention.

Table 5 Other issues

| Issue or risk | Action required/taken |
|---|---|
| <p>The current annual governance statement reads well. Areas to improve further centre on the disclosure of outcomes to demonstrate effectiveness:</p> <ul style="list-style-type: none"> • inclusion of explicit reference to the findings of the Head of Internal Audit Opinion and what this states in terms of the effectiveness of governance arrangements; • more reference to outcomes that demonstrate effectiveness. | <p>Ensure wider feedback on good practice in this area is used to ensure further improvements to the annual governance statement in future years.</p> |
| <p>A memorandum of undertaking has been agreed with Chiltern District Council, although the actual payroll contract not yet signed as at the time of the audit.</p> | <p>Ensure the payroll contract with Chiltern District Council is signed.</p> |

| Recommendation |
|---|
| <p>R18 Include senior officers of the Council in future circularisations for related party transactions and</p> <ul style="list-style-type: none"> • require nil returns to be submitted; • introduce a robust chasing procedure for any forms not returned; • update the register of members interests at each year end. |
| <p>R19 Ensure wider feedback on good practice on the production and content of the annual governance statement is used to ensure further improvements in future years.</p> |
| <p>R20 Review the Council's approach to investment in the light of the investments in Icelandic banks in particular and the recent turbulence in the financial markets.</p> |
| <p>R21 Ensure the payroll contract with Chiltern District Council is signed.</p> |

Value for money

- 35** We are required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against the twelve criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 36** We assessed the arrangements of the Council as adequate in all twelve areas and we therefore issued an unqualified conclusion on 10 November 2008. Our findings are shown in Table 6. This assessment took into account the recent turbulence on the financial markets and the Council's investments in Icelandic banks.
- 37** We have not identified any significant weaknesses in arrangements for securing value for money. We will report in detail on our findings later this year.

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Table 6 Value for money conclusion: criteria assessments

We issued a 'yes' response to each of the twelve criteria.

| VFM criteria | Basis of judgement | Met in 2006/07? | Met in 2007/08? |
|--|----------------------------------|------------------------|------------------------|
| 1. Arrangements for setting, reviewing and implementing strategic and operational objectives | Separate VFM conclusion question | Yes | Yes |
| 2. Communication with service users and other stakeholders including partners. | Separate VFM conclusion question | Yes | Yes |
| 3. Arrangements for monitoring and scrutiny of performance. | Separate VFM conclusion question | Yes | Yes |
| 4. Arrangements to monitor the quality of published performance information. | Data Quality Audit | Yes | Yes |
| 5. Arrangements to maintain a sound system of internal control. | Use of Resources (4.2) | Yes | Yes |
| 6. Arrangements to manage significant business risks. | Use of Resources (4.1) | Yes | Yes |
| 7. Arrangements to manage and improve value for money. | Use of Resources (5.2) | Yes | Yes |
| 8. Medium-term financial strategy, budgets and a capital programme are soundly based and designed to deliver strategic priorities. | Use of Resources (2.1) | Yes | Yes |
| 9. Arrangements to ensure that spending matches available resources. | Use of Resources (3.1) | Yes | Yes |
| 10. Arrangements for managing performance against budgets. | Use of Resources (2.2) | Yes | Yes |
| 11. Arrangements for the management of the asset base. | Use of Resources (2.3) | Yes | Yes |
| 12. Arrangements to promote and ensure probity and propriety in the conduct of business. | Use of Resources (4.3) | Yes | Yes |

Formal audit powers

38 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Council's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Council to meet and consider the notice before:
 - making a decision that might give rise to unlawful expenditure; or
 - taking an unlawful course of action that would give rise to a loss; or
 - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Council.

39 We did not and do not propose to exercise these powers.

DRAFT

Independence

- 40** The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 41** We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 42** We communicate to you:
- any relationships between us and the Council, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
 - total fees charged to you for audit and non-audit services; and
 - our arrangements to ensure independence and objectivity.

Relationships with the Council

- 43** We have identified no relationships that might affect objectivity and independence.

Audit fees

- 44** We reported our fee proposals as part of the Audit Plan for 2007/08. Table 7 reports the outturn fee against that plan.

