

## **EXTERNAL AUDIT – ANNUAL AUDIT AND INSPECTION LETTER**

### **1 Purpose**

- 1.1 The Council's external auditors have issued their Annual Audit and Inspection Letter which provides an overall summary of the Audit Commission's assessment of the Council. The report draws on audit and inspection work carried out during the financial year 2008/09 on the Council's records relating to 2007/08.

### **2 Recommendations/for decision**

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| 2.1 The Committee is asked to note the contents of the External Auditors' Management Letter. |
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### **3 Supporting information**

- 3.1 The External Audit Annual Audit and Inspection Letter is attached at Appendix A.
- 3.2 This Committee's terms of reference include dealing with external and internal audit issues. This report allows formal recognition of our external auditors report by a committee of the Council.
- 3.3 The External Auditor's Annual Audit and Inspection Letter will be placed on the Council's website.

### **4 Reasons for Recommendation**

- 4.1 The reports are an integral part of the external independent audit process and requires formal reporting for consideration.

### **5 Resource implications**

- 5.1 None

### **6 Response to Key Aims and Objectives**

- 6.1 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 objectives.

Contact Officer  
Background Documents

Val Hinkins Audit Manager  
Final Accounts papers, External Audit reports Minutes of Audit Committee meetings 2007/08 & 2008/09.

# Annual Audit and Inspection Letter

Aylesbury Vale District Council

Audit 2007/08

February 2009

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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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# Key messages

- 1 The main messages this year are similar to, and build on, those in last year's letter.
  - The Council is engaged in a large and complex capital programme that includes construction of the new theatre, the town centre redevelopment and rationalisation of its current office accommodation. The Council needs to manage both individual projects and the overall programme to ensure these projects meet its strategic objectives as well as the needs and expectations of the public.
  - The economic recession is placing financial pressures on the Council due to a significant reduction in many of its income streams (such as investment income interest, right to buy receipts from its former housing stock and planning fees). This is combined with a traditional pattern for the Council of spending exceeding income. Within this increasingly difficult economic climate it is particularly important that the Council ensures future expenditure can be supported by sufficient income and so ensure annual spending is brought into line with available annual resources and so achieve longer-term financial balance. The Council also needs to ensure the purposes for holding reserves are clearly defined.
  - The Council continues to develop the pathfinder arrangements with other Buckinghamshire councils to develop more efficient and effective ways of working together. It remains important that the Council maintains clear plans and milestones for ensuring it gets the benefits from its membership of this partnership.
  - Significant accounting changes and implications will affect the Council with the imminent implementation of international financial reporting standards (IFRS). Given the issues from this year's opinion audit, the Council needs to take the necessary steps to ensure it is well-placed to implement the change to IFRS successfully.

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## Action needed by the Council

- 2 Members need to focus on the same key issues identified in our 2006/07 letter.
  - Monitor the Council's large and complex capital programme, including the town centre development, and be willing to take corrective action where this is required.
  - Monitor construction of the Council's new theatre and the wider capital programme to ensure it is completed on time and to cost.
  - Achieve the financial savings needed to reach sustainable financial balance, particularly given the wider economic difficulties.
  - Ensure the pathfinder project is properly evaluated and focused on delivering clear outcomes and benefits for the Council.
  - Strengthen arrangements for financial reporting and ensure the Council takes the necessary steps to implement the change to international financial reporting standards successfully.

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# Purpose, responsibilities and scope

- 3 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2007/08 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 4 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 5 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). (In addition the Council is planning to publish it on its website).
- 6 As your appointed auditor I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I review and report on:
  - the Council's accounts;
  - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
  - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 7 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report, and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 8 We have listed the reports issued to the Council relating to 2007/08 audit and inspection work at the end of this letter.

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# How is the Council performing?

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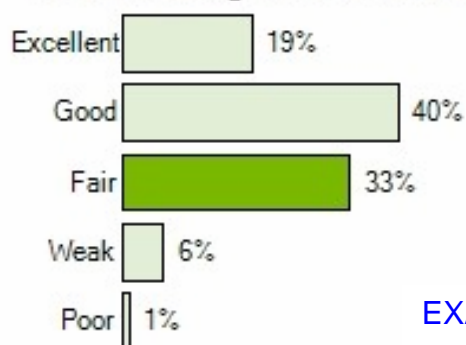
## How is Aylesbury Vale District Council performing?

