

# **Annual Audit Letter**

---

**Aylesbury Vale District Council**

**Audit 2009/10**

**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.**

# Contents

<b>Key messages</b> .....	<b>2</b>
Audit opinion and financial statements .....	2
Value for money.....	2
Current and future challenges .....	2
<b>Financial statements and annual governance statement</b> .....	<b>3</b>
Overall conclusion from the audit .....	3
Internal control.....	3
Icelandic investment .....	3
<b>Value for money</b> .....	<b>5</b>
2009/10 use of resources assessments .....	5
Value for money conclusion.....	5
Approach to local value for money work from 2010/11.....	6
<b>Current and future challenges</b> .....	<b>7</b>
Spending review and economic downturn .....	7
International Financial Reporting Standards.....	7
<b>Closing remarks</b> .....	<b>8</b>
<b>Appendix 1 – Audit fees</b> .....	<b>9</b>
<b>Appendix 2 – Glossary</b> .....	<b>10</b>

# Key messages

**This report summarises the findings from my audit of the Council's 2009/10 financial statements and my assessment of its arrangements to achieve value for money in its use of resources.**

## **Audit opinion and financial statements**

**1** I issued an audit report including an unqualified opinion on the financial statements on 30 September 2010. I reported to those charged with governance, the Audit Committee, on the issues arising from the 2009/10 audit.

## **Value for money**

**2** I gave an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources when I gave my opinion on the financial statements.

## **Current and future challenges**

**3** The Council faces some major challenges. These include responding to the government's Comprehensive Spending Review, announced on 20 October 2010. This requires every council across the country to make large financial savings. Local government finance will reduce by 28 per cent over the next four years. The Council has been anticipating cuts on this scale. It has plans to manage with less funding. It is in a good position to meet the challenge it faces.

**4** Like other local government authorities, the Council must prepare financial statements for 2010/11 based on International Financial Reporting Standards (IFRS). It has a project plan for putting IFRS in place. This is on track to meet all the statutory deadlines for financial reporting in 2010/11.

# Financial statements and annual governance statement

**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

## Overall conclusion from the audit

**5** I issued an unqualified opinion on the financial statements on 30 September 2010.

**6** The Council amended the financial statements for most of the errors I identified. The Audit Committee considered it was not necessary to correct the remaining unamended errors because they did not have a material impact on the financial statements or the money available for council services.

## Internal control

**7** The entries in the Council's financial statements come from the general ledger and other significant financial systems. The accuracy of the transactions in financial systems depends on the various checks which staff undertake; these make up the system of internal control.

**8** I identified weaknesses in internal control in my Annual Governance Report. I recommended improvements to arrangements for:

- agreeing the information held on the asset register with estates' records; and
- approving journals - these are accounting entries which move balances, income or expenditure from one area of the accounts to another.

**9** I reported my findings on internal control to the Audit Committee. It said it would resolve the weaknesses I identified over the current year.

## Icelandic investment

**10** The Council has £2m invested in an Icelandic bank (Landsbanki) and £1m in a UK subsidiary (Heritage). It had invested the money following its treasury management policy before any warnings about Icelandic banks.

11 Current advice to the Council is that Landsbanki will repay most of the investment. Icelandic courts are expected to give local authorities high priority status in any settlement. However no payment is expected before any court cases or appeals for priority status. If local authority deposits do not get priority status, the Council will receive much less of its investment back. Losses on the £2m investment including interest could be £0.4m to £1.2m. The administrator for Heritage projects that investors could be repaid 85 pence for each £ invested. Losses would be £0.2m.

# Value for money

**I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed performance against the criteria specified by the Audit Commission and reported the outcome as the value for money conclusion.**

## **2009/10 use of resources assessments**

**12** At the end of May 2010, the Audit Commission wrote to all chief executives to inform them that following the government's announcement, work on Comprehensive Area Assessment would end immediately. The Audit Commission would no longer issue scores for its use of resources assessments.