Table 7 Audit fees

| | Plan 2007/08 (£) | Actual 2007/08 (£) |
|--|-----------------------------|-------------------------------|
| Financial statements and Annual Governance Statement | 81,839 | 81,839 |
| Use of resources | 28,269 | 28,269 |
| National Fraud Initiative | 625 | 625 |
| Total Audit Fees | 110,733 | 110,733 |
| Net inspection and direction of travel fee | 6,490 | 6,490 |
| Total Audit and Inspection Fees | 117,223 | 117,223 |

- 45** The issues arising from the opinion audit documented in this report, and the subsequent delay in issuing the opinion, have meant that we have not contained our audit fee within the totals you have already agreed. The additional work we have undertaken will result in an additional fee and we will bring details of this to the next Audit Committee.

Independence

46 Under the Audit Commission's advice and assistance power it may provide non-audit services to the Council. We have not provided any such services to the Council.

Our arrangements to ensure independence and objectivity

47 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 8.

Table 8 Arrangements to ensure independence and objectivity

| Area | Arrangements |
|-----------------------|---|
| Independence policies | <p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none">• do not hold a financial interest in any of our audit clients;• may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and• may not enter into business relationships with UK audit clients or their affiliates. <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none">• the general requirement to carry out work independently and objectively;• safeguarding against potential conflicts of interest;• acceptance of additional (non-audit) work;• rotation of key staff;• other links with audited bodies;• secondments;• membership of audited bodies;• employment by audited bodies;• political activity; and• gifts and hospitality. |
| Code of Conduct | <p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p> |
| Confidentiality | <p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p> |

Appendix 1: auditor's report

Independent auditor's report to the Members of Aylesbury Vale District Council

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Aylesbury Vale District Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, the Authority Housing Revenue Account, the Authority Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of 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 Head of Finance and auditor

The Head of Finance's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

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 Authority accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE 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 governance statement covers all risks and controls. Neither am I 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 Authority accounting statements and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies

Independence

with the Authority accounting 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 Authority accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority accounting statements and related notes, 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 Authority accounting statements and related notes 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 Authority accounting statements and related notes.

Opinion

In my opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

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

Authority's Responsibilities

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

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/other local government bodies). 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.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for [principal local authorities/other local government bodies] specified 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 2008.

Best Value Performance Plan

I have issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 on 7 December 2007. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

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.

Mick West

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

Date 10 November 2008

Appendix 2 – management representation letter

5 November 2008

Mr M West
District Auditor
Audit Commission
Unit 5
ISIS Business Centre
Horspath Road
OXFORD OX4 2RD

Dear Mr West

Aylesbury Vale District Council – audit for the year ending 31 March 2008

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Aylesbury Vale District Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2008.

I acknowledge my responsibilities under the relevant statutory authorities to prepare the Council's accounts in accordance with proper practices as defined in relevant legislation or guidance.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Supporting records

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. All other records and related information, including minutes of all Council meetings, have been made available to you.

Related party transactions

I confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Contingent liabilities

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

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The body has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Assets

The following have been properly recorded and when appropriate adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by the members of the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete stock and no stock is stated at an amount in excess of net realisable value.

Independence

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in the financial statements we have no other lines of credit arrangements.

Specific representations:

In response to specific representations requested from the Council:

- The Council has carried out an assessment of whether it is required to make a provision for equal pay claims in 2007-08 and has determined that none is required;
- In addition to the general representations listed under 'Irregularities' in this letter, there are no frauds of which we are aware that have not been brought to your attention;
- The Council considered and obtained best consideration in the disposal of the Tring Road Cemetery to Aylesbury Town Council;
- all unappropriated capital contributions are for general schemes/purposes and not specific schemes;
- the VAHT VAT debtor is a capital receipt.

Signed on behalf of Aylesbury Vale District Council

Head of Finance

Chair of Audit Committee

Appendix 3 – Action Plan

This action plan will be agreed with officers and brought to the next Audit Committee.