9 Aylesbury Vale District Council was assessed as 'Good' in the Comprehensive Performance Assessment carried out in 2004. These assessments have been completed in all district councils and we are now updating these assessments, through an updated corporate assessment, in councils where there is evidence of change. The following chart is the latest position across all district councils.

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**Figure 1 Overall performance of district councils in CPA**

Performance against other councils



EXAMPLE ONLY

Source: Audit Commission

Please note the correct graph will be inserted when this letter is finalised.

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## The improvement since last year - our Direction of Travel report

- 10 On the basis of the Audit Commission's basket of performance indicators (PIs), Aylesbury Vale District Council improved its performance in 2007/08 but not as much as most district councils and its rate of improvement has slowed slightly. It improved 55 per cent of the PIs in the basket compared to average improvement of 57 to 59 per cent. This is marginally worse than 2006/07 when it improved 57 per cent, which was average for district councils. Overall the Council's PI performance is not outstanding. Thirty three per cent of its PIs are in the best quarter of district councils and this is average for district councils.
- 11 These figures include weaker as well as stronger improvement. For example since last year the Council's has achieved well below average improvement in its PIs for:
- regulation (mainly planning);
  - sustainable communities and transport; and
  - environment (waste, recycling and cleanliness).

- 12 Therefore, the proportion of top performing PIs in these services is well below average. However, improvement in PIs for housing and corporate health is well above average and the proportion of top performing PIs in these services is well above average.
- 13 In 2007/08 the Council was working to its Strategic Medium Term Work Plan (SMTWP). This identified:
- the Council's three key aims: local communities; the local economy; and the local environment;
  - thirteen priority targets and milestones for what it aimed to achieve each year to achieve its aims; and
  - five aspirations for the way the council works.
- 14 In 2007/08 the Council and its partners met some but not all of its priority targets. For example:
- at the end of 2007/08 crime levels were 20 per cent lower than 2003-04 and 12 per cent lower than 2006-07 - better than the target of reducing overall crime by 15% by 2008 from a baseline in 2003-04;
  - the Council has reduced energy consumption at Aqua Vale and the Swan Pool;
  - progress by March 2008 towards the Council's targets of completing the new theatre by December 2009 and shopping centre by end of 2010 included:
    - the foundations for the theatre were nearing completion and the main contract for the theatre was due to be let in summer 2008;
    - public consultation on the retail site was completed during summer 2007 and the revised retail design was agreed in April 2008;
    - the Exchange Street offices were demolished in September 2007;
  - a council survey of overall satisfaction with the council showed that satisfaction had increased from 69 per cent in 2004 to 72 per cent;
  - the Council's recycling and composting rate in 2007/08 was 21.5 per cent, above the 20 per cent target but still well below average;
  - the Council's housing association partners provided 219 new affordable homes and this was on target to exceed the planned 750 new affordable homes by 2009;
  - the total number of housing completions in 2007/08 was 822; lower than the Council's prediction of the 938 needed to achieve Local Plan and growth targets to complete 2,940 new homes by 2009.
  - the Council set a balanced budget for 2008/09.
- 15 Robust and up-to-date improvement plans are essential for continuing and strengthening improvement. The Council has developed its SMTWP into a corporate plan for 2008-11 to reflect recent achievements and changing circumstances. The corporate plan sets out a mission - to make Aylesbury Vale the best possible place to live and work. It also sets out four key aims to help deliver its mission. The aims are:
- thriving communities - enabling communities across the Vale to be vibrant, safe, diverse and inclusive;