**13** However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

**14** I report the significant findings from the work I have carried out to support the value for money conclusion.

## **Value for money conclusion**

**15** I assessed the Council's arrangements to achieve economy, efficiency and effectiveness in its use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the value for money conclusion at each type of audited body.

**16** This is a summary of my findings.

Table 1: **Summary findings for the relevant criteria**

The Council met the requirements for all specified criteria

Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural resources	Yes
Workforce	Yes

17 I issued an unqualified conclusion stating the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Approach to local value for money work from 2010/11

18 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money audit work. The Audit Commission aims to introduce a new, more targeted and better value approach to our local value for money audit work.

19 I will base my work on fewer reporting criteria, specified by the Audit Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

20 I will carry out a local programme of value for money audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer provide an annual scored judgement for my local value for money audit work. Instead I will report the results of all this work, and the key messages for the Council, in my annual report to those charged with governance and in my annual audit letter.

# Current and future challenges

## Spending review and economic downturn

**21** The Council faces some major challenges. The government announced details of its spending plans for the next few years on 20 October 2010. It requires every council across the country to make big financial savings. Local government finance will reduce by 28 per cent over the coming four years.

**22** The Council has been anticipating this for some time. It has planned to cut spending to match an expected fall in the money available for services. It is in a good position to meet the challenges of the spending review.

**23** It will be important in this time of major change for the Council to consider and respond to the following issues:

- the resilience of medium-term financial strategies and the capacity to deliver significant efficiency savings;
- the need to keep enough management capacity to influence and respond to changes in patterns of demand for services; and
- the need to preserve proper standards of governance through changes in the way services are provided.

**24** However the economic downturn is still putting the Council under pressure. The Council is continuing to watch financial performance closely and to take correcting action where possible.

## International Financial Reporting Standards

**25** Like other local authorities, the Council must prepare financial statements based on International Financial Reporting Standards (IFRS) for 2010/11. The transition to IFRS is challenging. The financial impact will vary widely from one body to another but the broader implications are wide-reaching. IFRS is not just a technical accounting issue for the finance team as there are wider process and systems changes to consider across the organisation. Significant preparatory work is essential.

The Council has recognised the challenges posed by IFRS. The Council has a project plan for putting IFRS in place. This is on track to meet the deadlines for financial reporting in 2010/11. In addition the Audit Committee has been kept informed of the impact of changes on the financial statements and how these are being addressed.

## Closing remarks

**26** I have discussed and agreed this letter with the Deputy Chief Executive and the Head of Finance. I will present this letter to the Audit Committee and will provide copies to all members of the Council.

**27** Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit plan	April 2009
Opinion plan	June 2010
Annual governance report	September 2010
Opinion	September 2010
Value for money conclusion	September 2010

**28** I have set out in Appendix 1 my audit fees for 2009/10. I have increased the planned audit fee from £122,300 to £137,500. I had to carry out extra audit work on the financial statements because of the first-time disclosure of group accounts.

**29** The Council has taken a positive and helpful approach to my audit. I wish to thank its staff for their support and cooperation during the audit.

Mick West  
District Auditor

15 November 2010

## Appendix 1 – Audit fees

	Actual	Planned	Variance
Financial statements and annual governance statement	£107,500	£ 92,300	£15,200
Value for money	£ 30,000	£ 30,000	0
Total	£137,500	£122,300	£15,200

The increase in audit fee reflects the extra audit work required for review of the arrangements of the first-time disclosure of the group accounts.

## Appendix 2 – Glossary

### **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

### **Audit opinion**

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

### **Financial statements**

The annual accounts and accompanying notes.

### **Qualified**

The auditor has some reservations or concerns.

### **Unqualified**

The auditor does not have any reservations.

### **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time..

If you require a copy of this document in an alternative format or in a language other than English, please call:  
**0844 798 7070**

© Audit Commission 2010.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

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.



Audit Commission

1st Floor  
Millbank Tower  
Millbank  
London  
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946