| Page no. | Recommendation | Priority 1 = Low 2 = Med 3 = High | Responsibility | Agreed | Comments | Date |
|----------|---|--|----------------|--------|----------|------|
| | Annual governance report inc opinion audit memorandum | | | | | |
| 6 | R1 Ensure expenditure is brought into line with income, particularly given the impact of the change in wider economic conditions on the Council's sources of income. | 3 | | | | |
| 6 | R2 Ensure there is active monitoring of both individual schemes and effective project management of the overall capital programme. | 3 | | | | |
| 12 | R3 For fixed assets: <ul style="list-style-type: none"> ensure the Council has an asset register and accounting package that meets the requirements of the Statement of Recognised Practice (SoRP) for disclosure of fixed assets and will meet the requirements for disclosure of information under IFRS; review revenue expenditure (including but not exclusively Repairs & Maintenance) over the de minimis limit in 2007/08 to identify capital items purchased through revenue, and reclassify them as appropriate; | 3 | | | | |

Independence

| Page no. | Recommendation | Priority 1 = Low 2 = Med 3 = High | Responsibility | Agreed | Comments | Date |
|----------|---|--|----------------|--------|----------|------|
| | <ul style="list-style-type: none"> review the register of IT assets and other records of assets and consider whether items are appropriate to be recognised in the Fixed Asset Register. Where a decision is taken not to include a category of asset, this should be appropriately disclosed in the Fixed Asset Register; determine the useful lives of the Buildings elements of its surface car parks and reflect the current values and depreciation in the Fixed Asset Register. | | | | | |
| 12 | R4 For reserves: <ul style="list-style-type: none"> ensure the reasons for holding specific reserves are clearly disclosed. | 3 | | | | |
| 12 | R5 For capital commitments: <ul style="list-style-type: none"> implement a system to ensure the date contracts are signed is communicated to the Accounts team to ensure all capital commitments are accurately recorded in the accounts; ensure all relevant capital commitments are included in the note to the accounts. | 2 | | | | |
| 12 | R6 Ensure correct treatment of income in future as part of the process of ensuring the cashflow statement agrees to the bank/cash figure disclosed in the accounts. | 3 | | | | |
| 12 | R7 Comply with the SoRP on reviewing debtors and creditors for impairment. | 3 | | | | |

| Page no. | Recommendation | Priority 1 = Low 2 = Med 3 = High | Responsibility | Agreed | Comments | Date |
|----------|---|--|----------------|--------|----------|------|
| 12 | R8 Ensure the full requirements of the SoRP are met. | 3 | | | | |
| 12 | R9 Implement improvements to the investment income system. | 2 | | | | |
| 15 | R10 Ensure correct disclosure of significant capital financing transactions in the financial statements in accordance with ACOP and other relevant accounting standards, particularly in relation to fixed assets and capital accounting. | 3 | | | | |
| 15 | R11 Ensure reconciliation of the cashflow statement to the other supporting statements and to the cash/bank figure. | 3 | | | | |
| 16 | R12 Ensure there are processes in place to identify and disclose all relevant accounting policies | 3 | | | | |
| 16 | R13 Ensure an adequate audit trail and supporting documentation to support significant financial transactions | 3 | | | | |
| 16 | R14 Ensure there is correct disclosure of estimates in the financial statements that cover the entirety of the financial year. | 3 | | | | |
| 16 | R15 Ensure there is a process to capture all relevant creditor accruals. | 2 | | | | |
| 17 | R16 Carry out regular rent reviews to maximise income available. | 3 | | | | |
| 17 | R17 Consider <ul style="list-style-type: none"> writing off all Council Tax debtors greater than 3 years (unless specific reason to | 2 | | | | |

Independence

| Page no. | Recommendation | Priority 1 = Low 2 = Med 3 = High | Responsibility | Agreed | Comments | Date |
|----------|--|--|----------------|--------|----------|------|
| | <p>maintain based on likelihood of collection);</p> <ul style="list-style-type: none"> writing off 90% of HB overpayment on identification of error unless clear evidence that likelihood of collection is higher. | | | | | |
| 18 | <p>R18 Include senior officers of the Council in future circularisations for related party transactions and</p> <ul style="list-style-type: none"> require nil returns to be submitted; introduce a robust chasing procedure for any forms not returned; update the register of members interests at each year end. | 3 | | | | |
| 18 | <p>R19 Ensure wider feedback on good practice on the production and content of the annual governance statement is used to ensure further improvements in future years.</p> | 2 | | | | |
| 18 | <p>R20 Review the Council's approach to investment in the light of the investments in Icelandic banks in particular and the recent turbulence in the financial markets.</p> | 3 | | | | |
| 18 | <p>R21 Ensure the payroll contract with Chiltern District Council is signed.</p> | 2 | | | | |