## How is the Council performing?

- quality growth and regeneration - delivering the housing and economic growth of the district;
  - a great environment - protecting and enhancing the local environment and promoting the sustainable use of resources; and
  - a council to be proud of delivering valued services excellently for all of our customers.
- 16 The corporate plan also sets out objectives, actions and targets to achieve these aims and service plans detail what each service will do to deliver the Council's targets. The Council is using the corporate plan to manage its improvement in 2008/09 and beyond.
- 17 At the end of 2008 the Council was on track to achieve its corporate plan vision. Three of the four aims were on target and progress on the fourth (a council to be proud of) was within the Council's level of tolerance of being on track.
- 18 The Council is on track to meet most but not all its corporate plan targets. Sixty two per cent of the 34 corporate plan targets were on target at the end of 2008 and a further 35 per cent were within 10 per cent of the target and so within the Council's levels of tolerance. Also 65 per cent of the Council's 31 mission critical indicators were on target and a further 13 per cent were within the Council's tolerance. However ten per cent tolerance is too wide and almost two in five corporate plan targets and over a third of the mission critical indicators were not on target.
- 19 Progress towards wider community outcomes has also been mixed. For example:
- overall crime is around average for similar areas. Serious acquisitive crime is below average, serious violence is slightly below average, racially or religiously motivated offences are average and less serious violence is just above average for similar areas;
  - road injuries and deaths are higher than the England average;
  - people in Aylesbury Vale are generally healthier than average. Life expectancy in men is higher than average and deaths from all causes and early deaths from heart disease and stroke are lower and have decreased. Early deaths from cancer have not decreased much;
  - people in Aylesbury have healthier lifestyles than average but 1 in 6 adults binge drinks and 1 in 5 is obese. The death rate from smoking is lower than the England average but smoking still accounts for over 200 deaths a year;
  - the area has health inequalities by location, sex and deprivation. Men from the most deprived areas can expect to live 3 years less than those in the least deprived areas;
  - overall deprivation is low but nearly 3,800 children live in low income households.
- 20 In July 2007 the government agreed the councils in Buckinghamshire should form a pathfinder to improve two tier working and achieve efficiencies and better services across the county. The pathfinder has not yet delivered its improvements but work is underway. For example the five councils will decide soon if they will proceed to procuring the Shared Support Services project. Over the next few years the pathfinder should improve support services customer interface, demand-led transport and waste.



- 21 The Council provides adequate value for money (VfM). It has improved VfM and has produced and delivered a plan to achieve efficiency gains of over 7.5 per cent in three-years.
- 22 The Council has a track record of making savings. It has to reduce base spending every year to maintain service levels in the face of inflation pressures. However it still relies heavily on revenue balances to balance its General Fund budgets. It used £118,000 (12%) more of its balances in 2007/08 than the £986,000 it anticipated in its MTFP. This was not an overspend but a smaller than expected underspend.
- 23 The Council has a balanced budget for 2008/09 and plans to limit council tax increases to 4 per cent a year up to 2014. These plans identify a need for major reductions in the Council's base spending. It has initiatives underway to seek out savings and increase income. Action to ensure delivery will be a continual process from now on across the whole council.
- 24 The Council has updated its business transformation programme to help make savings and improve services. This includes:
- a lean working initiative that has started in high transaction areas that are not part of the pathfinder, such as revenues, car parking administration and planning;
  - improving the internet and intranet and using document management technology;
  - improving staff skills, motivation and performance rewards; and
  - simplifying customer access to all Council services.
- 25 The main threat to the Council's ability to continue to deliver its plans is the economic downturn and the associated downturn in the housing market. This has already resulted in a shortfall in housing delivery. Even though the number of sites with planning permission and under construction remains high, the reduction in house building has increased the risk that the Council will not meet its affordable housing targets and that developers will not deliver enough housing to meet growth targets.
- 26 The downturn in the housing market is also likely to reduce the Council's ability to deliver capital projects in future. New capital resources depend largely on sales of former council houses and land sales for new housing development and the Council now expects few sales in the next few years. However existing capital commitments are covered by money that is already in the bank and do not depend on new receipts. Nevertheless the Council will have fewer resources for capital projects to support its improvement plans. For example it already plans to reduce its future capital support for Housing.

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### Service inspections

- 27 There were no service inspections at the Council during 2007/08.

# The audit of the accounts and value for money

**28** As your appointed auditor we have reported separately to the Audit Committee, as the committee responsible for governance, on the issues arising from our 2007/08 audit. On 10 November 2008, we issued:

- an unqualified opinion on your accounts; and
- an unqualified conclusion on your value for money arrangements assessing that your arrangements were adequate.

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## Opinion audit

**29** We issued an unqualified opinion on your accounts on 10 November 2008, after the deadline of 30 September 2008. This was due to a number of issues and errors identified during our audit that required significant revisions to the statements. The overall effect of these changes on the four key financial statements were:

- income and expenditure account: the net operating expenditure for the year changed by £4.36 million from a £4.33 million deficit to a surplus of £33,000 (in line with accounting requirements this change is also reflected in the statement of total recognised gains and losses, but has no material impact on the amount of balances that the Council has available to it);
- balance sheet: the Council's net assets disclosed increased by £8.7 million from £205.85 million to £214.56 million;
- cashflow statement - a cashflow statement that reconciled to the cash/bank figure in the accounts and the other financial statements was agreed at the end of October; and
- statement of total recognised gains and losses; this changed by £4.36 million - from a £6.66 million to a £11.03 million gain - as a result of the changes to the income and expenditure account (in line with accounting requirements this change is also reflected in the income and expenditure statement, but has no material impact on the amount of balances that the Council has available to it).

