

**AUDIT COMMISSION ANNUAL
GOVERNANCE REPORT FOR 2008-09**

Corporate Director (Resources)

1 Purpose

- 1.1 To provide the opportunity for the Audit Committee to discuss the Audit Commission Report to those charged with Governance.

2 Recommendation

- | |
|--|
| 2.1 The Committee is asked to note the contents of the Report. |
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3 Supporting information

- 3.1 The Council is required to receive the External Auditor's Report to those charged with Governance at a formal Committee meeting before the end of September 2009.

4 Options considered

- 4.1 None

5 Reasons for Recommendation

- 5.1 This report is an integral part of the independent external audit process and requires formal reporting and consideration by a Committee of the Council.

6 Resource implications

- 6.1 None

7 Response to Key Aims and Objectives

- 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 in the Corporate Plan.

Contact Officer
Background Documents

Val Hinkins 01296 585343
Audit Committee papers

Annual Governance Report

Aylesbury Vale District Council

Audit 2008/09

September 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.
-

Ladies and Gentlemen

2008/09 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Head of Finance on 1 September 2009 and has been updated since as issues have been resolved.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 4 to 8);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Mick West
District Auditor
September 2009

Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

| Financial Statements | Results | Page |
|--|----------------|-------------|
| Unqualified audit opinion | Yes | 6-8 |
| Financial statements free from error | Yes | 6-8 |
| Adequate internal control environment | Yes | 6-8 |
| Use of resources | Results | Page |
| Use of resources judgements | Yes | 9-10 |
| Arrangements to secure value for money | Yes | 9-10 |

Audit opinion

- 1 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Financial statements

- 2 The arrangements for the management and monitoring of the opinion audit this year have been much improved and this has enabled us both to maintain much better control over the process.

Use of resources

- 3 I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

Audit Fees

- 4 We will discuss the overall fee for the audit with the Head of Finance once the audit is complete. At this stage we do not expect to increase the audit fee.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

5 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 4 to 8);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- take note of the value for money conclusion and Use of Resources score;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 5).

Financial statements

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 these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 6 The arrangements for the management and monitoring of the opinion audit this year have been much improved and this has enabled both of us to maintain much better control over the process.
- 7 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
- 8 The following issue was identified during the course of the audit. While not an error, it is a potentially material query where we are currently awaiting a response from the Council and third parties:
 - for a small number of individual assets two valuations were carried out during 2008/09; a desktop impairment review in March 2009 and a physical inspection by the Valuation Office in February 2009. There are material variations between these valuations. We have asked for an explanation from the valuer that carried out the March 2009 exercise; as they require further supporting information for the detailed valuation we are currently awaiting an explanation for the differences.
- 9 We are also seeking to ensure there is consistency in the accounting treatment and disclosure of the Chiltern crematorium in the financial statements of the relevant district councils which might lead to changes to the wording and disclosure to ensure consistency. We will bring an update on this position to the Audit Committee.

Errors in the financial statements

- 10 We identified the following errors which have no overall impact on the overall financial position of the Council:
 - a debtor and creditor of £129,000 for the same benefit claim should have been netted off against each other. Both debtors and creditors are therefore overstated;
 - the fixed assets figures in the notes to the accounts could not be agreed to the asset register. Specifically, there was a difference of £985,000 between Revaluation (Land & Buildings) with the asset register showing £12,777,000 and the accounts £11,792,000, and depreciation charge for 2008/09 in the asset register of £2,176,000 against £2,249,000 in the accounts.
- 11 These errors have no impact on the overall financial position of the Council.

Financial statements

Recommendation

R1 Ensure errors identified from the audit are corrected in the updated version of the financial statements.

Material weaknesses in internal control

12 There were no material weaknesses in internal control identified during the course of our audit.

Letter of representation

13 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from you.

Key areas of judgement and audit risk

14 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

| Issue or risk | Finding |
|--|---|
| Delays in issuing an opinion on the 2007/08 financial statements. | Close working with Finance staff during the 2008/09 closedown process has minimised the risk of another late opinion. |
| The Council has a large and complex capital programme. | A specific review of the overall capital programme has concluded that the overall arrangements are robust. |
| The Finance department has faced shortfalls in its establishment during 2008/09 that could affect the ability to produce the financial statements. | Close working with Finance staff during the 2008/09 closedown process has minimised the risk of another late opinion. |

Accounting practice and financial reporting

15 I consider the qualitative aspects of your financial reporting. There were a number of minor presentational improvements and changes made during the course of the audit. Table 2 contains the issues I want to raise with you.

Table 2 Presentational improvements requested as a result of our audit

These issues are ones to implement for the 2009/10 financial statements

| Finding | Action required / response accepted |
|--|---|
| <p>As in previous years we have queried the nature and basis for specific reserves held by the Council including the Interest Equalisation, Benefit Subsidy and Property Sinking Fund reserves.</p> | <p>Consider further disclosure in the 2009/10 statements to explain the nature and basis for the holding of specific reserves in the light of the current member-led challenge exercise.</p> |
| <p>Review of expenditure to date of £3.2million on the Waterside project has not yet been carried out.</p> | <p>The majority of expenditure refers to purchase of land for the Waterside project. The submission of the planning application on the Waterside project falls in 2009/10 and expenditure will be assessed then and the relevant accounting entries made.</p> |
| <p>Our review of related party transactions identified the following:</p> <ul style="list-style-type: none"> • The analysis of grants to voluntary bodies includes a note stating these have appointed Councillors. However there are six bodies where the Council does have not appointed Councillors; • Appendix A from the Constitution lists all bodies where the Council has appointed Councillors but a number of these have not been included in the accounts; • Appendix B of the Constitution lists all bodies where Cabinet has appointed Councillors. There are large value transactions between the Council and some of these bodies, e.g. VAHT with no disclosure in the accounts. | <p>Confirm for 2009/10 that all relevant disclosures have been made for related party transactions and amend the disclosures accordingly.</p> |

Recommendation

R2 Ensure additional disclosures and evidence as requested is provided and the relevant adjustments made to the financial statements.

Use of resources

I am required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.

I am also required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 16 In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 17 I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 18 The Council's use of resources theme draft scores have been discussed with officers. As at the date of this report these scores are subject to completion of the use of resources national quality assurance process which finishes on 11 September 2009. We will therefore update members of the Committee with the final scores at the meeting on 15 September 2009.
- 19 The Council responded well to the new methodology for the use of resources assessment. The Council's self-assessment document and accompanying case studies have been shared widely as an example of good practice. Our overall assessment showed that the Council has made good progress in all of the areas reviewed.
- 20 The main shift in the approach to the assessments for 2008/09 is the focus on outcomes. As many of the Council's major initiatives will see delivery of outcomes in 2009/10, the assessments for 2008/09 reflect the timing of this work and the Council should be well-placed to show further improvement and delivery in the 2009/10 assessments.

Value for money conclusion

- 21 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the value for money conclusion at each type of audited body. The criteria applicable to the Council are in Table 4.

- 22** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

Table 3 Assessment against each of the relevant criteria

We have assessed each of the relevant criteria as 'met'

| | |
|--|------------|
| KLOE | Met |
| Managing Finances | |
| Planning for financial health | Yes |
| Understanding costs and achieving efficiencies | Yes |
| Financial reporting | Yes |
| Governing the business | |
| Commissioning and procurement | Yes |
| Use of information | Yes |
| Good governance | Yes |
| Risk management and internal control | Yes |
| Managing resources | |
| Natural resources | N/A |
| Strategic asset management | N/A |
| Workforce | Yes |

Appendix 1 – Independent auditor’s report to 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 2009 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 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 49 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 Code of Practice on Local Authority Accounting in the United Kingdom 2008 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 accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 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 accounting statements, and consider whether it is consistent with the audited 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 with the 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 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 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 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 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 Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 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. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper

Appendix 1 – Independent auditor’s report to Members of Aylesbury Vale District Council

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 specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, 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 2009.

Mick West

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

Xx September 2008

Appendix 2 – Adjusted amendments to the accounts

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

Table 4 Amendments requiring adjustment in the financial statements

| Adjusted misstatements | Nature of Adjustment | Income and Expenditure Account | | Balance Sheet | |
|---|---|--------------------------------|----------|---------------|----------|
| | | Dr £000s | Cr £000s | Dr £000s | Cr £000s |
| Debtors and creditors overstated for government grant | Net off overstatement | | | 129 | 129 |
| Errors in fixed asset revaluation and depreciation | Change of classification in note 17 to the accounts | | | 985 | 985 |

Appendix 3 – Unadjusted misstatements in the accounts

The following misstatements were identified during the course of my audit and the financial statements have not been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 5 Unadjusted misstatements in the accounts

| Description of error | Accounts effected | Value of error £000 |
|--|--|------------------------|
| Inclusion of invoice for work carried out in 2007/08 was accounted for in 2008/09 incorrectly | Agreed that no change necessary | 316 |
| Non-operational land of £6.5million was not included in the desktop impairment exercise in March 2009. £3.4million of this land is part of the development of the Waterside and new theatre projects and so was excluded. Based on regional indices provided to the Audit Commission, industrial land (as opposed to residential land) was subject to an 11.8% reduction in value in 2008/09. The impact on the remaining £3.1million of other non-operational land held by the Council would be a reduction in value of £367,000. | Agreed that no change necessary. However, the Council needs to keep under review the effect of any other reduction in land values due to the wider economic conditions. | 367 |

Appendix 4 – Draft letter of representation

xx September 2009

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 2009

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 2009.

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.

Appendix 4 – Draft letter of representation

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.

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:

- 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 effect of the uncorrected errors in the annual governance report is immaterial to the Council's financial statements.

Signed on behalf of Aylesbury Vale District Council

Head of Finance

Chair of Audit Committee

Appendix 5 – Action Plan

| Page no. | Recommendation | Priority 1 = Low 2 = Med 3 = High | Responsibility | Agreed | Comments | Date |
|----------|---|--|----------------|--------|----------|------|
| | <Recommendation Title> | | | | | |
| 7 | R1 Ensure errors identified from the audit are corrected in the updated version of the financial statements. | | | | | |
| 8 | R2 Ensure additional disclosures and evidence as requested is provided and the relevant adjustments made to the financial statements. | | | | | |

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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