**30** 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 capital financing to account for the changes in the asset base during 2007/08 and, in certain cases, previous years; and
- agreement of the cash flow statement and supporting notes.

- 31 We referred in last year's letter to the need for the Council to prepare for the implementation of the International Financial Reporting Standards (IFRS) which will come into force in 2010/11. This will require a restatement of the published 2009/10 statements. IFRS will involve significant changes in the disclosure of certain aspects of the Council's activities - and of its assets - in the financial statements. Evidence from implementation in other sectors and countries is that this represents a significant accounting exercise that will require effective project management and appropriate resources to ensure a successful implementation.
- 32 In the light of the findings from this year's opinion audit, we urge the Council needs to take the necessary steps to ensure it is well-placed and adequately-resourced to implement the change to IFRS successfully.

### Use of resources

- 33 The findings of the auditor are an important component of the CPA framework described above. In particular the use of resources score is derived from the assessments made by the auditor in the following areas.
- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
  - Financial management (including how the financial management is integrated with strategy to support council priorities).
  - Financial standing (including the strength of the Council's financial position).
  - Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
  - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 34 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

**Table 1**

Element	2007/08 Assessment	2006/07 Assessment
Financial reporting	1 out of 4	1 out of 4
Financial management	3 out of 4	3 out of 4
Financial standing	3 out of 4	3 out of 4
Internal control	3 out of 4	3 out of 4
Value for money	2 out of 4	2 out of 4
<b>Overall assessment of the Audit Commission</b>	<b>2 out of 4</b>	<b>2 out of 4</b>

Note: 1 = lowest, 4 = highest

## The audit of the accounts and value for money

### The key issues arising from the audit

- 35 The criteria we use to assess the performance of the Council become tougher each year. Therefore, the Council has performed well in maintaining the same scores as those in 2006/07 against a tougher set of criteria.
- 36 The reasons for the lowest assessment for financial reporting for the second year were due to the issues arising from the opinion audit. The Council has a large and complex capital programme and this contributed to the number of material amendments required to bring the accounts into line with accounting standards and guidelines. We have discussed in detail the processes surrounding the opinion audit with Finance staff and will work closely with them during 2008/09 to ensure that the closedown and opinion audit processes run more smoothly.
- 37 Our review of data quality looked at the arrangements for producing the accurate and timely performance information needed to manage the Council's activities. We concluded that these were performing well with the Council's overall management arrangements for ensuring data quality consistently above minimum requirements. We were also required to look at two benefit indicators: our findings indicated that there was a misinterpretation in the calculation of one although this had no effect on those claiming benefits and was easily corrected.
- 38 We were also required to carry out our triennial review of the Council's internal audit function. Our review identified that the service is compliant with the relevant standards and we were therefore able to place reliance on their work as part of our audit. There were some minor recommendations discussed with the Head of Internal Audit.
- 39 There were no issues arising from the work carried out during the year in following up the findings from the 2006/07 National Fraud Initiative exercise.
- 40 There were no issues arising from our audit of the Whole of Government Accounts (WGA) consolidation pack and our audit and certification of grant claims during the year.

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### Advice and Assistance work

- 41 The Audit Commission can carry out work for the Council - known as Advice and Assistance work - outside the scope of the work needed to deliver our Code of Practice audit. No such work was carried out in 2007/08.

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# Looking ahead

- 42 The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 43 CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 44 The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.

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# Closing remarks

- 45 This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at the Audit Committee on 16 March 2009. Copies need to be provided to all Council members.
- 46 Further detailed findings, conclusions and recommendations on the areas covered by our audit work are included in the reports issued to the Council during the year.

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**Table 2     Reports issued**

Report	Date of issue
Audit and inspection plan	April 2007
Interim audit memorandum (this was incorporated into the Annual Governance Report)	December 2008
Annual Governance Report (three versions of this report were provided to the Audit Committee during the opinion audit)	December 2008
Opinion on financial statements	10 November 2008
Value for money conclusion	10 November 2008
Final accounts memorandum (this was incorporated into the Annual Governance Report)	December 2008
Review of Data Quality	December 2008
Annual audit and inspection letter	March 2009

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- 47 The Council has taken a positive and constructive approach to our audit work and I wish to thank the Council's staff for their support and cooperation during the audit.

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## Availability of this letter

- 48 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the Council's website.

**Robert Hathaway**  
**Comprehensive Area Assessment Lead**

March 2009